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Section Highlights

THE INTERNATIONAL SECTION

BY BEN MARSHALL

IN 1993 I was the actuarial representative on a small investigative team from my company. We were examining a life insurance operation on-site in Caracas, Venezuela. Our purpose was to review and make recommendations on the merits of an acquisition. Though I didn't recognize it at the time, it was a turning point in my career. As with many North American actuaries of that era, my foundational perspective for analyzing life insurance profitability was the acronym "MILE": mortality, interest, lapses and expenses. Though I was well aware of asset-liability management techniques, until my Venezuelan expedition I still viewed interest as being akin to the other assumptions in an actuarial analysis.

The situation in Caracas opened my eyes to the radically unpredictable role that interest plays in an analysis. Prevailing interest rates in Venezuela at that time were close to 40 percent. I discovered that inflation was rampant, resulting in a negative real return on savings. Inflation has averaged over 26 percent in Venezuela, ranging anywhere from 3 percent to 115 percent each year, for the past 40 years. Interest and currency exchange rates have—not surprisingly—moved in tandem with inflation.

After my Venezuelan assignment, "MILE" no longer worked for me. If that categorization for interest had ever been appropriate, it was as an accident of history rather than as a function of a fundamentally sound economic theory. For the first time, I realized the explicit difference between interest and those other assumptions: that the Law of Large Numbers creates no predictability for a variable for which homogeneity of exposures does not push aggregate outcomes toward the mean. I began to understand how volatility must be recognized and outcomes expressed over ranges and in terms of probabilities.

In a similar fashion, my perspective on the role of the International Section of the SOA has changed over my years on the International Section Council. At its inception, the section kept ex-pat actuaries from losing touch with North American developments. In recent years the landscape has changed. International actuarial practice has become cutting edge. International standards such as IFRS, Solvency II and Basel III are regulatory symptoms of a greater reality: the emergence over the past decade—and particularly in the wake of the 2008–2009 U.S.-driven financial crisis—of international thought and practice as a driver of North American actuarial practice.

The International Section has connected international thought leadership to the work of actuaries practicing in North America, while still maintaining its role of providing offshore continuing education and research to ex-pats. The benefits of membership are now driven along a two-way street.

So what's on the horizon for the International Section? Actuarial thought and practice are not the only areas gravitating toward an international focus. Actuarial jobs and membership are expanding beyond North American shores. Key growth areas for candidates are outside the United States and Canada. Concurrently the financial services industry seeks to outsource more jobs and functions. Both the International Section and the SOA must respond to these changes. My challenge to the next generation of SOA leaders is to position themselves—in conjunction with the IAA and other international partners—to help actuaries deal with the vast implications of the global convergence of actuarial roles, education, research, thought and practice. A

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