



The actuarial profession –  
present and future  
A Canadian perspective

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# Topics

1. Issues facing the actuarial profession
2. What does the public expect from a profession?

How is the Canadian Institute of Actuaries responding?



# About the CIA

- Formed in 1965
- 2800 Fellows, 900 Associates, 30 Correspondents
- Annual Fees for a Fellow are about 90,000 Yen
- Office in Ottawa (18 staff, none are actuaries – yet)
- Only actuarial body in Canada

## About the CIA (continued)

- Elected Board of Directors (16 members)
- 3 Councils
- About 30 Committees
- About 10 Task Forces
- Most actuarial work for the CIA is done on a volunteer basis



# 1. Issues facing the Actuarial Profession

# 1. Issues facing the actuarial profession

- a) Criticism from respected bodies (e.g. Morris Review, the Economist)
- b) Poor understanding of some risks, leading to bad pricing
- c) Increasing role of other professional bodies
- d) Limited growth in some traditional actuarial roles



# 1(a) Morris Review

- Direct cause was Equitable Life and the subsequent Penrose enquiry
- Looked at all aspects of U.K. actuarial profession
- Final report published in March 2005

# 1(a) Morris Review's Criticisms

- “Professional standards that have been weak, ambiguous or too limited in range, and perceived as influenced by commercial interests;
- An absence of pro-active monitoring of members’ compliance with professional standards; and
- A profession that has been too introspective, not forward-looking enough and slow to modernize.”



## 1(a) Morris Review (continued)

- “Continued self-regulation by the (U.K.) profession is unlikely to restore public confidence in the (U.K.) actuarial profession.”
- “Independent oversight of the Profession’s self-regulation is the most appropriate regulatory framework.”

# 1(a) The result of the Morris Review

- Financial Reporting Council (FRC) to provide oversight of regulation of actuarial profession (FRC already does this for accountancy)
- New Board for Actuarial Standards (reporting to FRC) to set technical standards. Half of the members are not actuaries
- POBA (Prof. Oversight Body for Accountancy) to oversee actuarial education and CPD
- Actuarial profession to “continue to set ethical standards of conduct provided that the FRC feels this to be appropriate.”

# 1(a) Criticism by The Economist

“False precision and reckless approximation have defined the actuarial profession’s role in the crisis that has enveloped corporate pensions on both sides of the Atlantic.”

January 2006

## 1(a) Criticism by the Canadian regulator

“The days of basing assumptions solely on “actuarial judgment” are just about over. The “actuarial black box” will have to be opened up and made clear, in fact transparent.”

Nic LePan, Superintendent, Office of the Superintendent of Financial Institutions, Canada (OSFI) - November 2004

## 1(b) Poor understanding of some risks – some Canadian examples

- Term to 100 – a low cost term product, with very low cash values, that assumed (and relied upon) higher lapses than actually resulted.
- Minimum death benefit and maturity guarantees on variable annuity products

## 1(c) Increasing role of other professional bodies


- Accounting profession
- Risk Management (GARP, PRMIA)
- Chartered Financial Analysts (CFA)

They are affecting the role played by actuaries – and they are also attracting some bright university graduates away from an actuarial career.



## 1(d) Limited growth in some traditional actuarial roles

- Consolidation of the insurance industry
- Defined benefit pension plans being replaced by defined contribution plans



2. What does the public expect from  
a profession?

- and how is the CIA responding?



## 2. What does the public expect from a profession?

- a) Education of members – both before and after qualification
- b) Standards of ethics
- c) Standards of practice/technical guidance
- d) Research and experience studies

## 2. What does the public expect from a profession? (continued)

- e) A monitoring/review of the work of members
- f) A discipline process
- g) Public interest ahead of members' interest and profession's interest
- h) Transparency

## 2(a) Education – before and after qualification

Do members have the required

- Technical knowledge
- Business and management skills
- Communication skills

Are members keeping up to date with current developments?

## 2(a) Education – CIA response

- Pre-qualification
  - Emphasis on technical knowledge
  - No credit given for University courses
  - Lengthy and unpredictable travel time

## 2(a) Education – CIA response

- Post-qualification
  - Mandatory Continuing Professional Development (CPD)
  - Mandatory filing of proof of CPD compliance with CIA office
  - Specific “Skills and Knowledge Inventories” being developed
  - CIA is offering courses in communication




## 2(b) Standards of ethics

The public expects professionals to behave in an ethical manner, and to be able to trust them.

## 2(b) Standards of ethics – CIA response

Rules of Professional Conduct cover subjects  
such as:

- Integrity
- Qualification Standards
- Disclosure
- Conflicts of Interest
- What a member must do if he/she becomes aware of “apparent material non-compliance by another member”



## 2(c) Standards of Practice/Technical Guidance

Does the profession have standards that:

- Define how work should be done?
- Limit the range of results produced by different members?



## 2(c) Standards of Practice/Technical Guidance – CIA response

- Consolidated set of Standards of Practice, supplemented by Educational Notes
- Some Standards apply to all actuarial work; other standards are specific to certain types of work (e.g. pensions)
- Some inconsistency between practice specific standards
- Long time to develop new standards or revise existing standards

## 2(d) Research and experience studies

“The (UK) profession has been too insular, with insufficient contact with other professions and too narrow a professional training, and has been slow to adopt new approaches and techniques ...”

(Interim report, Morris Review, Dec 2004)

## 2(d) Research (continued)

- Is original and relevant research taking place – and being applied?
- Is the profession adapting relevant concepts developed by others? (For example, financial economics)
- Are timely and relevant experience studies being performed?

## 2(d) Research – CIA response

- Reliance (too much?) on Society of Actuaries and Casualty Actuarial Society
- Task Force on Financial Economics
- New, stronger Research Committee



## 2(e) Monitoring and review of the work of members

Does the professional body proactively review (a sample of) the work done by its members?

## 2(e) Monitoring and review – CIA response

- Starting in 2005, a sample of pension plan actuarial reports is reviewed each year by a panel of actuaries
- The work of an Appointed Actuary (AA) of an insurance company is subject to external review at least once every three years

## 2(e) External review of an AA's work

### Scope

- Valuation of actuarial liabilities
- Calculation of required capital
- Future financial condition report
- Allocations between participating and non-participating business

(Need not duplicate work of external auditor)

## 2(e) External review of an AA's work

Who can be a reviewer?

- Must be an FCIA with relevant experience (and exposure to at least two unrelated insurance companies)
- Cannot be an employee or shareholder of the insurance company (or have worked there in previous 3 years)
- Must be changed every six years



## 2(e) External review of an AA's work

### Reports

- Provided to audit committee, external auditor and OSFI (regulator)
- Must describe:
  - conclusions with respect to work reviewed
  - any changes that resulted from the review
  - any remaining difference of opinion with Appointed Actuary

## 2(f) A discipline process

Is there a process for

- Investigating complaints?
- Disciplining a member when merited?

How transparent is the process?

## 2(f) Discipline process – CIA response

- Committee on Professional Conduct investigates all complaints against members
- Contains two non-actuaries
- Disciplinary tribunal for serious charges, chaired by a retired judge
- If complaint is justified, penalties vary from private reprimand to expulsion.

## 2(g) Public interest

- Does the member put the public interest ahead of his own interest?
- Does the member put the public interest ahead of the client's interests when appropriate?

## 2(g) Public interest versus client's interests – some examples

- In an insurance company: management pressure for better financial results versus security of policyholders
- In a pension fund: management pressure for lower contributions versus security of plan members

## 2(g) Public interest – CIA response

CIA's Guiding Principles state: "In carrying on its activities and programs, the Institute holds the duty of the profession to the public above the needs of the profession and its members."

## 2(h) Transparency

Can an intelligent non-actuary be satisfied that the profession's rules and standards:

- Reflect the public interest?
- Will result in quality work, if followed?
- Are monitored for compliance?
- Will result in disciplinary action, if not followed?

## 2(h) Transparency – CIA response

- Guiding principles re public interest
- Ongoing external review of members' work
- Non-members involved in discipline process
- Moving towards an independent standard setting process





## Independent standard setting process

Step 1 – set up an

- Actuarial Standards Board, responsible only for standard setting, and
- Practice Council, responsible for all other functions of current Practice Standards Council (e.g. Educational Notes)

Target is implementation at beginning of July 2006



## Independent standard setting process

### Step 2 - create an independent Actuarial Standards Oversight Council


- Will consist mainly of non actuaries
- Will oversee Actuarial Standards Board
- Will not set Standards of Practice
- Modeled on Canadian Accounting Oversight Council

# Independent standard setting process

## Step 3

- Actuarial Standards Board to report to Actuarial Standards Oversight Council, not to the CIA Board
- Oversight Council to appoint members of Actuarial Standards Board

Target date is end of 2006



## Independent standard setting process Why do this?

1. All professions are being expected or required to be more transparent
2. If the CIA is proactive, we can have much more influence over the end result
3. Favorable experience of Canadian accounting profession

# Issues facing the actuarial profession

## - how is the CIA responding

- a) Criticism from respected bodies (U.K. Morris Review, the Economist)
- b) Poor understanding of some risks, leading to bad pricing
- c) Increasing role of other professional bodies
- d) Limited growth in some traditional actuarial roles



## (a) Criticism from respected bodies - CIA response

- Limited criticism of actuarial profession in Canada – but this does not justify complacency
- Various initiatives taken recently or about to be implemented
- Good relations with regulators; regular formal and informal meetings



(b) Poor understanding of some risks,  
leading to bad pricing – CIA response

- More emphasis on education and research
- Pressure from regulators has helped to produce appropriate valuation requirements



## (c) Increasing role of other professional bodies – CIA response

- Increased emphasis on improving non-technical skills of actuaries
- Can the qualification process be shortened without sacrificing quality?





(d) Limited growth in some traditional actuarial areas – CIA response

Working with Society of Actuaries and Casualty Actuarial Society to expand the role of actuaries in Risk Management



# Concluding remarks





Questions and comments?