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Going global

Proposed IAA/IFAA restructuring recognizes new realities

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The technological, globalized world we live in was barely imaginable when the organization now called the International Association of Actuaries (IAA) was launched 103 years ago. However, that world was a reality when the International Forum of Actuarial Associations (IFAA) was formed as a section of the IAA in 1995.

As the quadrennial IAA congress convenes this month in Birmingham, England, IAA members will vote on a historic measure. They will consider transforming the IAA into the structure of the IFAA to maintain and work to increase the profession's influence in an increasingly globalized world.

At the IAA congress, (the International Congress of Actuaries, or ICA) June 7-12, IAA members will consider whether to convert the structure of the IAA, now an association of individual actuaries, to that of the IFAA, an association of actuarial organizations. (The IFAA and its 50-member governing body, the IFAA Committee, would be dissolved.) The proposal, its fate aside, offers a model for an international actuarial organization as the 21st century approaches.

The restructured IAA would consist of about 40 member organizations and would continue and further the work of the IFAA section begun three years ago. "As soon as we created the IFAA, we discovered how badly it was needed," noted Robert L. Collett, SOA delegate to the IFAA Committee, which supervises the IFAA.

Just six months after the IFAA's founding, an international committee of accountants (the International Accounting Standards Committee, IASC) issued an outline of proposed international standards for employee benefits accounting practices. The standards would have presented serious



challenges for companies and actuaries in many countries. (See "IFAA meeting brings world's actuaries together" and "The IFAA recognized as important resource," *The Actuary*, September 1996). The IFAA formed a subcommittee to respond to the proposal and since then has formed another sub-committee to focus on the IASC's proposed insurance accounting standards.

The IASC was not a major power in 1995, but it was expected to gain strength with the backing of the International Organization of Securities Commissions. The actuarial profession will have shared interests with those and other international groups, such as the International Association of Insurance Supervisors (see "View from the top," *The Actuary*, February 1998). It is crucial that the actuarial profession be

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poised to act, as well as react, as powerhouse organizations arise on the global scene, and the proposed IAA structure would make that possible.

How would the restructured IAA differ from the existing organization?

- Actuarial organizations rather than individual actuaries would become IAA members. (Current members will be allowed to retain their individual memberships.) The associations would designate delegates to the IAA Council — the central governing body — but the delegates would represent their respective organizations, not themselves individually.
- To be accepted for IAA voting membership, an actuarial organization would have to show that it has an established code of conduct and disciplinary process. This emphasis on professionalism is not applicable for the current IAA.
- Through committees, the new IAA would be continually active in the full range of areas related to the actuarial profession. The IAA in its current form has focused primarily on organizing the IAA Congress, held approximately every four years, and funding activities in developing territories.

In addition, the IAA functioning on the IFAA model would require leaders with a very different philosophy from that of a traditional association. “The pyramid is upside-down in the IFAA,” said the IFAA Committee’s chair, Walter S. Rugland. “The leader is on the bottom, balancing the whole thing. An association of associations works only if member groups know their sovereignty isn’t threatened and that it’s to their benefit to participate. Usually, an association has a leader with an agenda. That won’t work in an association of associations.”

Another difference of the IFAA model is the role and formation of committees, Rugland observed. “In a typical association, committees become entities unto themselves, developing

their own charges and carrying them out. In the new IAA, the council would agree on a charge and then issue a call for delegates to serve on the committee addressing the charge.”

Also under the restructuring, all IAA Council and committee meetings would be open — “There’s no privileged information,” Rugland said — and any motions made before the council must wait three months before action can be taken. This would allow adequate discussion by the leaders and members of the IAA’s member organizations. Impact on actuaries

If IAA members vote to implement the new structure, there would be two immediate implications for the new IAA’s member groups, such as the SOA.

First, motions passed by the IAA would need to be considered by its member organizations. For example, the report of the IFAA subcommittee on education will be considered at the IAA congress, and its findings on educational requirements for actuaries would be important for member groups and for the profession. The central question is “What is an actuary?” If actuaries are to compete internationally, their differentiation from other professionals must be clear, and the training they receive and the skills they acquire are central to the definition of an actuary.

Second, the establishment of IAA committees and their actions should be of interest to the member associations’ members. As committees are formed, “these would offer wonderful opportunities for individuals with global interests to get involved,” noted W. James MacGinnitie, who is U.S. vice president on the IAA Council and the American Academy of Actuaries delegate to the IFAA Committee. Also, individual actuaries would need to stay alert to the topics that IAA committees are addressing so that they could direct their opinions on those topics to their IAA Council delegate and the proper IAA committee.

A global voice

Behind the proposed IAA restructuring is a desire by many actuaries with a global view to protect and strengthen the profession.

Said MacGinnitie, “The globalization of financial services — of banks and investment houses in particular — has already occurred. Actuaries must recognize this will happen to their employers, if it hasn’t already. What’s the right way to do pension or employee benefits work? Currently, the answers to that and similar questions can vary dramatically from country to country, but that won’t work as globalization accelerates.”

The SOA, with membership totaling about one-half of the world’s actuaries, has a great deal at stake. The U.S. and Canada are in an exporting position, and if we want to be able to export our skills, we must be able to import them. Governments and nationally based companies won’t be willing to accredit our people if we won’t accredit theirs, so we must promote common professional standards that everyone can live with. The need for each IAA member association to have a code of conduct and a disciplinary process is an important beginning.

Collett’s comments pointed in this direction. “Until the formation of the IFAA, the important elements of the profession were developed where they existed, in the country where an actuarial group’s members were working. Those things are now in demand in the global economy,” he said. However, the restructured IAA’s charter would forbid it “to work on problems regional organizations can deal with alone” to avoid conflicts with regional groups on regional issues, Collett observed.

The restructuring of the IAA would “have a bigger impact on the world (actuarial) stage than the formation of the Academy and the Canadian Institute of Actuaries,” said W. Paul McCrossan, a founder of the IFAA and the IFAA Committee’s first chair. “The proposed structure addresses important

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programs should not be allocated to the Y2K problem because the new programs will enhance productivity as well.

Legal concerns

The Y2K problem is much more predictable than most risks. Thus, if a Y2K-related difficulty leads to a major disaster for a company, directors and officers (D&O) may become liable if they are seen not to have taken "due care." Some insurance companies are offering insurance policies for the Y2K problem. D&O liability insurance will cover liability (typically with a large deductible) but not gross negligence. Under these plans, professional errors and omissions (E&O) are covered. However, it is difficult to judge ahead

of time what types of claims there will be and, therefore, whether E&O provisions will cover them.

Some tricky legal problems have not been settled. For example, most software companies do not allow users to modify programs. To fix the Y2K problem, users might have to alter a program's source code, and so questions might arise about breach of contract.

Risk management and the Y2K problem
Swiss Re has produced an interesting document on the issue of risk management of the Y2K problem (www.swissre.com/download/public/millen-e.pdf). The problem exhibits all the classic elements of risk management. However, unlike many other risks, the exact date when problems could begin is clearly defined. The risks will continue well past Jan. 1, 2000.

Basic elements of risk management are: (1) identifying exposures to accidental loss; (2) examining feasible alternative risk management techniques for dealing with these exposures; (3) selecting one or more of what appear to be the best risk management techniques; (4) implementing the chosen

risk management techniques; and (5) monitoring the techniques' results to ensure that the risk management program remains effective.

How do we perform risk management for the Y2K problem? The basics outlined by the OMB are worth quoting:

1. Raise management awareness of the problem.
2. Assess the scope of the problem by inventorying systems and deciding which ones to change, replace, or discard, renovating the systems to be changed.
3. Validate and test the changes in the systems.
4. Implement the revised systems (including developing a contingency plan).

These steps apply not just to government bodies but to any organization. It is also important for an organization to set a timetable for making changes. Otherwise, Mon., Jan. 3, 2000, could be a very bad day.

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Interesting Y2K links

Those interested in the Y2K problem might find a Yahoo! Web page useful, says Tapen Sinha. The site contains a long list of hyperlinks to informative Web sites. The URL is: http://headlines.yahoo.com/Full_Coverage/Tech/Year_2000_Problem/.

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questions that didn't exist a decade or two ago, such as 'Who's qualified to sign a pension statement that's filed on an international stock exchange?' There are only about 30,000 actuaries worldwide. To thrive or even survive, we have to be even better organized to be able to demonstrate that our members have something important to offer. Financial analysts, accountants, and others will move into our professional territory if we don't protect ourselves. We can't afford the luxury of, in the future, having to reinvent the wheel in each country separately, such as in the area of educational standards for actuaries." The IAA Web site Collett also noted that whether or not

the measure passes, SOA members should keep up with IAA activities and provide input. If the measure passes, "The SOA would be a major dues-paying member of this organization, and we would need to be sure our impact is felt," he said.

One way to monitor the IAA's activities is through its Web site at www.actuaries.org. Information is presented in both English and French. The results of the vote for the IAA/IFAA merger will be posted there. Also, visiting the Web site is a good way to keep up with the IAA Council, the committees, and their actions. Those involved with the IAA need to know your views.

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