

Report of the Secretary General to the Council Meeting

Mexico City – April 18, 2007

Secretariat

Only change is permanent but sometimes it comes in discrete installments! Over many years, both the CIA and the IAA have been adding activities and personnel until it became necessary, even urgent, to find additional space. Last February, after looking at many options, the CIA rented additional space in the same building, but on a different floor. Given the size of the space available, it was agreed that the best option was for the employees dedicated to the IAA activities to take over this additional space. This move a few floors up does not in any way alter the co-location agreement with the CIA nor does it affect the level of services provided by the CIA staff. Given that the IAA continues to utilize the services of the CIA receptionist, there was no need to issue a change of address. The telephone and fax numbers, as well as the email addresses, all remain the same.

This move was one of two targets that, at the time of the meeting in Edinburgh, we were aiming to reach in 2006. The other one was the recruiting of an accounting assistant to respond to the increasing IAA workload in accounting and reporting while continuing to enjoy the services of other CIA staff, in particular those of Rosemary Leu, the Director of Finance. The early months of 2007 have been more generous than the ones of 2006 and the CIA was successful in hiring another accounting assistant whose responsibilities would be dedicated to the accounting functions of the IAA and its Sections. Ellen Sylvester assumed this position on February 13th on a part-time basis. She comes to us with many years of experience in accounting and will also be available to assist other members of the team as needed.

In March, the IAA team moved to the 14th floor where 969 square feet are available. No leasehold improvements were necessary which means the move was done quickly and at minimum cost. For the record and the information of newly appointed members, the team comprises:

Christian Levac, IT and Member Services
Katy Martin, Technical Projects
Céleste Leclerc, Membership and Development
Ellen Sylvester, Accounting and support services

all working under the immediate direction of Nicole Séguin, our talented Executive Director.

This was an overdue move as our personnel was squeezed in a space meant for fewer people, but space is not a commodity and negotiations took more time than anticipated. The CIA has also obtained a right of first refusal on contiguous space.

Publications

Since our last meeting, we have published three Newsletters: a special Newsletter just after the Edinburgh meeting to report in a more timely fashion on the Council and Committee activities, one in December and the last one in March. We will also publish a special Newsletter as soon as possible after our meeting in Mexico. It will be sent to member associations and to a special list of active participants; you can ask the Secretariat to add your name to that list if you wish to receive that Newsletter directly. It is also available to all members on the Web site.

Website

We are happy to see that more and more members and non members access the IAA Web site and we are always seeking to increase the value added. We will soon reach the respectable level of 1 million hits per year as 235,000 visitors showed up in the last quarter. In that quarter we averaged over 10,000 pages viewed per day.

The top hit, as may be expected, was the December Newsletter with 4,535 visitors. This number may be a good proxy to estimate the number of actuaries having visited our Web site. In the knowledge area, the top hits represent an encouraging diversity of interest. The top 10 comprises:

- Global Framework for Insurer Solvency Assessment
- Copulas and dependencies in the non-life area
- Gestion actif/passif d'un contrat d'assurance-vie
- Volatility forecasting for trading options on DAX 501
- Pricing pension fund guarantees
- Insurance programs in developing countries.

Incremental changes have been implemented. We now have a secure server for e-commerce so we can, for example, receive association membership fees, collect the fees for membership in sections, meeting fees, participation to colloquia or the purchase of the Insurer Solvency publication.

Sections enjoy full visibility and are making good use of the IAA Web site support which avoids re-inventing the wheel and going through a learning curve for each new event organiser. This has been the case for the ASTIN and PBSS colloquia and it should be the case for the joint colloquium of IACA/PBSS/IAAHS next year. We believe that building permanent institutional capacity is cost-effective and user friendly. Members need remember only one address.

Access to our common body of actuarial knowledge

We also wish to enhance the usefulness, or as an economist would say, the utility function of our Web site as a tool to access scientific and professional material. For many years, we have promoted our virtual global actuarial library through a powerful indexing tool complemented by online translation in eight (8) languages. We are now fine-tuning a new design to facilitate access to the informational part of the site. Our research also indicated that there was an unknown quantity of material of relevance to actuaries in sites that would be difficult to identify by the average actuary. Preparatory work is well underway and, after the Mexico meeting, Christian Levac will be implementing changes that we hope will facilitate the sharing of knowledge within the global actuarial profession.

Issues of intellectual property and copyright can be complex and become a handicap. We have obtained professional advice on these issues to make sure we can give maximum access without risk of litigation in the future. You will note that the Rules for the 2010 Congress contain the following stipulation:

“The IAA shall hold copyright to all papers accepted for presentation at the Congress”

We plan to extend this to all events or activities generating material that can enrich our common core. We are looking into the steps that should be taken to make the granting of a non-exclusive copyright to the IAA more automatic when papers are presented to Seminars, Conferences or Colloquia, or produced by a Committee. The IAA could in turn provide the same legal cover to its member associations and events organisers while avoiding the need to solicit individual releases.

Standards and Public Statements

The December and March Newsletters list two Standards prepared by the Actuarial Standards Subcommittee of the Committee on Insurance Accounting which were submitted to a vote by electronic ballot since our last meeting. Both were adopted. An exposure draft is being prepared by the Risk Margins Working Group with a deadline of May 25. Comments have also been received by the March 31 deadline on a first stage exposure of *Internal Model Practices for Insurer Risk Assessment and Capital Requirements* prepared by the Solvency Subcommittee of the Insurance Regulation Committee.

No objections were received to the public statement prepared by the Pensions & Employee Benefits Committee before the February 28 deadline. Two more statements are pending with due dates of April 28 and May 4.

Meetings

After a few approvals by Council here in Mexico as to future meeting locations, our meetings will be sold out until the end of 2010 plus one in 2013 and of course the 2014 Congress in Washington DC. The geographic distribution of 22 meetings held or planned since the year 2000 reflects more the distribution of associations than that of members. The total comprises 12 in Europe, 3 in North America and 7 in the Rest of the world.

Since the IAA started to take direct responsibility for the venues, our Executive Director has established a good business relationship with the Starwood Group which helps us achieve a higher quality of services at a lower cost. As Sections start to take advantage of the IAA umbrella, it becomes a win-win for all as it increases our collective bargaining power. Additional clout enables us to avoid bad surprises and this proved very useful when, after consultation with our colleagues in Dublin, we decided to switch to another venue next fall. The original location is scheduled to cease operation not long after our fall meeting and this has been a source of concerns. What could have been a difficulty has become an opportunity to offer a venue in a more central location with an optimal choice of hotels within easy walking distance. Nicole and her team are continuously showing initiative and creativity to ensure our meetings benefit from the best venue at affordable costs for the IAA and its members.

Outreach

The December and March Newsletters contain a detailed list of our outreach activities. The Secretariat has been following up on the various events and opportunities. Using that bank of information, we help each new President to optimize the representation and maximize the IAA presence at a minimum cost in dollars as well as in personal time, while implementing our objective of diversity. Thanks to the collaboration of all involved, we have been implementing our schedule within budget despite ever increasing air fares.

Budget and financial statements

The audit of the IAA financial statements at December 31, 2006 is now complete and, once again, was carried out without any issues. There were no bad surprises and the IAA free surplus has reached C\$220,000, which represents 3.5 months of operational expenses excluding the bursaries. With the exception of ASTIN, the independent audits of the Section statements at December 31, 2006 are now also complete and unqualified. Bank accounts are currently being opened to facilitate the transfer of ASTIN’s operations to Canada. The audit for ASTIN is expected to be completed later this year.

As indicated in Edinburgh, the surplus for the IAA in 2006 was larger than expected: \$10,856 compared to the budgeted surplus of \$5,030. The increase in the surplus results from an increase in revenue greater than the increase in expenses, that is \$16,000 more revenue and \$10,000 more expenses.

The higher revenue is essentially from higher returns on invested assets; the revenues for members’ areas expected in aggregate, the higher revenues from regular members compensating the lack of revenue from the special categories of observers and benefactors.

The largest amount spent over budget is for our statutory meetings held in Paris and Edinburgh, both of which were well attended. The expenses were almost \$34,000 over budget, but we were under budget by \$10,000 for travel and representations which reduced the excess to \$24,000. This excess is almost exactly compensated by the savings in committee expenses and support where we are \$23,000 below budget because of savings on committee expenses. The internal costs are under budget in aggregate as only salaries are over budget by \$3,500, (\$223,500 versus \$220,000). The items that are in excess are gifts that are \$6,300 over budget and smaller differences in bank charges, exchange losses and professional services.

The IAA’s surplus funds (\$242,679 at December 31, 2006) are invested in accordance with the operating ranges stipulated in the IAA’s Investment Guidelines:

Canadian Equities	\$97,704	40%	(Range 0%-50%)
Canadian Fixed Income	\$144,975	60%	(Range 20%-100%)
<i>Fixed Income Sector Restrictions:</i>			
Government of Canada	\$60,797	25%	(Range 25%-90%)
Provincial	\$74,289	31%	(Range 10%-60%)
Corporate/Municipal	\$9,889	4%	(Range 0%-40%)

The effective yield on the surplus funds’ fixed income investments is 4.36%. Other operating funds held in the BNS treasury account currently earn 3.97%, although this rate fluctuates daily.

2008 pro-forma budget

We have taken these variations into consideration in drafting the pro-forma of the 2008 budget that is to be presented in Dublin with adjustments to reflect 2007 emerging results. We are budgeting an increase in revenue and expenditures for 2008 of about 18% over 2006, thus about 8,6% per year, of which 5,8% is the annual increase in fees and 2,6% the increase in membership

over the two year period. On the expense side, we have reduced the budget for committee expenses to \$55,000 which is halfway between the 2007 budget and the 2006 expenses in order to keep room for some seed money for the International education project as decided by the Council in Edinburgh. Our 2007 budget for the meetings is less than the 2006 expenses and we added only a modest increase for 2008 as we believe that lower local costs will compensate for the continuous growth in the attendance: our 2008 budget is 92% of actual costs in 2006. The budget for travel, representation expenses, office equipment, Internet services and development is unchanged from 2007. We have made a higher provision for printing to finance a revised version of the IAA Brochure as well as of the “Blue book” that is the Solvency Framework, but as the first edition was sold out this should be seen as an investment.

The budget for our personnel that is support staff and committee support is 9% above 2007 budget and 15, 5% above 2006 actual; these percentages include the annual and merit increases in salary as well as the increase in capacity resulting from the addition of Celeste Leclerc and the increase in the hours worked by Katy Martin; the addition of Ellen Sylvester is cost neutral as we were sharing the cost of part-time CIA staff.

What is not cost neutral is the rent. Both the IAA and the CIA have been pushing on the walls for the last few years until it became imperative to rent more space. The IAA benefited from the fact that the sharing had not been revisited since 1998. The original lease provided also for an increase in the basic rent per square feet as from November 2007 until its expiration in May 2011. In supplement to the base rent, we also pay for maintenance and operation, the cost of which tends to follow inflation or salary growth; this supplement now applies to more square feet. As the addition of space took place in March this year and the increase of 15% in base rent is taking place on November 1, 2007, the year 2007 is less impacted by these increases, but 2008 will support the full effect. We were fortunate that the space did not require leasehold improvements, so the cost of moving within the same building was not significant. We are thus budgeting for \$50,000 in 2008 versus \$38,000 in 2007 and \$25,000 in 2006.

Special Guests

A number of special guests have accepted our invitation to join us in Mexico City and we are honoured by the presence of:

- Rob Esson, Chair, Insurance Contracts Subcommittee, IAIS
- Rob Curtis, Chair, Solvency & Actuarial Issues Subcommittee, IAIS
- Karen Doran, Principal Administrator, Secretariat, IAIS

Let's thank them generously for taking the time to participate in our meetings.

Yves Guérard, Secretary General