

## **BACKGROUND PAPER ON A 3-5 YEAR BUSINESS PLAN**

### **1. Background**

Following the IAA voting ballot in May 2011 on the increase of the annual membership fee from CAD \$15 to CAD \$16.75, several member associations expressed their concern regarding the overall fees development in recent years and asked the IAA for a more detailed planning analysis for the next 3 to 5 years. The main objective of this initiative is to enable Council to take an informed decision on future budgets when measuring the monies to be spent against the agreed strategic objectives.

### **2. Strategic objectives and Priorities/Action Plans**

A recent survey among member associations clearly showed that the IAA strategic objectives as well as the agreed priorities and action plans are still widely accepted and supported:

#### **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.

##### *Priorities/Action Plans*

1. Identify and prioritize relevant supranational organizations with whom to establish and maintain key relationships.
2. Bring key relationship bodies into contact with the relevant actuarial groups.
3. Build and maintain key relationships.

#### **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.

##### *Priorities/Action Plans*

1. Identify and prioritize fields of practice and develop a program to support each area.
2. Create strong links with non-actuarial international organizations in “wider fields”. (links to Strategic Objective 1)
3. Promote the development of actuarial practice in Enterprise Risk Management, including the development of a global designation/credential.

#### **Strategic Objective 3**

Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards in the jurisdictions of all Full Member Associations, and the global convergence of actuarial standards.

##### *Priorities/Action Plans*

1. Periodically review basic education standards to ensure they remain up to date.
2. Develop a recommended set of voluntary continuing professional development (CPD) guidelines.

3. Achieve a common understanding of the principles of professionalism, including code of conduct and disciplinary procedures.
4. Develop model standards of practice.

#### **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.

##### *Priorities/Action Plans*

1. Help emerging and existing actuarial associations to develop.
2. Examine the feasibility of constructing and managing an International Actuarial Education Program.
3. Facilitate the access to information and experiences from other countries, especially for countries with a developing actuarial profession.

#### **Strategic Objective 5**

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

##### *Priorities/Action Plans*

1. Encourage forums for actuaries to discuss global actuarial issues.
2. Encourage discussions between association Presidents.
3. Encourage not only worldwide, but also regional contact and cooperation among member associations.

Pursuing these objectives, or rather building an IAA which will be able to efficiently pursue these objectives, will require a **fundamental discussion with member associations on what it will mean to implement the vision of the future IAA** they apparently share. If the IAA wishes to achieve the goals stated above it will have to act much more effectively on the global stage than today or ten years ago. In fact, this requires more efficient decision-making processes, more volunteer commitment, more secretarial and project management support and thus higher budgets to provide a solid financial basis for both the scope of activities envisaged and the necessary organisational structure underlying these actions.

The following thoughts aim at giving a first idea of what has to be considered and what input is needed to develop a sound multi-year model which allows discussing various scenarios of the IAA in 2015 or 2017. It is perhaps important to note that we have to bear in mind evolution and not revolution when carefully choosing assumptions and evaluating possible outcomes.

### **3. Expenditures**

#### *a) Priorities / Action plans*

Chapter 2 contains a comprehensive overview of the agreed action plans for the coming years in order of their priority. Taking these initiatives as a starting point, we have to consider what consequences the envisaged scope of activities will have on the expenditures of the IAA. The following list intends to give an idea where additional financial resources will be needed:

- i) Identify, establish, and maintain relationships with key supranational audiences
  - enhance public relations activities (plus CA\$ 60.000)
  - increase in travel costs (double)

- growing scope of activities in technical committees (doubling of project management staff resources from 3 to 6 over a 5-year period)
- ii) Facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession
  - growing scope of activities in technical committees (see above re staff resources)
- iii) Establish, maintain and promote common standards of actuarial education
  - publication of educational monographs (see above re staff resources)
- iv) Develop and issue model actuarial standards
  - likely establishment of semi-autonomous structure for standard-setting (plus 1 full time member of staff)
- v) Help emerging and existing actuarial associations to develop
  - growing level of activity in Advice and Assistance (see above re staff resources)
- vi) Provide a forum for discussion among actuaries and actuarial associations

*b) Organisational structure*

- i) Professional staff

Further professionalization of the IAA requires a strong and competent secretariat

- to support the IAA, its committees and working groups in achieving their objectives as stipulated in the strategic plan.
- to help promote the recognition of the IAA as a key stakeholder in all matters relating to financial services and risk management
- to offer administrative and actuarial support to technical committees
- to organise day-to-day administration of the IAA
- and to ensure continuity in the IAA's long-term development

Today the IAA Secretariat is staffed as follows:

1 Executive Director

1 Executive Assistant

1 Director of Finance

1 Coordinator Events & Finance

2 Manager / Assistant IT & Member Services

2 Project Managers (1 Technical Projects, 1 Membership & Development)

= 8 full time staff members

Related budget figures:

	Budget 2012	2011 Actual	2010 Actual
Support staff	CA\$ 790.000*	CA\$ 634.165	CA\$ 617.899
Stat. Meetings – Travel & Accom.	CA\$ 85.000	CA\$ 112.591	CA\$ 74.066
Office Overhead	CA\$ 30.000	CA\$ 30.000	CA\$ 23.220
Rent	CA\$ 88.000	CA\$ 85.616	CA\$ 85.592
Office Administration	CA\$ 25.000	CA\$ 12.095	CA\$ 17.858

\* The budget 2012 already includes 1 additional (technical) project manager and 1 administrative support.

In order to achieve the envisaged objectives as described above, additional full time resources are indispensable. Thus, the IAA Secretariat should be further strengthened in the next 3-5 years:

- 3 additional project managers (overall = 4 technical projects, 2 membership & development)
- increase in travel and accommodation expenses for statutory meetings (budget 2012 for 4 staff members and 4 officers) to include additional project managers: additional expenses of CA\$ 10.000 per person
- increase in office overhead and office administration expenses of 10% per annum
- additional staff resources will require additional office space – is additional office space available at 150 Metcalfe Street or do we have to look for outside these premises?

ii) Volunteer commitment

With more professional / actuarial support by the secretariat the role of volunteers will remain a crucial factor for the continued success of the IAA. It will be important to find out how their commitment can be used most effectively.

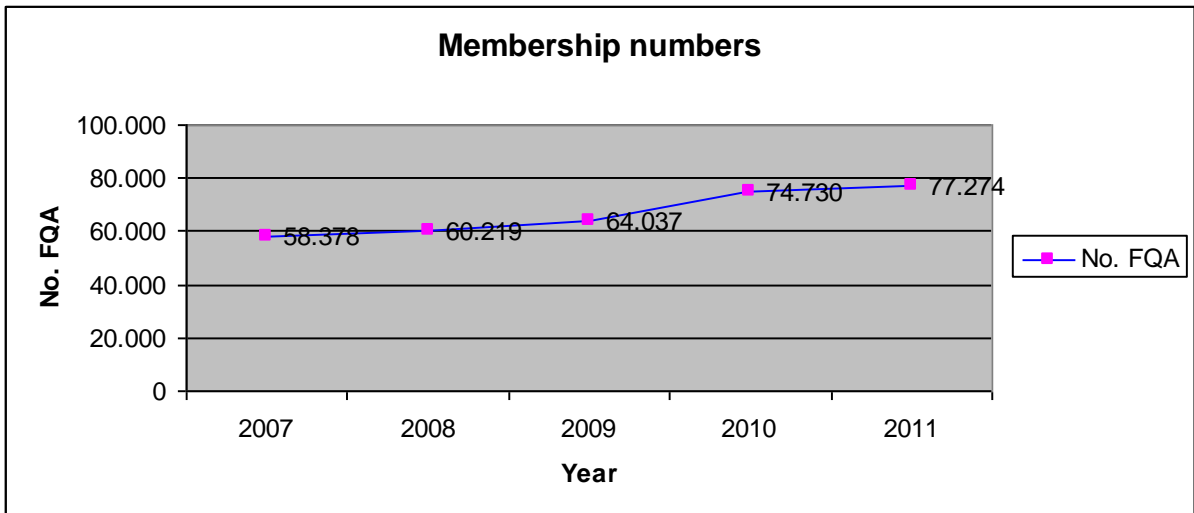
In addition, member associations should consider for themselves for which strategic objectives they feel most strongly about and whether they can provide additional resources, i.e. taking over the responsibility for certain projects locally or providing additional support from local secretariats.

In this context the idea of secondments needs to be considered carefully. See also chapter 4 b) on external funding.

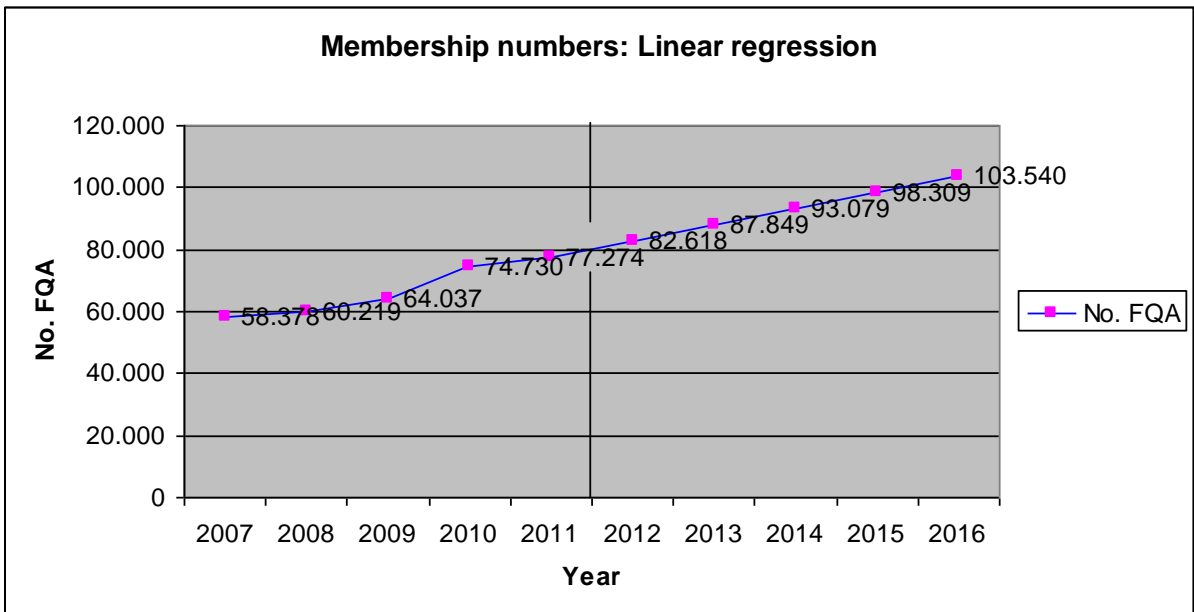
#### 4. *Income*

a) *Membership development*

In the last five years membership numbers developed as follows:



A linear regression of membership numbers based on the last five years including all associations gives the following projections:



The growth in number of FQAs worldwide is largely driven by the ten largest actuarial associations:

1	Society of Actuaries
2	American Academy of Actuaries
3	Institute and Faculty of Actuaries
4	Casualty Actuarial Society
5	Deutsche Aktuarvereinigung e. V. (DAV)
6	Canadian Institute of Actuaries
7	Institute of Actuaries of Australia
8	Institut des Actuaire
9	Instituto de Actuarios Españoles
10	Institute of Actuaries of Japan

These member associations were surveyed about their expectations as regards membership development to assess the income basis for the next 3 to 5 years. 7 out of 10 associations replied and their projections reveal that the above progression appears far too optimistic:

While a regression of these 7 associations results in a membership prediction of approx. 70.000 FQA in 2017, their own assessment delivers an estimate of less than 54.000 FQA with a growth rate of approx. 3,6% annually.

<b>Association</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>SOA</b>	21.867	22.523	23.198	23.894	24.611	25.349
<b>UKAP</b>	10.859	11.293	11.745	12.215	12.703	13.212
<b>CAS</b>	3.869	4.024	4.185	4.352	4.526	4.707
<b>DAV</b>	3.604	3.858	4.039	4.255	4.587	4.921
<b>IAAust</b>	2.089	2.160	2.235	2.310	2.390	2.470
<b>Spain-Instituto</b>	1.448	1.462	1.477	1.492	1.507	1.522
<b>IAJ</b>	1.254	1.284	1.314	1.344	1.374	1.404
<b>Sum</b>	<b>44.990</b>	<b>46.605</b>	<b>48.193</b>	<b>49.862</b>	<b>51.698</b>	<b>53.585</b>
<b>Growth Rate</b>		<b>1,0359</b>	<b>1,0341</b>	<b>1,0346</b>	<b>1,0368</b>	<b>1,0365</b>

Another factor to be taken into account is a possible merger of the five US associations. Currently (i.e. in 2011), they account for 43.543 FQAs. A rough estimate of double memberships in these associations reduces this number to about 26.000 FQAs, i.e. a reduction of 17.500 FQAs. This needs to be kept in mind even though a merger doesn't appear to be likely within the three or five years we are discussing.

The annual rate per FQA in 2012 has been set at CA\$ 16.75.

a) With the projected membership numbers for all associations based on the last five years this would lead to the following revenue:

<b>Year</b>	<b>No. FQA</b>	<b>Membership revenue (in CA\$)</b>
2011	77.274	1.294.340
2012	82.618	1.383.860
2013	87.849	1.471.467
2014	93.079	1.559.075
2015	98.309	1.646.682
2016	103.540	1.734.290

b) Assuming a general growth rate of 3,5% would, however, lead to

<b>Year</b>	<b>No. FQA</b>	<b>Membership revenue (in CA\$)</b>
2011	77.274	1.294.340
2012	79.979	1.339.641
2013	82.778	1.386.529
2014	85.675	1.435.057
2015	88.674	1.485.284
2016	91.777	1.537.269

With all other income positions remaining equal this would be a first basis for a discussion of further dues increases.

*b) External funding*

While member associations will have to be convinced of actively supporting a strengthened IAA, and thus possibly accepting higher membership dues, the possibility of external funding should also be examined. Financial support of the industry appears realistic, especially in the area of standard-setting. This raises, however, the question of how the IAA will ensure professional independence when it accepts some kind of sponsoring.

**5. Budget projections**

The assumptions above have been reflected in a spreadsheet which allows various “as-if” analyses.

*Prepared by Kurt Wolfsdorf on behalf of the Strategic Planning Subcommittee  
February 21, 2012*



**International Actuarial Association (Excluding Sections)  
5 Year Preliminary Budget Projection 2012 - 2016  
Statement of Revenues and Expenses**

**DRAFT**

(All figures are in Canadian dollars / Les montants sont en dollars canadiens)

	Restated 2011 Final Budget	2011 Actual Results	2012 Budget (approved)	2012 Projected	2013 BUDGET pro forma  No fee increase	2014 BUDGET draft	2015 BUDGET draft	2016 BUDGET draft	
FQAs	79,500	77,758	79,979	79,979	82,778	85,675	88,674	91,777	3.5% increase per year per 5 year plan
Annual rate per FQA	15.00	15.00	16.75	16.75	16.75	18.00	18.75	19.00	fee increase per 5 year plan
<b>REVENUE</b>									
Membership dues:									
- Full Members	1,192,500	1,166,370	1,339,648	1,339,648	1,386,532	1,542,150	1,662,638	1,743,763	
- Associate Members	1,250	-	1,250	1,250	1,250	1,250	1,250	1,250	
Observers, benefactors and special	10,000	-	15,000	15,000	25,000	30,000	40,000	50,000	
Misc. revenue	15,000	2,030	-	-	2,000	2,000	2,000	2,000	
Books and publications		20,744							
1 Interest and investment income	13,000	107,106	2,000	20,000	20,000	20,000	20,000	20,000	Investment income isn't operating income and due to volatility of markets no significant budget set for investment income or exchange gain/loss
Exchange gain/(loss)		-							
	1,231,750	1,296,250	1,357,898	1,375,898	1,434,782	1,595,400	1,725,888	1,817,013	
Transfer from IAA Fund (Art 33)	45,000	59,184	-	-					
Transfer from EMSM Fund	-	24,655	-	-					
Transfer from Discount Rates Fund	-	-	-	-					
Transfer from Congress fund (Art 34)	-	-	-	-					
<b>TOTAL REVENUE</b>	<b>1,276,750</b>	<b>1,380,089</b>	<b>1,357,898</b>	<b>1,375,898</b>	<b>1,434,782</b>	<b>1,595,400</b>	<b>1,725,888</b>	<b>1,817,013</b>	
<b>OPERATINGEXPENSES</b>									
2 Support staff	650,000	634,165	790,000	765,000	825,000	923,000	1,024,920	1,130,917	2 new hires for part of year in 2012, no hires in 2013, 1 in each of 2014,15,16 and 4% annual increases
3 Statutory meetings	170,000	173,777	195,000	195,000	200,000	200,000	200,000	200,000	2 meetings per year
3 Statutory meetings-travel and accom	120,000	112,591	85,000	60,000	100,000	100,000	100,000	100,000	5 staff / 4 officers to attend meetings \$4,750 X 9 X 2
4 Committee expenses, seminars and events	135,000	79,284	137,000	137,000	150,000	150,000	150,000	150,000	takes into account IAA Fund activities starting in 2013 (partial), full thereafter
Bank charges	7,000	8,072	7,000	7,000	8,500	8,500	8,650	8,750	
Amortization of furniture and equipment	-	27,593	22,000	22,000	25,000	24,500	24,000	23,000	not projecting any significant asset purchases
5 Audit	12,000	10,100	15,500	12,500	12,000	12,375	12,750	12,750	per quotes from BDO (budget excludes costs charged to sections)
6 Bursaries & gifts	10,500	2,407	11,000	2,500	3,000	3,000	3,000	3,000	excludes amounts included in Section expenses
Contractors/Professional Fees	4,000	68,816	15,000	15,000	15,000	20,000	20,000	20,000	excludes amounts included in Section expenses
Office overhead, equipment and maintenance	15,000	2,343	8,000	8,000	9,500	10,000	10,000	10,000	
Foreign exchange gain/(loss)	-	6,311	-	-	-	-	-	-	
Insurance	10,000	8,842	15,000	15,000	15,000	15,000	15,000	15,000	
Internet and website Services	25,000	28,279	55,000	55,000	30,000	30,000	30,000	30,000	2012 includes amount for one time IT assessment
Office administration	12,500	14,505	25,500	25,500	25,500	27,000	28,500	30,000	assume annual increases of \$1,500 for additional staff activities
Printing and photocopy	9,150	2,998	3,000	3,000	3,000	3,500	3,500	4,000	excludes amounts included in Section expenses
Promotion	-	-	-	-	25,000	25,000	20,000	15,000	Press releases \$5,000, Branding \$20,000 (decreasing by \$5,000 in 2015 and 2016)
Rent	88,000	85,616	88,000	88,000	88,000	100,000	130,000	130,000	Lease expires Oct 2014, larger office space/move will be required
7 Representation expenses	45,000	37,990	45,000	35,000	45,000	45,000	45,000	45,000	
Telephone/ facsimile/teleconferencing	16,500	19,466	22,000	22,000	22,000	22,000	22,500	23,000	excludes amounts included in Section expenses
Translation	10,000	7,030	10,000	10,000	10,000	10,000	10,000	10,000	
Website development	10,000	10,484	7,000	7,000	12,000	13,500	14,500	14,500	
Section administrative cost recoveries	(105,500)	(81,030)	(157,000)	(157,000)	(125,000)	(128,000)	(131,000)	(134,000)	2012 includes amount outstanding from 2011, not accrued
ASTIN Bulletin administrative cost recoveries	(15,000)	(15,000)	(15,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	
Cost of Sales - books and publications	-	19,135	-	-	-	-	-	-	
<b>TOTAL OPERATING EXPENSES</b>	<b>1,229,150</b>	<b>1,263,774</b>	<b>1,384,000</b>	<b>1,307,500</b>	<b>1,478,500</b>	<b>1,594,375</b>	<b>1,721,320</b>	<b>1,820,917</b>	
IAA Fund Leadership Development Meetings	45,000	59,184	-	-					
EMSM Fund	-	24,655	-	-					
Congress Reserve Fund	-	-	-	-					
<b>TOTAL EXPENSES</b>	<b>1,274,150</b>	<b>1,347,613</b>	<b>1,384,000</b>	<b>1,307,500</b>	<b>1,478,500</b>	<b>1,594,375</b>	<b>1,721,320</b>	<b>1,820,917</b>	
<b>EXCESS (DEFICIENCY) OF REVENUE</b>									
<b>OVER EXPENSES (before book operations)</b>	<b>2,600</b>	<b>32,476</b>	<b>(26,102)</b>	<b>68,398</b>	<b>(43,718)</b>	<b>1,025</b>	<b>4,568</b>	<b>(3,904)</b>	
<b>EXCESS (DEFICIENCY) OF REVENUE</b>									
<b>OVER EXPENSES FOR THE YEAR</b>	<b>2,600</b>	<b>32,476</b>	<b>(26,102)</b>	<b>68,398</b>	<b>(43,718)</b>	<b>1,025</b>	<b>4,568</b>	<b>(3,904)</b>	
Annual rate per FQA	15.00	15.00	16.75	16.75	16.75	18.00	18.75	19.00	