

15<sup>th</sup> Regional Social Insurance, Pension and Provident Fund Conference

## **Pensions in Crisis**

**Paphos, Cyprus, 2- 4 March 2009**

**Notes for Opening Remarks by**

**Yves Guérard, Secretary General, International Actuarial Association**

Excellency Demetris Christofias, President of the Republic of Cyprus

Chairman Ibrahim Muhanna,

Honored guests and dear colleagues,

It is an honor and a privilege for me as Secretary General, to have been invited to deliver a message on behalf of the International Actuarial Association and share our views in a timely manner about challenges of strategic importance to actuaries, both nationally and internationally: **Pensions in crisis**. My sincere thanks to the Muhanna Foundation and the Ministry of Labour and Social Insurance; and my congratulations on the choice of venue in this beautiful island that will be an inspiration for our deliberations.

We are in a period of dramatic global change – and not only in terms of the climate. The current financial crisis affects the entire world. It had its roots in the banking sector but its consequences affect the non-bank sector, of which pensions and insurance are a large component, as well as the real sector. The failure to implement proper risk management techniques contributed greatly to the crisis and demonstrated the need for innovation in risk management. Since the IAA Mission statement reads:

*“The actuarial profession is recognized 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”*

actuaries need to be on the frontier to contribute to better risk management.

Some have picked September 2008 when Lehman Bros was allowed to fail as the trigger for the current crisis. Maybe that is where the fire started but it was not a surprise to everybody: the dry wood had been piling up for months and it was a crisis waiting to happen. The roots are deeper than that one event and a comprehensive solution is still on multiple drawing boards. Later at this conference I will be speaking more specifically about the role of actuaries in pensions so let me stay now at a more strategic level.

On February 10<sup>th</sup> the IAA publicly released a summary paper outlining a global risk management framework to improve financial governance and help prevent future financial crises. The framework includes components such as counter-cyclical regulatory arrangements and improved enterprise risk management that will help prevent future financial crises. It is entitled *“Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management.”* The paper urges a combination of “systemic level” initiatives, such as introducing national Chief Risk Supervisors and “entity level” initiatives such as the application of risk management concepts and improved risk governance. Recognizing the human factor and in keeping with

the declaration of the G20 last November about the need for market integrity, we recommend enforceable professional codes of ethics and minimum standards of training for key individuals within the risk management function such as the professional and disciplinary standards already required by the IAA for the actuarial profession.

Risk management has been front and centre for many actuarial associations around the world long before the current crisis. More specifically in the area of pension and social security the IAA has developed at the request of the International Social Security Association, a Guidance paper entitled "*Actuarial Practice for Social Security Programs*". It was originally adopted in October 2002, and after a few years of experience a revised and updated version has been prepared that will be submitted to a vote next May in Tallinn, Estonia, on the occasion of our next statutory meeting. The "*Global Framework for Insurer Solvency Assessment*" that we published in 2004 is almost out of print; we are preparing an updated version.

2005 had seen the creation of an Enterprise Risk Management International Institute, ERMII, as a joint initiative of a number of IAA member associations and 12 universities from the USA, Australia, China, UK and France. The Society of Actuaries, in partnership with the Casualty Actuarial Society, has adopted an ERM strategy and created a new professional credential: Chartered Enterprise Risk Analyst or "CERA". Since then many associations have joined in their efforts to support a global risk management credential or designation so that actuaries have a greater opportunity to enhance risk management.

In March 2008 with the financial support of some local associations, the IAA commissioned the preparation of an Educational Monograph on Stochastic Modeling that will be published in the next few months, providing actuaries and other interested professionals with better tools for analyzing risk. In August 2008 we have released to our members a Note on Financial Economics which focuses on financial risks. A draft paper on *“Enterprise Risk Management For Capital And Solvency Purposes in Prudentially Regulated Entities” (Banks, Insurers & Retirement Funds)* has been circulated for exposure to our voting member associations and is expected to be released after approval by the IAA Council in Tallinn, Estonia, next May.

As the unique international professional, educational and research organization of actuaries and actuarial associations, the IAA is aware of its duty to make actuarial services available around the world in quality and quantity. In June 2008 in Quebec City, on the occasion of the 10<sup>th</sup> anniversary of our restructuring into a worldwide association of local actuarial associations, we published two maps that show in vivid colors how we have succeeded. These are now showing on the screen. No need to count, there are currently 62 full member associations plus 23 associate member associations. Virtually all fully qualified actuaries around the world belong to the IAA so that the IAA Full Member associations comprise about 45 000 qualified actuaries in over 100 countries, to whom should be added a significant number of actuaries from Associate Member associations. The IAA serves its members through seven sections covering various areas of practice – such

as the Pension Benefits & Social Security Section - and 15 committees, including one on Social Security and one on Pensions and Employee Benefits, plus many subcommittees and task forces. Together with the support of its local member associations it serves as a bond among actuaries throughout the world for *“moving the actuarial profession forward internationally.”*

There are also 4 institutional members of the IAA: the International Association of Insurance Supervisors (IAIS), the International Social Security Association (ISSA), the International Accounting Standards Board (IASB) and the International Organization of Pension Supervisors (IOPS). The IAA is a not-for-profit and non-political, non-governmental organization with its Secretariat in Ottawa, Canada; it is on the Roster of the UN Economic and Social Council and on the Special List of the International Labor Office (ILO).

The IAA was born in Brussels in 1895 as an association of individual actuaries having as its prime objective the organization of International Congresses. This tradition continues to this day - every four years the IAA holds an International Congress of Actuaries where actuaries from all over the world and from every area of actuarial practice join together and share knowledge. Non actuaries can also participate. Do plan to attend the next 29<sup>th</sup> International Congress in Cape Town, South Africa, in March of 2010, only 12 months away. Cape Town is not so very far from Cyprus!

On behalf of our President Katsumi Hikasa, who from Japan asked me to convey his best wishes to you, I offer my congratulations and sincere thanks to all those whose efforts contributed to a very well balanced program. On behalf of the IAA I hope we will all take advantage of this valuable opportunity for exchange of information and ideas and turn this crisis into an opportunity to make our pension and social protection systems reliable contributors to the well-being of all members of our society.