

GUEST EDITORIAL

BY J. RANTALA

I am very honoured to have been invited to write a guest editorial to such a high-quality journal as *Annals of Actuarial Science*. It is a pleasure to have the opportunity to discuss subjects of interest to me, and of potential interest to (at least some) readers of AAS, as it was formulated in the guidelines for the editorial.

I think that journals like AAS are necessary for actuaries to maintain and enhance their professional skills. AAS is an excellent translator between theory and practice. The articles always deal with important and interesting topics. The topics discussed in AAS range from the traditional basic core of the profession, mortality and longevity, to more recent disciplines, such as modern financial economics. So AAS is a very good source of information for many kinds of actuaries and not only members of the UK profession but also non-UK actuaries.

Many mathematical disciplines have their roots in practical applications, but this is true in particular of actuarial science. Actuarial science has experienced major progress from the early beginning of life insurance mathematics some hundreds of years ago to modern risk theory and other advanced actuarial disciplines of today. Actuarial science has made significant contributions to other mathematical theories, especially to the theory of stochastic processes. Actuaries have also independently developed theories which have counterparts in other areas of mathematics or statistics. A well-known example is the analogy between credibility theory and Bayesian statistics.

A significant feature of actuarial theories is that they mostly have their background in solving practical problems. This is natural, since actuaries seem to be masters in finding pragmatic solutions to practical problems. Sometimes actuaries are even blamed for being too realistic and pragmatic in the sense that they are paying enough attention neither to the theoretical foundation of their practices nor to searching for theoretical findings and innovations, which could be beneficial in solving problems emerging from insurance applications, the traditional home base of actuaries. A current case is the use of financial economics: the discussion on the right framework for valuing insurance liabilities is lively. Professional journals like AAS can make a significant contribution to such discussions by bringing forward different views and techniques.

On international cooperation

The need for the actuarial profession to cooperate at the international

level is obvious. Financial corporations are more and more global. Other professions like accountants, regulators and supervisors have organised themselves globally and they produce global standards and practices. New professions competing with the actuarial one emerge. They may start not any more from the national but from the global perspective. For example, the educational requirements and certification standards may be global from the very beginning and so there is no need for complicated “mutual recognition agreements”. As a consequence, the need for the actuarial profession to keep pace with the development and to convert itself into a real global profession is urgent. The need for such cooperation is even more important for smaller countries than for the bigger ones. That is one of the reasons why the Finnish actuarial profession has tried to take an active role in the international actuarial organisations.

The international cooperation of actuaries was discussed by Edward Levay, a former President of the International Actuarial Association (IAA), in his guest editorial to BAJ Volume 10, Part II. He explained the background of the IAA as an association of associations and stressed the contribution of the IAA to the unification and globalisation of the profession. I limit my perspective more to that of the Insurance Regulation Committee (IRC) of the IAA, with whose work I have been involved since 2000 and whose chairperson I was in 2002-2006.

The main task of the IRC is to liaise with the International Association of Insurance Supervisors (IAIS) and other international regulatory organisations on issues relating to the regulation and supervision of insurance companies. Of course, the main interest is on actuarial matters. The IRC has two subcommittees, one for solvency and another for reinsurance.

The cooperation with the IAIS has been successful. The IAA is an observer member of the IAIS and the IAIS is an institutional member of the IAA. The special role actuaries and the actuarial profession play in the supervision and regulation of insurance and pensions has well been recognised by the IAIS and this has resulted in a special “first-class” status of the IAA among the IAIS observers.

The IAIS has introduced and is to introduce a large set of international standards and guidelines to be observed in national jurisdictions. The IAIS has no direct powers to enforce its standards; nevertheless they are influential since the International Monetary Fund and the World Bank follow compliance with them when assessing the financial stability of different countries. This “name and shame” policy is effective, especially in countries which are looking for assistance either from the WB or the IMF.

The cooperation with the IAIS usually takes the form of participation in the IAIS committee meetings, annual conferences, panels and responding to the IAIS draft papers. A main current initiative of the IAIS is a new international framework for insurance solvency. Currently the Solvency

Subcommittee of the IAIS is aiming to complete a comprehensive and cohesive set of supervisory papers referred to as International Solvency Requirements. That includes standards and guidelines on Enterprise Risk Management, Capital requirements, valuation of assets and liabilities and internal models.

The Solvency Subcommittee (chaired by Stuart Wason from Canada) of the IRC has been contributing proactively and significantly to the IAIS work on solvency. In 2004 the IAA published a comprehensive report “A Global Framework for Insurer Solvency Assessment” which was preceded by a report of the IAA Solvency Working Party in 2002. Both publications were produced by the SSC (and partly initiated by the IAIS). These reports have received a considerable amount of positive feedback. They have both been used as a central reference by the IAIS in their work on solvency and in the European Solvency II project as well.

Another major cooperation area of the IAIS and IAA has been to look at the principles for determining technical provisions; a project also closely related to the work of the IASB. The IRC and another important committee of the IAA, the Insurance Accounting Committee established a joint working group, called Risk Margin Working Party, to prepare a response to the request of the IAIS. The background is that the terminology, risk margins and technical provisions, and the methods and approaches used to determine them, vary across and within jurisdictions. Further, there are different views regarding the reliability and robustness of the methods used and amounts determined using currently available approaches, techniques and data. The target of the study was to determine the role and purpose of best estimate policy obligations, risk margins and hence technical provisions in the context of both solvency assessment and public financial reporting, and the likely areas of difference between these two contexts. The report, “Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins”, of the working group was published in March 2009.

So the IAA, and the Groupe Consultatif Actuariel Européen at the European level, form an excellent channel for the actuaries to have their views known in the process leading to international standards and guidelines, which by definition some day will reflect on the daily work of each actuary. Actuaries involved in this work naturally have different backgrounds. They may be employed by insurers, they may act as consultants or they may be employed by supervisors. It is important to remember that when representing the Groupe Consultatif or the IAA actuaries are speaking on behalf of the profession, not on behalf of their employers.

The role of the UK actuarial profession in international cooperation is central. Of course, one of the reasons is that the UK profession is the number one by age and it still today has a leading position in the world. It has also been a role model for many countries. Thanks to the Morris

review, and proactive actions by the UK profession, the regulatory framework of the UK actuarial profession has experienced significant changes. I believe that the clearer division of the roles of the company Board and regulatory actuaries, new structure and processes for the standard setting, compliance and disciplinary actions will enhance the credibility and effectiveness of the profession, not only domestically but also internationally. We outside the UK have followed these developments with great interest, since these changes certainly will have implications for the profession in other countries too.

On cultural and linguistic differences

In international cooperation the cultural and language differences are stimulating but sometimes they can also hinder smooth development. There are differences in working styles and in ways how the decisions are made and how strictly the decisions will be enforced. Some meeting participants are used to speaking actively and eloquently and perhaps without waiting for permission from the chair (and sometimes even without a thorough deliberation). Some are used to listening to the more senior attendees and accepting their proposals etc. and always to waiting for the chair to give them permission to talk. Some are used to taking conclusions or decisions quickly, whereas others must be given enough time to consider the issues in question, perhaps to discuss them with colleagues and then to formulate their reply in an actual meeting. When the decisions have been made, some seem to consider them only as words in the minutes, whereas some immediately start to execute them.

Of course, many of these differences depend on personal qualities and characteristics but the influence of different cultural backgrounds is often surprisingly strong and persistent. Sometimes the correlation between different features can be unexpected (at least to me). For example, those speaking actively and formulating decisions quickly may be the slowest to carry out the decisions.

The differing ability of the participants to use English, the lingua franca of today, has a significant influence on international cooperation. The following citation from the IAA practice book illustrates a common situation: "I was sitting in one of the IAA Committee meetings and listening to the discussion. Suddenly I thought that the meeting was missing an essential point and I started to plan an intervention. It took a few minutes to prepare myself, especially to find the right English words etc., and suddenly I realised that the discussion had moved on to another subject."

The IAA has agreed on a guidance, whose purpose is to facilitate communication between native and non-native English speakers (abbreviated as NNE!). For native English speakers the short list of recommendations includes:

- Speak slowly and loudly enough
- Use simple words
- When possible try to provide, at least beforehand, a written summary of what the speaker intends to say.

It is easier to read than to listen. For example, even as an actuary, I personally have difficulties in perceiving many-digit numbers when spoken quickly. I guess that the reason is that I usually do not think of numbers as words but as a series of signs on the paper. Reading gives time to think. Hence the written language barrier is usually lower and easier to remedy. Conversation via emails is easier even if not so personal as by phone. Journals like AAS are also in that sense excellent vehicles for communication.

Communicating with Finns

Finns are often found to be difficult to communicate with. In the postcard culture of the EU we are characterised: “Talkative as a Finn”. Hence as a guideline I quote a short list from an article by Catherine Bartlett, a British business trainer who has lived in Finland for some time. No news is good news. Finns think in silence before speaking. Silence is the response, if everything is going smoothly. For Finns “yes” signifies definite agreement to take action. It does not mean “I understand” or “perhaps”. Likewise, “but” is also a very solid word for Finns. It means a definite problem. Finnish communication is also result-oriented. This means, it is more normal to say “the coffee is finished”, rather than the person/process-oriented “I finished the coffee”. Finns are not avoiding responsibility; it is just that the result is seen as more important than the actor or action. Like the British, Finns believe in understatement.

Cultural and other differences have not prevented the UK and Finland from creating long-standing good mutually beneficial relations. Traditionally Finland has provided paper to the UK. Many of the first paper mills in Finland were founded or managed by UK engineers. Today the trade is much more diversified. I guess that the products of Nokia are well-known in the UK. Finland has recently achieved a very good record in various international competing ability indexes. For example our success in the PISA study (a three-yearly survey by the OECD of 15-year-olds in the principal industrialised countries; Finnish students were ranked the best in mathematics skills, reading literacy, knowledge in science and number 2 in problem solving) has resulted in delegations coming from among others the UK to take a closer look at the Finnish basic education system. That includes even the quality of school lunches in spite of the rumours that two well-known heads of big EU member countries judged Finnish and British food to be the worst two in Europe! The UK input to Finnish culture is not insignificant. Quite a lot of Brits have recently settled in Finland. Our

perhaps most popular sketch writer is British and he masters Finnish dialects better than many native Finns! Our soccer teams, including the national team, have hired UK coaches. So, soccer fans, watch yourself, we are coming.