



SOCIETY OF ACTUARIES

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## Importance of International Cooperation

by Hillevi Mannonen

It is my pleasure to highlight the current activities and future challenges of the International Actuarial Association (IAA).

Originally the IAA was established to organize international actuarial congresses. Over the years, it became evident that there was a need for a common forum of actuarial associations to discuss issues of mutual interest, to promote the development of the actuarial profession and to represent the global actuarial profession internationally. This led to reorganizing the IAA as an association of associations. Currently, the IAA has 56 Full Member Associations, 23 Associate Member Associations and three Institutional Member Organizations and it represents more than 43,000 actuaries in nearly 100 countries. I believe that in 1998 when the IAA took this visionary step not many of us could imagine the extent and the pace of global development that was to follow.

### Global Market

The actuarial profession has always been fairly international.  $2+2=4$  everywhere! But in practical work the international aspect has become much more important than ever before. Globalization means global challenges, but also global opportunities, more open markets and convergence of insurance and other financial industries. An increasingly global market will require a worldwide prudential framework that will sooner or later touch each actuary in his or her professional life.

Two major areas where the presence of the international actuarial voice is now vitally needed are insurance regulation, in particular solvency regulation, and financial reporting.

Regulation will become more international and it will focus more on risks than the traditional models. Risk-based capital, risk-based supervision and overall risk management are key issues when ensuring the financial strength and sound management of an insurance company or of another financial entity. As actuaries, we should welcome this.

Driving the development of international financial reporting standards was the investors' need to have access to comparable information of companies. The present practices differ from country to country. This is not to say that a practice in one country is better than that in another country. We all know that actuarial problems can be approached from different angles and by definition there seldom is a unique best solution to a problem. The challenge is to make these different approaches converge to such an extent that sufficient comparability and credibility can be achieved.

To ensure that this global framework is consistent with fundamental actuarial principles, it is important that we, as a profession, offer our expertise to influence this development. In addition to the work of the national actuarial associations, we need one voice to represent the global profession. This is one of the main

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responsibilities of the IAA and the IAA has purposefully worked to build beneficial relationships with major international regulatory organizations and standard setters.

### Standards and Cooperation

To be successful, both locally and globally, the actuarial profession needs to guarantee a high-level of competence of its members and responsible professional practices. Beginning in 2002, the IAA issued global standards with guidelines for social security actuaries, followed by several standards related to international accounting standards. At the moment, several others are under development.

In February, the IAA Risk Margin Working Group issued the Exposure Draft of Measurement of Liabilities for Insurance Contracts for public comment and, at the time of writing, the second ED is under preparation. This paper was originally requested by the IAIS, but the IASB has also shown interest in the work. They see that the measurement of liabilities for both general financial reporting purposes and regulatory purposes should be as consistent as possible and that actuaries have insight into this. This ad hoc working group was established jointly by the IAA Insurance Accounting Committee, the Insurance Regulation Committee and the Solvency Subcommittee.

I mention this as an example of the very good working relationship the IAA has with

the IAIS and the IASB as well as with many other international bodies. The IAA committees have also commented on several IAIS drafts for standards and guidelines: ERM, capital standards, valuation of assets and liabilities, internal models. The Working Plan 2008–2012 of the IAIS includes several references to cooperation with the IAA. The IAA is an Observer of the IAIS and the IAIS is an Institutional Member of the IAA. An IAIS representative takes part in IAA meetings and the IAA representative participates in IAIS meetings on solvency and accounting. The IAA has undertaken a project for the IAIS to analyze the best practices for the determination of technical provisions and capital requirements and the assessment of the adequacy, relevance and reliability thereof. These issues are critical to the future work of the IAIS in developing supervisory standards and guidance papers for solvency assessment purposes, and to the IAIS's ongoing work in providing comments to the IASB in connection with its Phase II Insurance Contracts project.

Also, it is a top priority of the IAIS to maintain close communication with the IAA, particularly with respect to standard development activities in solvency, accounting and actuarial issues. The Solvency and Actuarial Issues Subcommittee of the IAIS has received, in principle, agreement to progress with its proposal of the structure of solvency papers and high level standards and guidance papers.



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According to the work plan, these will be followed by application guidance or practice notes developed with the IAA.

### Role of the Actuary

One of the key objectives of the IAA is to promote the development of the role of the actuary. At the moment, there are several international initiatives which could potentially influence actuarial work.

The IAIS is preparing a Risk Management Standard, the first draft of which did not mention actuaries or actuarial work. Instead, the Corporate Governance Task Force of the IAIS has included in its draft report, recommendations concerning actuaries and external auditors, e.g., fit and proper criteria (qualifications, professional proficiency, appropriate practice experience and updated knowledge on developments within their profession and membership of professional bodies).

There are also many others like IFAC, IOPS, ISSA and OECD working in this area. It is important for the global actuarial profession to influence the requirements to be imposed on them as well as to promote the expansion and development of the profession. Having built fruitful relationships with these organizations, and with the support of its member associations, the IAA is pursuing the best opportunities to work for the benefit of its members.

### ERM

Many actuarial associations are considering their role in the broader area of risk management, particularly in the relatively new field of enterprise risk management (ERM). The key question relates to the positioning of actuarial qualification vis-à-vis competing professions. One of the pioneers in this area is the Society of Actuaries which has already introduced a new category of qualification called Chartered Enterprise Risk Analyst (CERA).

The competition in the risk management area for the actuarial profession comes primarily from two relatively new associations, namely, GARP and PRMIA. In addition, the CFA qualification is also seen as a competitor, although the scope of the CFA is much broader

than risk management. While officially located in the United States, these three associations have taken an international approach and are attracting a global membership.

In order to survive in the long run, the actuarial profession needs to adjust to the changes in the world surrounding it and to take advantage of new opportunities. During the Presidents' Forum meeting in April of 2007 in Mexico City, the presidents of the IAA Full Member associations gathered to discuss, among other things, how the profession should respond to the development of ERM. Based on the work by, for example, the U.S. and Australian actuaries, the proposal of a global ERM designation within the actuarial profession was introduced. Each supporting organization should be free to decide how to fit its ERM requirements into its own qualification process and have the sole authority to grant this designation. In order to ensure comparability between the requirements of the supporting associations, those associations could support the designation through a treaty of mutual recognition. Whether this initiative will become reality in this or in another form, it is worth discussing together and combining our efforts.

Challenges create opportunities and for actuaries risk is opportunity. □

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