



SOCIETY OF ACTUARIES

Article from:

# International News

August 2010 – Issue No.51



Paul Thornton, FIA, is president of the International Actuarial Association. He can be reached at paul.thornton19@btinternet.

# The International Actuarial Association—Moving the Actuarial Profession Forward Internationally

By Paul Thornton

**T**his article is based on a presentation on the Vision, Mission and Strategic Objectives of the International Actuarial Association (IAA) which I gave during the opening of the recent International Congress of Actuaries in Cape Town, and on my concluding remarks given at the closing. Together these provide a good overview of IAA objectives and achievements.

I would like to tell you a little about the IAA and why it matters to every actuary in the world. The IAA was originally formed in 1895, reconstituted in 1998 and restructured in 2010. The IAA has 63 Full Member Associations and 22 Associate Member Associations, representing over 50,000 actuaries in over 100 countries.

To advance the work of the IAA, the council and committees meet twice a year. The most recent meetings in Cape Town attracted nearly 250 representatives of actuarial associations from all over the world.

The Society of Actuaries is heavily involved in the IAA on your behalf and regards it as a vital organisation for the advancement of the profession internationally.

The IAA also has Institutional Members, which include such influential organizations as the International Association of Insurance Supervisors (IAIS), the International Social Security Association (ISSA), the International Accounting Standards Board (IASB) and the International Organisation of Pension Supervisors (IOPS). These are organizations that we work particularly closely with; we are working with other similar organizations towards establishing such a relationship.

## MISSION AND VISION

The mission of the IAA is to represent the actuarial profession and promote its role, reputation and recognition in the international domain and to promote professionalism, develop education standards and encourage research, with the active involvement of its member associations and sections, in order to address changing needs.

The vision of the IAA is that the actuarial profession is recognised worldwide as a major player in the decision-making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well-being of society as a whole.

## STRATEGIC OBJECTIVES

Our first strategic objective is about building relations and becoming engaged with the supranational organizations that matter to actuaries. The IAIS, ISSA, IASB and IOPS are particu-

### Prevention of future financial crises

The G 20's common principles for reform:

- Strengthen transparency and accountability
- Enhance sound regulation
- Promote integrity in financial markets
- Reinforce international co-operation
- Reform international financial institutions

Actuaries believe additional measures are needed:

- Introduction of more counter-cyclical regulatory arrangements
- Creation of Country Chief Risk Supervisor role
- Wider use of comprehensive risk management concepts in banks and non-regulated sector
- Improved use of ERM & risk governance



larly key ones, but others include the OECD, the IMF, the ILO and the World Bank, to name but a few.

An example of our agenda is the work that we did following the Global Risk Crisis of 2009. We believe that more widespread use of actuarial approaches throughout the financial sector could assist in the prevention of future financial crises, and we took this message to the Financial Forum and to the regulators in various countries. Most recently, we took our ideas on addressing systemic risk to the IAIS in Basel and have been invited to share our ideas with the Basel Committee on Banking Supervision about introducing actuarial principles into the risk management of banks.

Our second strategic objective is about extending the scientific knowledge and skills of the actuarial profession. The briefest glance at our website [www.actuaries.org](http://www.actuaries.org) will reveal a database in which you can access more than 440,000 items of research.

You will also find that we have produced major publications on insurer solvency assessment, measurement of liabilities and, just recently, stochastic modeling. A forthcoming project is a publication on The Determination of Discount Rates for Financial Reporting Purposes.

Here I must mention the role of the sections in the IAA. It is the coming together of these sections that create the Congresses we enjoy

every four years. We hope that we will soon have a section for actuaries working in Enterprise Risk Management.

The sections are for individual actuaries to join, and I would go further and say that individual actuaries SHOULD join, if they want to achieve their full career potential.

Our third strategic objective is about common standards of actuarial education, common principles of professionalism and standards of actuarial practice. The current focus of education activity is on Enterprise Risk Management. Last year, fourteen (14) of our Full Member Associations signed the Global CERA Treaty. This was a key first step in the process for each to offer the Chartered Enterprise Risk Analyst (CERA) credential.

In the area of actuarial standards we are working hard, both on introducing model standards and seeking to encourage convergence of the various standards that currently exist around the world.

Our fourth strategic objective is about the development of the actuarial profession in developing countries. We have been making prodigious efforts to assist new associations to come to be born.

Our fifth strategic objective is about providing a forum for discussion among actuaries and actuarial associations throughout the world. The Congresses, in Cape Town this year, in Washington, D.C. in 2014 and in Berlin in 2018 do exactly that!

#### **Strategic Objective 1**

Identify, establish, and maintain relationships with key supranational audiences and provide them with actuarial input to improve the soundness of decisions being made on important issues with a global impact.

#### **Strategic Objective 2**

Facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession, including beyond the traditional areas of actuarial practice, to help enhance the scope, availability, and quality of actuarial services offered by individual members of its member associations.

#### **Strategic Objective 3**

Establish, maintain and promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice for use by member associations worldwide.

#### **Sections of the International Association of Actuaries:**

ASTIN	Actuarial Studies in Non-life insurance
IACA	International Association of Consulting Actuaries
AFIR	Actuarial Approach for Financial Risks
IAAHS	IAA Health Section
PBSS	Pensions, Benefits and Social Security
AWB	Actuaries Without Borders
LIFE	Life Section

**CONTINUED ON PAGE 6**

The International Actuarial ... | from Page 5

**Strategic Objective 4**

Support the development, organization and promotion of the actuarial profession in areas of the world in which it is not present or is not fully developed.

**Strategic Objective 5**

Provide a forum for discussion among actuaries and actuarial associations throughout the world.

It is quite a challenge to attempt any summing up of a Congress with such a diverse range of topics. Instead I will highlight what, for me, was the single most important direction to come out of this particular Congress, and one which has the greatest strategic importance for the global actuarial profession—the contribution we can and should make to managing the risks of the world’s financial systems.

Helen Zille, the premier of the Western Cape who hosted the Congress welcome event at her State home on the evening of March 7, asked “Why did the Actuaries not see the Financial Crisis coming?” Dr. Mamphela Ramphele, a former managing director of the World Bank and a prominent participant in national debate about the future of South Africa, repeated that question in her address at the closing session and told us to be more assertive.

A number of the sessions addressed this question.

First, Paul Embrecht’s keynote address on *Lessons Learned and Implications of the Financial Markets Crisis* made us all feel perhaps we could, as a profession, have done much more to head off the financial crisis, had we only realized the power of our thinking. He quoted L.C. Rogers, who said “The problem is not that mathematics was used by the banking industry, the problem is that it was abused,” and showed a slide where he listed the 10 weaknesses we should have learnt about by 2006, before this latest crisis began:

1. (I)liquidity
2. Leverage (investments banks 30+:1)
3. Model uncertainty
4. Non-normality, Extreme events
5. Regulatory arbitrage

6. Off-balance positions, OTC (shadow banking)
  7. Greed, Non-rationality, Human factors
  8. Short-term financing of long-term risks
  9. Accounting deficiencies
  10. Global financial networks, IT vulnerability
- Etc ... etc ...

Next, in a session on the global ERM designation for actuaries, Harry Panjer described the way in which the actuarial profession is moving forward into the broader area of Enterprise Risk Management. In the discussion which followed, the panel suggested that the unique selling point of the actuarial profession compared with other risk managers is our use of professional judgment, not a slavish belief in the latest mathematical models. I would add to that the reliance that users of actuaries can place on our strong Code of Professional Ethics. I was also struck by a slide which Harry borrowed from Jim MacGinnitie, with 10 things that “Actuaries Understand,” namely:

1. Risks seldom are normally distributed.
2. Models need to be recalibrated as new data become available.
3. ‘Models drift’ occurs as use of models influences market behaviour
4. ‘Spirals’ occur. Slicing, dicing and repackaging risk multiple times can lead to the ultimate holder of risk not understanding and not managing its risk exposure.
5. The challenges of valuation where no deep market exists.
6. The importance of the long-term view in making short-term decisions.
7. The ‘actuarial control cycle’ as a framework for updating and overall management of models.
8. The importance of transparency of producing reports.

The International Actuarial Association provides a vital vehicle for coordinating worldwide engagement.

9. Professional standards as guideposts for professional practice.
10. The quasi-fiduciary role they play in the lives of those who rely on them.  
(Source: "Actuaries Would Have Made a Difference," W. James MacGinnitie, *Beyond Risk*, Fall-Winter 2009)

Yoshihiro Kawai, secretary general of the International Association of Insurance Supervisors, confirmed the vital role of actuaries in helping the IAIS address the problems of systemic risk in the global insurance industry. As if to reinforce the message, I received a letter from the chairman of the IAIS, Peter Braümüller, while we were in Cape Town, emphasizing their strong need to have our input on the issue of financial stability, and our assistance with developing their new supervisory framework.

In the same building as the IAIS is the Bank for International Settlements in Basel. The Basel Committee on Banking Supervision, which is based there, proposes to introduce a countercyclical capital framework, and the IAA has been asked to explain how actuaries deal with expected loss provisioning allowing for the frequency and severity of losses. In other words, to explain to them about how the well established actuarial methodology which already exists for dealing with this in the insurance sector could be applied in banking.

If ever there was an opportunity for the global actuarial profession, this is it!

The IAA believes that more widespread use of actuarial approaches throughout the financial sector could assist in the prevention of future financial crises. We must not delude ourselves that we can in fact prevent future financial crises, but we can certainly do a huge amount to help prevent them.

In addition, the sections also arrange colloquia around the world in the years between the International Congresses. Plans are still being finalized, but for 2011 you can look forward to an ASTIN/AFIR Colloquium in Madrid, a LIFE Section Colloquium linked into the U.K. Annual Insurance Convention, a Pensions, Benefits, Social Security Section (PBSS) Colloquium in Edinburgh, IACA colloquia linked to the annual conferences of the Association of Consulting Actuaries in the United Kingdom and with the Conference of Consulting Actuaries in the United States, and an IAA Health Section Colloquium linked to the Global Conference of Actuaries in India.

In 2012 you can choose between a joint IACA/IAAHS/PBSS Colloquium, planned to be in Hong Kong, and a joint LIFE/AFIR/ASTIN Colloquium in Mexico from October 1-4.

I hope by now that I have convinced you that the International Actuarial Association provides a vital vehicle for coordinating worldwide engagement for actuaries.

In 2008, the IAA published a Decennial Report highlighting its first 10 years as a restructured organization representing the actuarial profession globally. The IAA's first Annual Report for the year 2009 was published and distributed at the Congress in March 2010. It is available on the IAA website at [www.actuaries.org](http://www.actuaries.org). □