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Opportunities for the International Actuary

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Summary: Have you thought about what it would be like to live and work in a foreign country? As our world continues to shrink, more and more of our members are working outside of their home countries. Our employers are more globalized, and future actuaries may see themselves as citizens of the world rather than citizens of their own country.

Mr. Michael E. Gabon: I am assistant vice president at Alexander Reinsurance Intermediaries. We're part of the Aon Corporation, the largest reinsurance booking operation in the world, with offices in more than 80 countries. I work in the life reinsurance division on domestic and international transactions.

We have Martyn Gilling, Group Director of Marketing and Actuarial for Canada and the Caribbean at Swiss Re, Dave Pelletier, Executive Vice President with RGA Life in Canada, and Sue Ann Collins who's a principal at Tillinghast in the Hartford office. They have lived and worked in several countries, and their experiences are diverse. Martyn is a New Zealander, and he has worked in Australia, Canada, and Latin America. Sue Ann is American and has worked in England. Her experience covers a wide range of actuarial topics and areas, and has spanned a number of countries, such as the U.K., France, Spain, the Netherlands, and Austria. Dave is Canadian, and he has worked in Brazil and Italy. He has also lectured and been a speaker at several conferences and seminars sponsored by business,

professional and educational organizations in 12 countries on 4 continents and has delivered these speeches in 4 languages.

Mr. Martyn Irving Gilling: I'm from New Zealand originally and have worked in many places since.

I started off in New Zealand and then moved with my family to Australia where I commenced university education and subsequently qualified as a Fellow of the Institute of Actuaries of Australia, whereupon I was transferred to the Canadian office. I was sent there originally on a two-year work permit, but it has now been six-and-a-half years. Until last month, my role was marketing actuary for Mercantile & General (before we were taken over by Swiss Reinsurance) in the Latin American marketplace. The countries that I was responsible for, from a marketing point of view, were Argentina, Chile, Peru, and Brazil. I also traveled through Mexico, Columbia, Venezuela, Uruguay, and Paraguay, so I have a wealth of experience in that area of the world. I am now in charge of Canada and the Caribbean for the Swiss Re Group operations out of Toronto.

At the start of my career, when I commenced actuarial studies, I was working in Australia and New Zealand, which is a relatively sophisticated actuarial market from the point of view of the technical knowledge and the knowledge of the actuaries. The qualification route is somewhat similar to the way the U.S. will be near the year 2000. We have six primary technical exams before four major professional exams, which cover topics such as investment, pension funds, life insurance and property/casualty insurance, which is, as I understand it, fairly similar to the structure the Society of Actuaries is proposing and developing for the next century. Working in Australia and New Zealand, I was responsible for the marketing to our New Zealand clients from Australia. I also had some responsibilities in the Sydney marketplace. For anyone who has not been down to Australia or New Zealand, I'll put in my plug for the New Zealand Tourist Commission—you have to go, it's a great place. The climate is fantastic compared with Canada. It is a great place to visit in the winter.

As I mentioned, the market and the actuarial profession is very similar. It's perhaps a little less sophisticated than you will find in the U.S. because the size of the market is a great deal smaller and diversification of products is not such an issue. With less diversification of products, you don't have the same product development work with the kind of bells and whistles that you will find in the North American marketplace.

Tax and legislative issues are different. They are not as highly regulated. There is a fair amount of regulation, but certainly not to the same extent as I've seen when

working in the U.S. As I said, I came across to Canada in 1991, and have worked in Canada, although not in the Canadian market, ever since. When I first came over to North America, I was working in our group operations on the product development side primarily for U.S. medical insurance. I'm not going to say too much about the U.S. market as I'm sure all of you know more about it than I do. During the last three years, I've been working in the Latin American marketplace, which is where I'm going to focus more of my comments because (1) it is where my most recent experience has been, and (2) it probably affords the most diverse experience for any of you who would be looking for international opportunities.

The Latin American marketplace varies by country. Some countries are fairly well advanced. For instance, Chile has a solid grounding in the insurance market compared with other countries that are in an embryonic market state right now, like Ecuador and Bolivia. Argentina is in the throes of developing a marketplace. Brazil has a fairly sophisticated technical market that has not had much exposure internationally, but I'm not going to touch on Brazil too much because Dave will cover that country.

What you'll see in the Latin American life marketplace is a less sophisticated actuarial approach to most business opportunities. The qualification route for most actuaries in the Latin American markets is a university degree, which is at a fairly technical level. They don't go much beyond the technical level, which I guess would be the equivalent to the ASA standard we have here. Where we go on and do professional examinations and really delve into looking at business opportunities, business solutions, and a far more detailed analysis of companies and accounts, they don't do the same extent of study at that level, so what you would find in working with companies in the Argentine market and the Chilean markets is that the level of sophistication is not high. There is certainly a demand for sophistication because of the growing economic situation in these markets and consequential development of the insurance markets with property, casualty, and life insurance.

I'm currently working as the marketing representative for the Swiss Re in Canada and the Caribbean. I've been in that role for only four to five weeks, so as yet, I don't have much to say about the Caribbean.

Some of the major issues that I've encountered while working in the Latin American marketplace are language, culture, market development, and climate. Language is obviously an issue. In Latin America, the language is predominantly Spanish with the exception of Brazil which is Portuguese. If you're looking at a marketplace like that, then language would be an issue you would need to consider. While English

is an accepted language in business, it certainly helps to be able to understand the local language.

There are very different cultures from all over the place. There is a cultural difference going from New Zealand to North America. There are similar cultural differences within Canada looking at Quebec versus Toronto, where I live right now. There are similar differences in the Latin American culture. There are variations by country, and there are significant differences to North America. Another story that I like to tell is about one of my first trips to Peru. We had just signed a new reinsurance contract with a company down in Peru, and I was introducing the head of our individual operations who had Latin American responsibility at that time. I was introducing her to this client, and, of course, being in Latin America, the client leaned across to give her a kiss, which is a commonly accepted cultural practice in Latin America. The head of our division, a woman, was somewhat taken aback by this and backed away. I remember thinking, "Oh, no, there goes our contract out the window." So in subsequent meetings involving women from the company, I made sure to tell them, "The guys will make an attempt to kiss you, and let them."

I touched briefly on market development earlier. Another issue is climate. You'll find dramatic changes in climate, particularly for Canadians. Last year, I traveled from Ottawa in the middle of January where it was -25 Celsius, and when I arrived in Rio de Janeiro the next day, it was 45 degrees Celsius. For the Americans in the audience, I think that's somewhere around -15 Fahrenheit to about 115 Fahrenheit, so we're talking about dramatic climate changes.

The benefits that you will gain from working in the international arena are significant and varied. For me, one of the primary benefits has been that I have contacts in 15 or 20 different countries worldwide. Because of the business travel that I have done, I have both friends that I have met informally and business associates all over the world. It's useful to have these contacts when you are working in consulting and the reinsurance industry in particular and because you can call upon these contacts and ask questions. This is something that's happening in our market. Have you seen it in your market? Sometimes they do things differently there, and they have experienced issues that we have not yet seen, or perhaps to only a limited extent, but it does happen.

You get an exposure to many different products, markets, and issues, so you gain a broader experience than working in one location in either the U.S. or Canada. One of the things I've enjoyed most about working in Latin America has been the opportunity to get involved at the grass roots level of an embryonic market. In Argentina, for example, the reinsurance industry was dominated by an index—the

Instituto de Reaseguros—which was a reinsurance monopoly. It essentially drove the insurance market, and there was very little variation in insurance price until 1990. This changed with economic stabilization and the dollar convertibility plans installed in Argentina. I've been able to see a dramatic change in the insurance industry in Argentina since 1994. It is always very satisfying to see a country and a market develop in that way.

Another one of the obvious benefits that I've had is to travel to all these places. Traveling to Argentina in the middle of a Canadian winter is particularly enticing. You are able to see some of the cultural things that exist in places like Latin America or Australia. There's Ayers Rock in Australia that you can catch on a side trip. I was lucky enough to get to Machu Picchu in Peru and see the pyramids in Mexico, which are opportunities that you don't necessarily get otherwise.

You're all wondering, how does one get these positions? There are a couple of basic ways. First, if you work for a multinational insurance company these days, multinationals are increasing the sphere of their activities dramatically. You will find North American and European companies making investments in foreign companies all over the world from the Far East to Latin America into Africa and places like that. If you were to work for a multinational, and set yourself up correctly, you might be able to get a transfer into one of these operations in which you would help establish the new operation, or help train or develop the operation. You will note the panel has two reinsurers and a consultant. Dave was a consultant at one stage as well and that's also no coincidence. The reinsurance and consulting industry offers many opportunities to travel in a marketing or a consulting capacity to the markets and assist them in development.

The other alternative is to just pack up your bags and disappear. If you were to look at any of the Internet locations or the Institute of Actuaries of Australia or the U.K., you will find that opportunities exist. You can apply and just go over there and work depending upon work visas. The actuarial profession is very lucky in that there's a relatively high demand worldwide. Opportunities do exist.

Mr. Gabon: I met somebody writing exams five or six years ago. The person wrote the exam in Toronto but was from Montreal. The person just packed up his bags, went overseas to France, and found a job within four weeks.

Mr. Gilling: Finally, I'll make just a few comments on what sort of person you might find working in the international arena. First, I think you have to have an adventurous spirit. You have to be willing to try something different because you're going to see and experience many different things overseas. Second, you have to accept what's going to happen. You can't walk into a market and expect that they

will change for you. You have to learn how to accept the situations you are given; obviously, adaptability goes with that. Language skills in many markets would be an asset. Obviously in Europe and Latin America, language skills would be essential. If you're in the reinsurance industry, like I was, and I was traveling down there often, a good frequent-flyer plan is absolutely essential. It managed to contribute to my trip home to see mom and dad back in January, which was quite appreciated. Finally, you will need a castiron stomach because you're going to encounter many different varieties of food in your travels.

Ms. Sue Ann Collins: I'm delighted to be able to share some of the experiences I've had working abroad because, in addition to doing some work abroad, I also lived abroad for three years. I have to say, to this day, one of the highlights of my life so far has been the three years I spent living in London. You might ask, how did I get there? I have worked with Tillinghast for 12 years now, but it never occurred to me to raise my hand and suggest that I'd like to work outside the U.S. However, in the fall of 1989, I was asked to go to the Netherlands for three weeks to work on a mergers and acquisitions (M&A) assignment, which I did. The following summer, they asked me to go back to help this company implement a value-added performance measurement system. I was there on my own for the entire summer working as a company employee. We got some assistance at that time. We had a fledgling office in Amsterdam, but by and large, I was on my own in the Hague. When I came home that summer, I said, well, that wasn't so bad. The world isn't that big of a place.

I wanted to do more international work, so I raised my hand and asked to go to London. I mistakenly thought it would be easier in London because they spoke the same language, but they don't. I spent almost three years, from January 1991 through August 1993, in our London office and to this day, I can't believe it has been four years since I've been home.

I hope to focus on some of the types of projects that I worked on and some of the similarities between the work that we do here in North America and the U.K. I'd like to spend time talking about the role of the actuary in Europe and the U.K., which have fairly sophisticated marketplaces with very strong actuarial roles. I'll also discuss differences between the emerging markets and developed countries, and the differences in the insurance environment. I'll conclude with what have I learned on a personal basis.

First, the areas that I worked in, both during my time in Holland and when I was based in London, were the same areas in which I worked in North America—mergers and acquisitions, value added reporting, and performance management. We did a reserve review in the Czech republic, and I have to say that

conducting reserve reviews is not one of my favorite things. It's to be avoided if possible. I had to work in Prague, and I had never been to Eastern Europe before. It was a truly wonderful experience. There is a language issue. Unlike Dave, I speak only English and trying to do some of these jobs where the language is not English is a bit challenging because you're never sure that you're understanding everything that you're being told. You sometimes feel like you didn't catch everything that you're supposed to catch. The opportunity to visit some of these places was a real highlight of my time in Europe.

What are some similarities between the actuarial practice in Europe and what we do here? The principles are exactly the same. In fact, during my first experience in Holland, they were trying to explain the different types of insurance they sold. I wasn't quite getting it, so they wrote down these formulas with all these Ms, Ns and Ds. The first thing I did was call my secretary and ask her to send me my Jordan book on *Life Contingencies* so I could understand what they were telling me. The basic principles are indeed the same. They all have a statutory reserving basis, similar ways of pricing their products, more or less sophisticated ways of conducting projections of their business, and the like. Finally, they all need to monitor their experience somehow. Sometimes they do it better or worse than companies here, but the principles are basically the same.

What are some of the differences? Regulations vary, so the first thing that we always need to understand in doing an appraisal, for example, or a value-added report, is to see how the shareholder obtained profits from the company to understand the statutory reporting basis. Company tax and policyholder tax are different from country to country, but again, once you know the basic principles (everything in this respect can be reduced to formulas), you can always look at trends and other data. Even though they're different, once you understand valuation rules in one country, I would maintain that you can learn them in other countries. The financial reporting bases are all different. I still don't think I have an adequate understanding of company structures; the difference between stock and mutual companies was very confusing to me in the U.K. The company tax was very different. Mutual companies in the U.K. are like mutual companies here. They have these stock companies which I would view as hybrid companies because they can also write participating business. The way the stockholder gets money is by getting a proportion of the participating dividends. Understanding these differences is a key to doing work in these countries.

I am not an expert on the Canadian market so this may not be true in Canada, but certainly the degree of product sophistication that we see in the U.S. is not apparent in Europe. It's even less apparent on the continent where, for many years until the European Union reforms, companies all charged the same premiums so there wasn't

any need, or certainly a much lesser need, for product development activities compared with what we see in the U.S.

In the last ten years, we have an abundance of outside vendors that supply actuarial software tools in the U.S. and Canada, and there are several software vendors that provide actuarial projection tools in the U.K. marketplace. However, in the rest of continental Europe, people make do with systems that were written for the U.S. marketplace or the U.K. marketplace. Developing systems for particular countries is not something that has been undertaken so far, although we're trying to make a go of that at Tillinghast.

The data availability is very different in many countries than it is in North America, and the quality of data is much poorer than what we normally get. This reserve review job that we did in Czechoslovakia was probably one of the most unnerving jobs because, like Martyn said, many of the clients that we worked with wouldn't speak English even though we couldn't speak their language. In Czechoslovakia, they spoke very poor English and in many of the meetings we had a translator for the whole day, which was wearing on them and on us. Our job was to look at the reserves so that our client could decide whether or not they wanted to make an investment in this company. Toward the end of the job, one of my colleagues in London found that because of inflation, they had arbitrarily increased the benefit on a certain product line on the order of 20% without increasing the reserves at all. Up until that point, it was a state-owned company, so if someone was going to make an investment that was an important issue. To this day, we thank our lucky stars that we found that out. That's why working in a language that you can't read or understand presents problems.

North American companies come in all sizes. The ones that we worked for in Europe were generally the larger domestic companies and the multinational companies because we were working as consultants and the ability to pay was an issue. When we did do the work in Czechoslovakia, it was sort of an unusual situation where there was an investment banker that was helping this company look for outside investors. One of my clients wanted to look at the company and wanted a reserve review done. Normally the company looking for the outside investor would have the reserve review performed, but the company couldn't afford to have that done so one of the prospective investors paid for the reserve review, which is a bit unusual.

The actuarial profession is well organized in the U.K. There are two actuarial bodies that most of you are probably familiar with. The Institute of Actuaries in England has a series of ten postgraduate exams which are similar to the U.S. exam system. One of their exams is property/casualty because they have just one

examining body. Scotland has the Faculty of Actuaries, which has nine exams, but it doesn't have a property/casualty exam. On the continent, as in Latin America, the actuarial status is obtained in the university, although some of the countries are reviewing this now that the European Union has taken effect. A thing that's interesting to note with the onset of the European Union is that actuaries that qualified on the continent can become members of the Institute of Actuaries by demonstrating proper qualifications. In the absence of that, they can take a single exam and become Fellows of the Institute of Actuaries (FIAs).

What sort of roles do actuaries play in Europe? I think the role of the actuary in the U.K. is very strong. I would guess that the appointed actuary role in the U.K. is similar to that of Canada. The actuary has wide powers in the U.K. and is accepted as a member of senior management. He has access to financial officers and gets involved in some of the investment decisions. The role on the continent is much more technical. The valuation actuary role in most of the countries where I worked was not a well-defined appointed actuary role; it was someone who more or less did the valuation and certified to the reserves. As I said, until the onset of the European Union, many companies charged the same premiums for their products, so there wasn't really a need for a product development actuary.

What are some of the powers of the appointed actuary in the U.K.? The appointed actuary does determine the amount of distributable surplus of the company, what money goes to policyholders, and what money goes to shareholders. The appointed actuary also certifies the solvency of the company and whether the data that were used were correct. He also certifies compliance with professional guidance, and that would be their professional guidance notes or sort of the equivalent to the notes we've been getting from the Academy in recent years. They come in three categories: mandatory, best practice, and advisor. Actuaries must certainly adhere to mandatory guidance notes. If you don't adhere to best practice, you have to state why you're not adhering to it, and why it doesn't apply in your situation. The advisory ones don't carry any real weight. If the appointed actuary feels that management isn't acting on his or her advice, he or she is under obligation to notify the Department of Trade and Insurance about what's going on at the company (after he or she notifies the company).

Actuaries are a well-accepted advisor to the board and to senior management. They're the guardian of the policyholder's reasonable expectations, which is a well-defined concept in the U.K. It has to do with making sure appropriate things are done with the nonguaranteed charges and benefits for policyholders, thus the actuary is the manager of risk for the insurance company.

The role of the appointed actuary on the continent, as I said, is less well-defined. It's more of a technical role. In most of the countries, there is no appointed actuary concept. I think in France, until recently, there wasn't any mention of an actuary in their insurance legislation. Now I think the only mention is that an actuary must certify that a mortality table is being used. I would say, that in many of the companies on the continent, the actuary doesn't play a role in helping management address the total financial picture of the company.

At one of our internal meetings, one of our consultants in Europe presented his view on the differences between the companies in the developed and the emerging countries in the insurance market. I would consider the insurance companies in Western Europe to be much more developed than those in Eastern Europe. What do we see as some of the differences? As I said before, I think the degree of product sophistication is very low in emerging markets. It's much more sophisticated in the markets that are more developed. The complexity of regulation varies with the difference between emerging and developed markets. I think the regulation in emerging markets is not nearly as sophisticated as it is in developed markets. Product profitability seems to be much higher in the emerging markets. That maybe because of the lower degree of competition. In the developed markets where there's much more competition, the amount of product profitability declines. Again the need for sophisticated financial management also seems to vary in the emerging and the developed markets.

If people have the opportunity to work abroad, what I would say to the Americans or to the Canadians is don't go there and act like an American or a Canadian. Get involved with what you see there. I went to one of my colleagues who was on the Council of the Institute of Actuaries which is similar to our Board of Governors. They were looking for a volunteer to be the chairperson of one of their program committees for an upcoming annual meeting of their life actuaries. I volunteered. They said I could do it, which was a bit amazing to me because I'm not sure that we would offer the same opportunity to a relatively unknown coming into the U.S. It was a truly wonderful experience because I got to meet many actuaries who weren't just working with our clients. I also worked with my colleagues in London. The other thing they have there is this Society that's called the Staple Inn Student Society. As far as I could tell they did two things. First, they arranged social functions like pub crawls and wine tasting. Second, they had a forum for the presentation of papers that were less technical than those in *The Journal of the Institute*, so there was a forum for less technical papers that I wrote when I was there. Before I went home, I wanted to present a paper to the Staple Inn Society. I put together a paper on performance management with one of my colleagues and presented it. That was a highlight as well.

On a personal basis, I can't even tell you the things that were so different. I grew up in a small town in Maine, with a population of 500. Our local newspaper was the *Portland Evening Express*. We didn't have much national news, let alone any international news. I think all the years George Bush was president, he only made the headlines when he stayed in Kennebunkport. The newspapers in London are so internationally focused compared to U.S. papers. Each day the local news shows a report on the currency relationships, the pound to the yen and the pound to the dollar. Those are just things we don't hear on our local news.

I fell in love with British sports. When I first got there, they used to have this game on TV, the BBC. It looked like pool to me and I wondered why they would show this 12 hours a day. Well, now, every April I really miss the World Championship of snooker which lasts for 12 days. Once you start watching it and get interested in it, you really develop an addiction. One of my colleagues in London said it takes about ten years to get over a snooker addiction and I have to say, they brought me home after two.

I didn't get involved in the politics in the U.K. I had very little knowledge about how the U.K. parliamentary system worked. It's very different from what we have in the U.S., and the voting is so different. Election day was a big deal. Everyone goes out to a meal in all these nice restaurants. The restaurants bring in televisions at night because, unlike the U.S., everything is still on paper ballot and they truly don't get their first returns until one or two in the morning. It's a big deal to stay up and watch the early returns come in.

So I would encourage you, if you have the opportunity to go abroad, not just to focus on your professional careers; get involved and learn what's going on outside as well.

Mr. Gabon: Before we go to Dave, I have a couple of comments to add to Sue's about the U.K. because I worked there from 1990 to 1991. One comment pertains to snooker. It's a cultural difference. There's only a limited number of TV stations (four or maybe five) so chances are you started watching BBC and saw snooker. Another interesting item was seeing international events from another country's viewpoint. I was there during the Gulf War, and it was interesting to see the British perspective of what was happening. In fact, the company I worked for sent around a one-page memo saying, please bear in mind our policies do exclude acts of war. It's just interesting to see how another country perceives or acts toward an international event.

Mr. A. David Pelletier: As Michael mentioned, I'm with RGA in Canada, but I've been very fortunate over my career to have worked in a variety of places. I lived

nine years, in fact, outside North America—five years in Brazil and four in Italy. Susan told about how she managed to go abroad in the first place. In my case, a few years after I joined Towers Perrin after leaving Manu-Life, I received a call asking if I'd like to move from Toronto back to Montreal. I said, no, and then a few months later got another call asking if I'd like to move to Vancouver with Towers Perrin, and again I said no. A few months later I got another call to see if I would like to move to Brazil. I called my wife and I said, "They're offering me Brazil," and she said, "You better take it—every time they call you, it gets farther and farther away." So I went. I was very fortunate to have the chance to live abroad.

I'm going to focus on my personal experiences to give you an idea of what it was like living abroad. Much of one's personal experience is influenced by one's professional activities so there's a great deal of professional experience here too, but it's more of a personal perspective.

I lived in Brazil, and as Martyn said, virtually all of that continent speaks Spanish with the exception of Brazil and some small South American countries, such as British Guinea, French Guinea, and Dutch Guinea. When people think of Brazil images of the jungle, poverty, and violence come to mind, and, unfortunately, that keeps many people away. When you get there, you find Brazilians are some of the nicest people in the world. You can't believe the warmth, the friendliness, and the openness to foreigners and to new ideas. You also can't believe the immense raw power of a city like Sao Paulo. Sao Paulo, Brazil, has a population of 15 million people and counting. There is an unbelievable concentration of financial, commercial, industrial, and manufacturing power all in one place. You have to see the city to believe it. When flying over the city from the east, from Rio de Janeiro, you seem to be flying for a long time before you see the Atlantic.

Of course, Brazil does have its problems, inflation being one of them. Lately it is under much better control, but at the time I was there, inflation was one of the dominating features of the economic landscape that had a heavy influence on the kind of work that I was doing. I ran the Towers Perrin Brazilian offices, in both Sao Paulo and Rio. The salaries were like yo-yos. Some people were making \$100,000, but within a few months they were making \$50. That's the kind of environment that people there were living in, and it made the kind of work we did in compensation consulting, such as salary surveys and putting in pension plans, incredibly interesting, as you can imagine.

From The Floor: Did your fees also follow that scale?

Mr. Pelletier: We actually billed in dollars. Most of the expatriates tended to get paid in local currency. On a dollar base, I was more or less staying even, but it was

not like that for the Brazilian people. Just imagine doing a salary survey in that environment. That was most of the work we did.

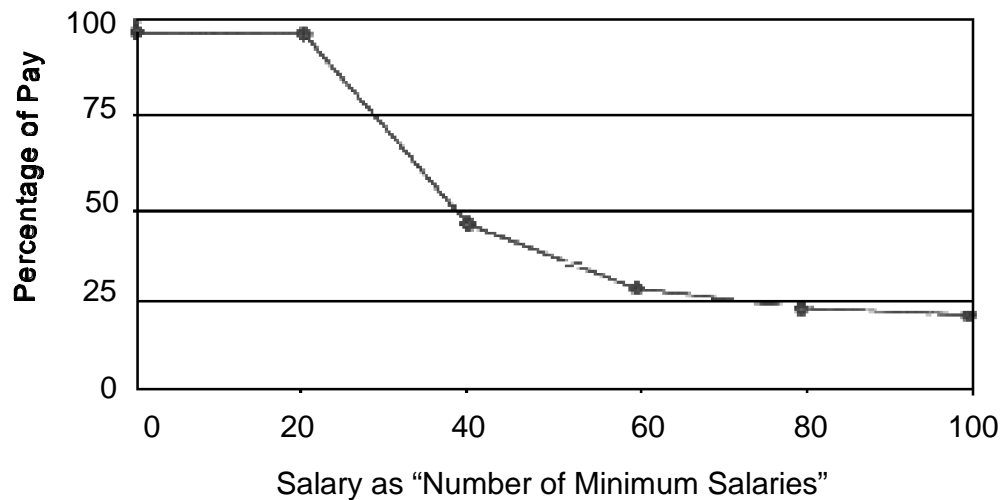
As inflation grew higher and higher, the salary increases would jump up every three months. As it got worse, Brazil finally put in a big emergency plan. People were getting salary increases almost every month to keep people on an even keel. Just try to imagine defining final average pay in that environment. That's the subject of a hour-long discussion itself, which I won't get into.

What kind of quirky issues did we encounter as we were doing our consulting work down there? One of the big ones is the integration with social security. Chart 1 shows Brazilian social security as a percentage of pay. This is not updated. This chart reflects the way it was when I was there, so you can get an idea of what we were faced with. The chart shows an individual salary as a multiple of minimum salary. Suppose the minimum salary was around \$50 a month. This person would be making 20 times that or \$1,000 a month. What happened to social security? It provided a benefit of about 95% of final pay for the people making up to 20 minimum salaries. As you can see, it tailed off from there. Most of the workers' salaries were about two or three times minimum.

As a result, when you put in a defined-benefit pension plan integrated with social security, you're not really providing much in the way of a benefit to most of the people. You typically would be putting in a pension plan that would provide say 60% of final pay integrated with social security. Those of you who are pension actuaries can imagine what kind of leverage you have on the assumptions you'd be making in terms of growth in social security and salary growth. It's unbelievable. There is a tiny change in those assumptions, and you're providing incredibly more or incredibly less benefit because all your cost is clearly in this difference. As you get more people moving out, you suddenly see plan cost just exploding. Safeguarding against the changes in social security was one of the biggest issues we had to deal with.

What if the government were to do something like this with social security? You have everybody covered for a great deal of money, or you have 90% of the people originally that weren't covered at all under the plan. You have to design your plan very carefully to counter that problem.

CHART 1
BRAZILIAN SOCIAL SECURITY AS PERCENTAGE OF PAY



A defined-benefit or defined-contribution plan was a big issue. Towers Perrin in Brazil managed to get the first defined-contribution plan approved. It took three years because the government initially was opposed to it. These days defined-contribution plans exist all over Brazil, but when we first brought them in, there was an incredible fight. We made many trips to Brasilia, the capital, to get the defined-contribution plan approved. We finally got it approved without using bribery, although at some point there was some suggestion that it would have been appreciated. I could go on forever about final average pay. Figuring that out in this kind of environment made the work interesting. These were clearly indexed plans. Any plan not indexed in an environment like this would be totally meaningless.

The biggest challenge was helping the foreign parent and local management understand each other. The foreign parent could have been American, Canadian, British, Continental European, or Japanese. The first reaction when they were told that the local company wanted to put in a defined-benefit pension plan was absolute horror. The Europeans, the British, the Japanese, and the Canadians could usually go over that fairly quickly. It took the Americans a little longer to get through that horror, but they eventually did. For any foreigner or actuary going abroad, this ends up becoming one of the most critical areas where they can help. This is true with an insurance company, a reinsurer, a consulting firm, or whatever is the bridge or link between the two sides. You want to be able to have local management perceiving you as one of them. If you really represent their views, you can help them explain to the foreign parent just where they're coming from. In the meantime, the foreign parent sees you as being that knowledgeable, international

professional who is really helping those Brazilians understand what their concerns are. So there is a key role that someone can play.

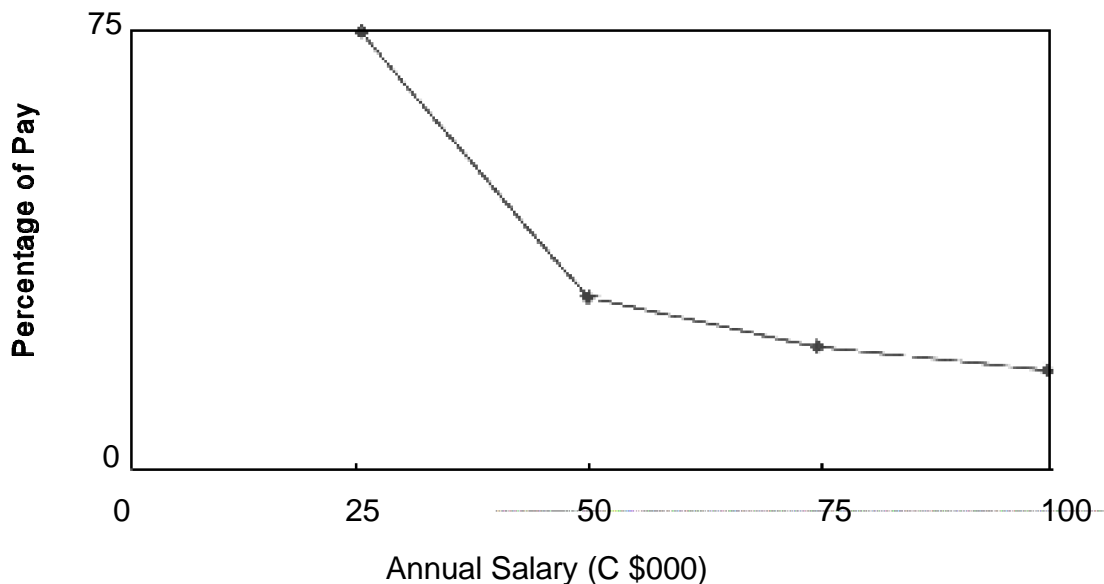
There are many issues as well about investing funds in that kind of environment. It was possible to use book reserving rather than a pension fund for part of the liability. There is a great deal of good discussion on external methodology. Financial Accounting Standard (FAS) 87 came in during that period of time, so we had to have the Brazilians work through that. Contrast that with projecting the *una* credit, or as we call them in Portuguese, *pookie* and *ookie*. That was a great experience. In fact, we would typically use *ookie* for the local, formal plan filing, which they were able to do in Brazil. It is a pure unit credit. We would use *pookie* for the way they showed the results back to the parent which was then replaced by FAS 87 during that time. Why is it *pookie* and *ookie*? Brazilians cannot end a word on a hard consonant. Their mouths just don't work that way.

Economic assumptions were a great deal of fun as well because those of you who work in pensions know the economic model you set up for valid pension plans is very important; it can drive results all over the place. You might think, in fact, that perhaps the most important assumption would be that of inflation. What is inflation going to be and how will that drive everything else? In fact, we did not make an assumption about inflation, and that's very important to understand in these kinds of situations. We built a model entirely in real terms and everything rode up and down together. In fact, the real world, as it played out over time, had validated that model. It's meaningless to be assuming salary growth of 700% and invested return of 740%. We typically were using real-term investment returns in the area of 5% or 6% and real term salary growth of 3% or 4%. These rates varied a lot depending on the level of person in the organization in order to reflect that risk of integration. Again, inflation didn't matter and over time these plans survived inflation well as it rose and fell.

Let's move on to Italy. Going from Brazil to Italy was a cultural experience as well. In fact, in many ways, being in Brazil was a terrific help. It would have been much tougher to go directly from North America to Italy had I not gone through Brazil first. In the North American approach, if we're currently at point A and we have to get to point B, we go straight from one to the other. This is the last thing that would occur to an Italian. I wanted to try to develop a chart or table that would demonstrate the Italian approach, but you really need up to five dimensions to kind of get the idea. This process drove me crazy. The Italians and the Brazilians, to a slightly lesser extent, have such creativity and derive such joy in getting from one place to another. We don't appreciate it as much.

There were some challenges in Italy besides all that frustration. Chart 2 shows what Italian social security looked like when I arrived. It essentially provided, more or less, 75% of final pay until you hit a salary of about \$25,000 Canadian. The lira to Canadian dollar exchange rate was about 1000 to 1, so I tend to put this in Canadian dollars. After I arrived, it would fall off rapidly. In past years, in fact, this line had gone out further, and private pension plans hadn't really developed, but it was coming to the point where there was a great deal of potential for growth.

CHART 2
ITALIAN SOCIAL SECURITY AS PERCENTAGE OF PAY



I departed from Brazil and arrived in Italy at the beginning of 1988. Three weeks after I got there, we were on a train going out to visit some people about an hour outside of Milan. I was reading the Saturday paper, which is the biggest newspaper in Italy. My Italian was still rusty. There was an article about some changes in NIPS, which is the social security system. I read it and I read it and it just didn't make any sense. I thought they were saying that they had eliminated the social security wage base. In other words, instead of being whatever it is now, say \$50,000 or \$60,000, your social security pension would be based on your total pay rather than just your first \$50,000. To put it in Canadian terms, they wiped out the yearly maximum pensionable earnings (YMPE) and sure enough, I read it right. As a result, they did at least grade down the percentages a bit on the higher income. Essentially someone with a final average salary of \$200,000 would end up with about a 50% pension from the government. So someone with a \$100,000 salary would get maybe 65% or so. My potential market, which was just waiting there for me, disappeared overnight. I stayed there for another three or four years, and we became good at other things.

Italy had a very different HR environment. There is more of a focus on management development, performance management, and succession planning. The big consulting firms in North America, like Towers Perrin, Mercer, and Wyatt, were very technical and numbers oriented. In Europe there is a broader approach to HR management, HR development, and growing and training employees. There is also a difference in national contracts, unions, and employer associations. They do national bargaining rather than company by company bargaining.

My most interesting client in Italy was a bank that had a pension plan, which it had always had. They didn't need it, but it had always been there so it just kept rolling along. This company had huge problems with the unions for years, and they were really stuck. It took a three-year consulting assignment to change that plan from defined benefit to defined contribution. There were six unions involved in the bank. Most of these sessions on changing this plan consisted of 25 people, 18 of which were people from six different unions (three people per union) and about five or six from management and me. It literally took three years to get this through. Most of the sessions consisted of all the union people yelling at each other, rather than at management. Most of it ended up being unions yelling at other unions because of their own individual interests.

My first meeting like that took place about four months after I got there, and it was all in Italian. Your language skills are crucial when you're in that kind of environment. Everyone lacked understanding of pension issues. While we were there, we did some *FAS 87* work and some 401(k) work on a termination indemnity that the Italian companies had. We did some of that for subsidiaries of American companies, but the Italians just didn't have a clue what that was all about. The role of the Anglo consulting firms was minimal. I opened up the office while I was there, and Wyatt came in around the same time. Mercer opened up several years later, but there was marginal initial involvement from the perspective of the Italian HR environment. What we managed to do over time was make ourselves more meaningful. By the time we left, we'd received assignments from Fiat and Alleviate, the two major Italian private sector employers dealing with these issues. So we had to adapt ourselves to what was important in that environment.

One could accuse me of all sorts of biases and prejudices, but this is the way I saw it. As a consultant and someone new trying to market yourself for the first time, you have to set up meetings. In the U.S. and Canada, when you phone someone out of the blue, and you might have some success in getting a meeting; it's not so bad. In Italy it is much tougher. You sound like a North American so the Italians assume you're unfamiliar with their culture. Their attitude seems to say, "What do you have to offer us?" In Brazil, Brazilians love meetings. For a new guy coming in, it's just terrific. If I called on anybody in Brazil, that person saw me; it was wonderful.

Brazilians are fantastic that way; everybody is addressed by their first name or at least by one name. They might have about six or eight names, so they pick one of them and use it. In fact, listings in the company phone books are ordered by first name rather than by last name alphabetically. If Jose and Anna Maria are getting married, they will be registered for gifts at the store under their first names. It's just the whole way they think. Italians are much more formal. They are not as quick to move to a first-name basis.

As far as creativity, there's no question: Brazilians are fantastic. They bring that warmth along with their creativity. They are a terrific bunch of people. Whereas by Brazilian standards, North Americans are just a bunch of Anglos. Italians do not adapt to new things, like computers. Brazilians are terrific at that. Remember that this is supposed to be an impoverished country, with jungles and such. Any newsstand in Brazil is just full of Portuguese magazines on topics such as computers, emerging technology, and the Internet. We North Americans aren't too bad in that area either.

Look at the word we have in English, *deadline*. We take it seriously. In Portuguese, there's no word for deadline. The closest word is *prazo*, which is more like a period in which you're going to do something. The concept of a deadline just doesn't exist. That's part of the frustration element I talked about before. That's a tough situation to be in when you're in consulting and the multinational parent expects you to meet a deadline. Italy's attitude about deadlines is somewhere in the middle, but a little closer to the Brazilians' attitude.

What about the ability to improvise? *Jeitinho* is a uniquely Brazilian word that is hard to translate. Basically, a rough translation is if there's an obstacle in the way, you'll find a way around it. Brazilians are wonderful improvisers. Italians are also fairly good at improvising. Again, North Americans are not as good at it. We don't adjust as well to changing circumstances. On the other hand, when it comes time to deliver bad news, Brazilians just can't do it. We would have a proposal out there at some client for months and when I would call in a couple of weeks, they would say, "We're still thinking about it. It looks really good." Six months later, they would say, "Gee, we're still thinking about it." Then you finally find out from someone else that your competitor had been in there for three months. They could not actually give you the bad news that you weren't hired. Italians are a little indirect as well. In North America, it's not that hard—people just get fired.

There is one minor thing regarding banks and checks clearing. You could deposit a check in the middle of the Amazon jungle, and it would clear the next day in Sao Paulo. When inflation is 1,000%, you better get that money quickly, and they are

super that way. The U.S. and Canada are not bad either. Banking was actually invented in Italy in the 1300s, and it appears things haven't changed there since.

From The Floor: How is the telephone system?

Mr. Pelletier: Actually, they're coming along. When I was in Brazil, the system wasn't that bad. Argentina was horrible.

Mr. Gilling: Argentina is coming along; Chile is probably the best of them all. Telecommunications in Chile is just fantastic.

Mr. Pelletier: Martyn has been there more recently than I have so maybe things have changed a bit. When I was in Buenos Aires, Argentina, there was a forest of wires all over the place above you. It was essentially Buenos Aires' underground telephone system—in other words, it was illegal. The phone system was so bad that securities brokers and major companies established these private lines between themselves by running wires from a window of one building to a window on another building. The air was full of all these wires. I'm not sure if it's like that anymore.

Mr. Gilling: It has changed fairly significantly. Now they have cell phones, everyone and his or her dog has a cell phone. I would suspect that you would find more cell phones per capita in Buenos Aires than anywhere else in the world. It's incredible. Everyone is having business conversations everywhere you walk on the street, and they have improved telecommunications. They now have cables underground, and, of course, the streets look like it because they haven't repaved, so there are great big holes all over the place. There is improvement, but it's expensive. During my first visit to Argentina I made a call from the hotel. I had to talk for about a half an hour to get a connection, and when I checked out of the room a couple of days later, there was a \$496 charge. I questioned what the \$496 charge was for. I was told, "That's your phone call." I said, "I was only on for 60 minutes." The clerk said, "Yes, \$8 a minute U.S."

Mr. Pelletier: Things have come a long way in those places. Even when I was down in Brazilia in February 1987, some conversations to Singapore were as clear as talking to the next room, and at other times, the line would just fail if you were just calling within the city. It was just amazing how it could vary from one day to the next, but it wasn't too bad.

What are the opportunities abroad? What's out here? Sue and Martyn both talked about this so I won't elaborate much further, but these are some of the employers you could be talking to. Since we are here in Quebec, Quebecois are probably the

best suited actuaries of anybody in the world for this kind of multinational experience. I hope that there are some in the room. Living in two different cultures, having Anglo-Saxon actuarial training along with a Latin background equips the Quebecois better than anybody else to work in different environments and cultures where there are different languages. If there are any of you in the room, keep in mind that it is an absolutely dynamite opportunity, but that doesn't mean that the rest of you shouldn't look at it. If you sense there's some frustration at times, it can be absolutely exhilarating when you're able to help a foreign parent and a local company come to an agreement on something. You might go into a situation not knowing if you're going to be able to handle the language, such as in a speech or a presentation to a tough union negotiation, and come out feeling great. It is challenging and unbelievable at times to see the kinds of difficulties you face. There's no question that it is different. When you're living abroad, you can travel a great deal either on vacation or on business. We have gone at different times to places like Cairo, Istanbul, and the Far East. You haven't lived until you've been to places like these. Places like Cairo and Istanbul are so different. Israel and many parts of Europe are just fantastic places. Again, this kind of business gives you an opportunity to do that kind of traveling. It sure expands the mind. Dealing with these different kinds of problems and different kinds of people makes you a better actuary.

I think the message that all three of us are giving is, if you get a chance to work abroad, by all means take it.

From The Floor: What is it like if you have a family with children? Does your employer make accommodations?

Mr. Gabon: I think we'll leave that to Dave.

Mr. Pelletier: Actually, it's wonderful living in these places. When I left Canada, our son Mike was 3, and when we came back, he was 12. He spoke and understood 99.9% of the Portuguese language, and after a couple of years when we went to Italy, he converted his Portuguese to Italian within weeks. It was a terrific environment; it's really good for the kids. There's usually an American school or an international school in these places, so you shouldn't be concerned about your child's education. It also helps you socially. You do want to get to know the local people and associate with them. As Sue said, get into the local sports. We got into the Grand Prix and soccer. It's also nice to have a good bunch of expatriates around. Expatriates are people who have gone abroad, and they are some of the neatest people you'll ever meet. They're in the same boat as you are; they're looking to meet people. You tend to meet them through your children's school. It's just wonderful if you have a wife and kids.

Mr. Gilling: I don't have a family, but because of the business I was in, I met many expatriates who are living in places that we've been discussing, particularly in Chile and Argentina. They would echo exactly the same sentiments that Dave just expressed. Actually Chip Moos who is a member of the SOA is living in Argentina right now. He has his family of, I think, eight or nine kids or something phenomenal like that with him. They're having a blast, and they're loving it. Another friend of mine from the U.S. is working down there. His wife just had their first child, and it has just been fantastic for them. So certainly I've seen people who are in the same position and they all say the same thing as David. It's an opportunity you have to take for yourself and your family.

From The Floor: What are the particular stresses on the spouse?

Mr. Pelletier: When you're working like I do, the fact that your spouse is not home very often.

Ms. Collins: Is that different?

Mr. Pelletier: That's right. Come to think of it, I was just the same here anyway, so forget I said that. There are stresses for the spouse, especially if he or she's not working—usually he or she can't when he or she goes abroad. You usually have a visa or something that's strictly for you. Your spouse may not be able to get one. So if your spouse has a career that he or she is pursuing, he or she has to put that aside for a few years. You also have to get used to having a maid around the house, playing tennis on really hot days, etc. I'm downplaying things a bit too much. Spouses definitely have to go through the language problems as well. Some companies make the mistake of putting only the employee through language training and do not include the spouses. It's important to put the spouse in language training as well. The spouses who tend to adjust the best are those with companies that do encourage people to get out and try to live a little more like the locals. There are certain big companies in Brazil, and Ford was one of the worst examples, that would have perhaps 100 people in Brazil, whereas some other foreign companies might get by with 5 or 10. Ford would send their people down for two years, which essentially gave the message, "It's a terrible place, and you're going to hate it. We're going to put you in a cocoon." Sure enough, they hated it. The people who liked it were with the companies that provided support through language training, but the companies didn't baby the people while they were there either. Those are the people who usually would have a blast. In my case when I wanted to leave Brazil to go over to Italy, both my wife and son wanted to stay for one more year. When I left Italy to go back to Canada, both my wife and son wanted to stay in Italy as well for another year. By the way, they did come with me, but their preference was to stay in both cases.

Mr. Gabon: How much notice did you have before you left?

Mr. Gilling: A few months. It wasn't a last-minute hassle. It took a few months to get the visas.

Ms. Collins: It takes time to get the visas.

From The Floor: What steps do you take to prepare yourself to be able to deal with the culture in a new place?

Mr. Pelletier: I'd say the single most important thing is language. Really make the commitment to get into the language. For example, people at the local company you're working in might speak only the local language. I spoke no English in either Italy or Brazil when I was inside my company. There are simple things you can do like buy three or four novels written by authors from the country you will go to. Most people never think of this. You can look up who the best Brazilian or Italian authors are. Buy some novels wherever you're going. It gives you a sense of the country. Also learn about the history of the country.

Ms. Collins: I think it also helps to go there with the idea that there is going to be a different culture, and you're going to have to be flexible and not always try to compare it with home.

Mr. Gilling: To prepare yourself, learn as much as you can about the history of the country, as Dave said. It is important to learn what has happened to a country and what it has gone through to get to where it is now. That's really important. One of the first things I did when I started traveling in Latin America was to read up on Pinochet and what actually happened in Chile. I would suspect that most people think of Pinochet as a human rights violator. Few people actually realize that Pinochet is the reason Chile is one of the most dynamic economies in the world today. So read the history and what has happened to a country. That might help you understand why the people are sometimes the way they are.

From The Floor: What is air travel like, particularly in some of the less-developed countries?

Mr. Gilling: In general, it is not too much of a problem. You will occasionally end up on an aircraft which is somewhat less than stable. You will occasionally find yourself on a route where you know a plane went down the week before. I was actually flying from Peru to Chile the week after they had an air crash. The plane went down because one of the maintenance guys stuck a piece of duct tape over the sensor that told the pilot how far off of the ground he was. It was something as

simple as that. The flight from Rio to Sao Paulo is an experience. Landing in Sao Paulo means you come across the city and then dive down into the airport. You're flying between skyscrapers, and when you look out, you swear that these buildings aren't more than 20 feet off your wing. That's quite an interesting experience. Landing in Rio in a thunderstorm is another interesting experience.

Ms. Collins: I don't have any experiences to share about my business travel in Europe, but I did go on vacation to India. We took a plane from London to Bombay and it made two interim stops. It was on Air India, and I would honestly say I would never get on Air India again in my life. It was the worst trip I ever had.

From The Floor: I was just wondering if any of you had any problems with qualification or were you required to obtain other qualifications?

Mr. Gilling: No, I was always working in the reinsurance industry based in North America and traveling extensively to the region. My travel schedule took me out of the country 22 weeks last year. The work I was doing was always for the company in North America so I didn't have any problems with that.

Mr. Pelletier: Yes, that's a good question. In Brazil, I did start the process to become a Membro do Instituto Brasileiro dos Atuários (MIBA), but it was such an incredibly bureaucratic process. All my university course descriptions had to be translated from English into Portuguese. They had to be certified, legalized, and stamped in five different ways. It would have taken about two or three years to accomplish it, and by the time I was getting close to doing all that, I was getting ready to leave the country. As a result though, I never signed anything in Brazil without having one of the Brazilians working for me cosigning. I was the consultant on the job, but the signing actuary was one of the staff members working for us, and he was a MIBA.

In Italy, the same thing was true. They liked to have us come in because we ended up hiring some local Italian actuaries. They appreciated the fact that we were helping to develop the profession, but there was a tiny bit of concern about whether I should be doing what I was doing. I left after three or four years before it blew up. You should be aware of that local factor. We wouldn't like it if foreigners came in here, so why should they like it if we go over there. It does make sense to pursue the local designation. In fact, I would have preferred to have the MIBA. I just didn't pursue it.

Mr. Gilling: Actually, in that respect, as a Fellow of the Institute of Actuaries of Australia, I'm automatically granted ASA status in North America. To qualify for the FSA designation, I would have to sit for 200 credits worth of exams. Those of you

who have gone through the process know that it would not be all that enticing to go through the 200 credits of exams after you've already qualified. To obtain my Fellow of the Canadian Institute of Actuaries (FCIA) designation, I would have to take 2 exams, 342 and 442, which are life insurance and taxation in Canada. There are other topics as well, but generally all that will get you is the ability to sign something like a pension statement or a valuation report.

Ms. Collins: Depending upon the line of work you're in, you may not need to have that requirement to be able to perform all the tasks that are required. The other thing that I would say is that in most of these countries, there are guidance notes or professional standards documents just as we have in the U.S. and in Canada. I would say when working in any of these countries, the burden is on the individual to make sure he or she fully understands what the local guidance notes require for actuaries.