

RECORD, Volume 29, No. 3*

Orlando Annual Meeting
October 26–29, 2003

Session 128PD It's Thursday Morning, I Must Be in Seoul

Track: International

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Panelists: FRANK J. BUCK
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JEREMY GOFORD

Summary: Actuaries are increasingly in situations where they have to perform actuarial work that may fall under different legal jurisdictions and/or be subject to various codes of conduct. This is obviously the case when a member is traveling and working in different countries, but could also be the case even without leaving their desk! It is essential for actuaries to understand how their professional responsibilities may change when operating in different environments. The panelists share their experiences working in different markets and highlight the professional responsibilities of the actuary in such situations. This session provides valuable information to the attendees who currently, or may in the future, perform such work.

MR. REJEAN S. BESNER: I don't know how many of you happen to work across jurisdictions. In fact, you don't even have to leave your office for that to happen. You could be sitting in Chicago or Toronto, but if you're doing some work for a client that's based in Tokyo or Buenos Aires, you could be crossing jurisdictions. So, I think it's a very important topic and I think fits in with the theme of today's meeting.

We have three presenters this afternoon. Jeremy Goford will start. Jeremy is a principal in Tillinghast's life insurance consulting practice which is, of course, part of the global Towers Perrin consulting firm. His main area of expertise is mergers and acquisitions (M&A) in the life industry, and Jeremy is currently president of the Institute of Actuaries. He joined Tillinghast in 1973 when the firm employed four people. Today it employs 180 people in the United Kingdom alone and over 1,000

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worldwide. Before joining Tillinghast, Jeremy was finance director and actuary with Skandia Life, and at that time he wrote *The Control Cycle: The Financial Control of a Life Insurance Company*, which has had significant impact on the financial control methods throughout the United Kingdom and abroad. Jeremy was also, for a period of time, managing director of Barclays Life. Jeremy has been president of the Institute since July 1, 2002.

We also have Eric D'Amours joining us today. Eric is specialized in domestic and global merger and acquisition activities, including price negotiation, due diligence review and strategy development. Eric is also assisting many employers in managing their employees' plans and the related impacts on corporate financials. Many companies have used Eric's expertise for the development of financial strategies and tactics in respect of all aspects of pension and benefit programs. Eric has about 15 years of experience in the pension and benefit consulting industry and is a Fellow of the Canadian Institute of Actuaries (FCIA) and the Society of Actuaries.

And, lastly, we have Frank Buck who started his career in the United Kingdom at the same company as Jeremy. Frank then moved to North America, settling first in Canada and then the United States. He has recently returned to the United States after a three-year stint in Hong Kong. Frank has worked for both stock and mutual companies and as a consultant. He has experience in all aspects of life insurance, financial reporting, product development, pricing, demutualization and other insurance company restructurings, conversions to U.S. GAAP and M&A. He is a principal with Deloitte & Touche based in New York.

MR. GOFORD: I've worked in the United Kingdom but also in Ireland, France, Germany, Australia, Hong Kong and with the overseas subsidiaries of U.S. organizations. I want to cover some of the behavioral implications of working abroad and also the implications of working abroad that stem from your membership in the SOA, the CIA or the U.K. profession. Now, some of it's generic, but it takes on an extra dimension when you apply it to overseas assignments because people don't act culturally in the same way as they do in your home country. Whenever you're doing the normal things and sorting your professional relationships with your clients or employer, you do have to do a lot more listening to see if what you're saying and agreeing to is actually being understood or listened to by your client or employer. So, a lot more listening and empathy are required with overseas clients and employers, which you might take for granted when dealing with your home clients.

The background to any good business relationship, whether it's employee/boss or consultant/client or whether it's local or international, is to get the formal professional relationship sorted first, then the commercial relationship and then the personal relationship, and I do stress in that order. That's good business. So, let's start off by talking about the formal professional relationship.

Firstly, are you a consultant or an employee in this situation? If you're a consultant, do you work for yourself or as part of a firm? Is advice you give direct from you or coming through your firm? Is your client or employer aware of the implications of the fact that you're an actuary? When they hire an actuary you come with a certain amount of baggage, certainly in the form of a code of conduct, disciplinary processes and guidance notes. Is your client or employer aware of that? Because when you're acting as an actuary you have to be guided by them, and your employer should understand that. Indeed, for larger jobs it's worth being quite explicit about that and going through the implications of your being bound by your code and guidance notes and particularly which guidance notes will apply to the project that you're doing.

If you are a consultant, then you have to make sure that you do, indeed, have the appropriate delegated powers from your consulting firm because if you're a consultant at a limited liability company, your contract will be between your company and your client company, although you, as an individual, will be meeting with individuals from your client. That means you have to make sure you have the correct delegated powers within your organization. And turning it the other way around, you have to make sure, without being rude, that your client has the appropriate delegated powers to take on or issue the assignment that you're about to do. That can be tricky to establish, but one has come across situations in the past where an individual in a company has commissioned a consulting assignment, and they didn't actually have the authority to commission it. Of course, when it gets time to send the bill in, it gets a bit tricky, and we don't want that, do we?

So, having sorted the formal professional relationship, there's the commercial relationship. To whom will your reports or work be addressed? Will it be used by a third party? And here is where you have an engagement letter in the case of client/consultant relationship or a contract of employment in the case of employee/employer relationship. Once you've done those, you can start thinking about your personal relationships. Now, you may well have gotten the assignment because you have a close personal relationship with the individual you're dealing with, but it's important to go through these other processes to make sure you're not thinking you're just doing a job for your chum who you've known for 20 years. Particularly overseas, you have to be very careful that if you are offered hospitality or gifts by your client that it's not disproportionate to the formal relationship that you have on the job.

So, here are some questions to ask. All these things can be different in different countries. So, which country are you in? What is your professional association? Where is that based? Where's your firm based? For example, Tillinghast-Towers Perrin is a global limited liability company based in the United States. So technically, all advice from Tillinghast employees goes by this firm. Where's your client or employer and any parents or subsidiaries? Who's your main contact on the project? Which country are they in? And it is very important whenever you deal with anybody, whether it's internal or external, to know who the boss is.

Where will you do the work? What's the law governing the project? If it's a consultant/client project, the engagement letter should state that specifically. Where's the data? What country the data's coming from will give you some indication of the quality and the sort of data you might expect. Whose methodologies are going to be used? To who is the report addressed? Who is his or her boss? Are there any other recipients? Make sure you know everything about yourself and what your qualification is. What's your experience? Now, in my experience it's well worth working on the presumption that you do not know everything that is required in order to complete the assignment. If you take that position, you will then force yourself to think about the competencies that are needed to fulfill the job. What things can you do? What can you cope with? In what areas do you have to get advice? What's not available in your firm? You have to be open and honest about that and say to the client that they have to find such advice elsewhere. Are you an employee or a consultant? Do you have any conflicts? This is perhaps more critical to employees who may be policyholders or shareholders. Are you an executive or a director or married to the CEO's daughter or son?

So, think about your relationships. There is a hierarchy of relationships. First of all, you are subject to the law where you are operating, which includes the law of the engagement letter or your contract of employment. That is, of course, the paramount relationship. Then comes your relationship with the profession, and only after that comes your relationship with the company or firm, if you're an employee. Then comes your client, followed by all other relationships that stem from and work from those relationships in that order of hierarchy.

I want to talk a bit about delegating authority. As I've said, your own boss is important as the individual to whom your relationship with the company is delegated. You may have the delegated authority from your company to deal with the relationship between your company or firm, and others. So, if you think through who the parties are to the engagement letter and how you relate on your side of the contract and how the person you're talking to relates on the other side of the contract, just check to make sure that those delegated authorities are in place.

I went through the SOA codes of conduct and bylaws to see what relationships or what references I could find that were relevant to overseas. The bylaws are all very much around the SOA as a body, and the only mention of an individual member in the bylaws is if there's a disciplinary process against you. It seems initially to go along in secrecy, but you are told at some point, and you have 30 days to file a statement. That was the only reference I could find in the bylaws to an individual, which I thought was quite interesting. The SOA Code of Professional Conduct is critical when working overseas. An actuary is subject to applicable rules of professional conduct or ethical standards that have been promulgated by a recognized actuarial organization for the jurisdictions in which the actuary renders actuarial services, unless specified otherwise by an agreement between a

recognized actuarial organization for any such jurisdiction and the organizations that have adopted the code.

Five U.S. organizations have adopted the code. You have to pay attention to the codes of conduct or ethical standards promulgated by the recognized actuarial organizations (RAOs) in respect of the jurisdictions in which you intend your work to be used.

Think about the implications of that. Suppose you're doing U.S. GAAP work for a French subsidiary of a Dutch parent that's quoted on the New York Stock Exchange or quoted on another stock exchange. Then your work could be used in France, Germany and the United States. So, that means even though you may be not a member of the actuarial organizations in those countries, you have to dig into the professional conduct and ethical standards of those organizations. You are subject to them, and they may be in conflict. So, you have some work to do before you start to make sure you know what codes of professional conduct you have to pay attention to.

Actuarial services are defined as professional services provided to a principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings or opinions based upon actuarial considerations. In other words, it's very widely drawn. And RAOs are full members of the International Actuarial Association (IAA) or a standard-setting, counseling or discipline body to which authority has been delegated by such an organization. I have to tell you there are some quite small organizations who are members of the IAA. To be a member they have to have a code of conduct and a disciplinary scheme. So, you should look for those, and you should find them. There's no hiding place. You have to be familiar with these because Annotation 2-1 says it's the responsibility of the actuary to observe applicable qualification standards promulgated by RAOs for the jurisdictions in which the actuarial services are intended to be used. So, there's no excuse for not knowing.

Annotation 2-2 states, "The absence of applicable qualification standards for a particular type of assignment does not relieve the actuary of the responsibility to perform such actuarial services only when qualified to do so in accordance with this precept." That's natural, normal code of conduct stuff.

Annotation 2-3 states, "It is the professional responsibility of an actuary to observe applicable standards of practice that have been promulgated by a recognized actuarial organization for the jurisdictions in which the actuary renders actuarial services, and to keep current regarding changes in the standards." So, you have to watch movements even while you're doing the project.

Annotation 3-2 states, "Where a question arises with regard to the applicability of a standard of practice, or where no applicable standard exists, an actuary shall utilize professional judgment, taking into account generally accepted actuarial principles

and practices." That is a good let-out clause, but I'm not sure how strongly you could actually use that. I wouldn't rely too heavily on that.

Annotation 3-3 states, "When an actuary uses procedures that depart materially from those set forth in applicable standards of practice, the actuary must be prepared to justify the use of such procedures." Now, that's fine, but be careful because some of these standards are mandatory, and only some of them give you a choice as to depart from them. So, watch the mandatory ones.

Now, there is also the Academy. They issue actuarial standards of practice (ASOPs).

With regard to implications of CIA membership, "A member who's practicing in the jurisdiction of an RAO, of which the said member is also a member, may, provided the board of the Institute has agreed, practice free from the requirements of Rules 14 and 15." So, the CIA is relieving you of a couple of things in your work. You would not need to follow Rule 14 of describing data methods and assumptions, and Rule 15 that you are the source and are available for comment on the report. I'm not quite sure why those particular carve-outs were chosen, but that's where they are.

Beyond your professional requirements, your firm, if you are in a consulting firm, will also have its own internal standards. If you're an employee, you'll have your own contract of employment. So, watch the professional standards of your own organization.

When you come to an engagement letter there are some things you'll have to cover. These items include scope, purpose, output, fee basis, termination, data and validity, indemnity, jurisdiction and use of output. Concerning use of output, it's particularly important when you're an SOA member, remembering that you have to go into the guidance notes of where it's going to be used.

Precedence is another issue I'm going to discuss. There are a number of things related to precedence that you have to watch. These items include law, professional standards and the engagement letter. In the United Kingdom, just by comparison, it's rather weaker than in the SOA. For the actuarial profession in the United Kingdom, members working outside the United Kingdom are strongly encouraged to join the local actuarial body when it is appropriate, having regard to the nature of their work, to do so. If the requirements of a local actuarial body to which the member belongs appear to conflict with the professional conduct standard, which is the U.K. code of conduct, or any other relevant guidance, the member should normally seek advice from the senior actuary and, if that does not resolve the matter, seek guidance from the professional body. It's all pretty open in the United Kingdom.

Finally, the mores of society are moving on very fast. What I mean by that is 10 years ago, for example, we would only expect to reserve for what the legal

contractual liabilities were, but now we have to take into account the reasonable expectations of policyholders. Whilst one may not put it into the liabilities, certainly one would have to take it into account in capital requirements. The expectations of policyholders are becoming far more important and, indeed, to the point where some people have been paid out on what they thought the salesman told them, even though they'd signed something completely different. So, we have to watch this move of society and culture away from just doing the legals toward making sure we satisfy expectations of customers. So, watch these expectations of the policing of standards. Do your continuing professional development (CPD). And I'm sure somewhere down the track we'll get into revalidation as well. It's something that society will force on us. Also watch for changes in commercial mores.

Watch organizations in which you have a dominant CEO or a dominant culture because very strange things happen to consultants when working for those organizations. Also, in certain territories the way that consulting services are bought is, shall we say, more aggressive than you might find in the United Kingdom or the United States. In Asia, and I'm sure Frank's going to talk about this, my experience is that once the deal is done, the client is keen to expand the scope and reduce the fees at every possible opportunity. Nevertheless, enjoy the diversity but do get the relationships sorted first.

MR. ERIC D'AMOURS: As Jeremy just mentioned, standards tend to be developed country by country, and for the application of one given standard to another country, while although it's addressed, it's pretty vague as to how it should be addressed. So, the purpose of this pension case study, which is a true story, is to try to show two things. The first thing is the importance of determining right at the beginning, especially if you are in a multinational assignment, who's responsible for what. I'm talking about professional responsibility. And it's also important to determine which legislation is applicable in such a situation. But, more importantly, you're going to see that the application of a professional standard is unclear in many situations when you have to deal with multinational assignments.

In this case, the answers I have are what we actually did in terms of applying the standards, but there are other possible answers. As background, the case relates to a Canadian company that acquired a big operation in Europe involving employees in many countries. The transaction was based on U.S. GAAP and was subject to European law. Our initial assignment was to provide a second opinion regarding the U.S. GAAP reporting of the vendor.

The vendor presented financial statements to our client in Canada saying, "Here's our company, what we have to sell." What we needed to do was to opine on if the numbers for pension and benefits made sense in the information disclosed to our client. So, we needed to set up a team. I was the main client contact based in Canada. I'm an FCIA. The project manager was a Fellow of the Institute of Actuaries (FIA), a U.K. actuary based in Belgium. The main team members were in Belgium,

Canada, Germany, the United Kingdom and the United States. So, think about applying standards here.

Who was responsible for what if something went wrong in this assignment? Under which jurisdiction's law is the assignment conducted? We know that the transaction is governed by European law. What about the assignment itself? What are the applicable professional standards in this situation? The answer to the first question—who's responsible for what?—was clarified in an engagement letter contract with our Canadian client. So, it was between our firm in Canada and the Canadian client. It stated what we were going to do and for what price. It pointed out that we were responsible for calculations and not data. It specified that numbers may change if we found later that the data was inaccurate, and there was a liability limitation for our professional work. So, you need that kind of thing in case it goes wrong. You hope it won't go wrong. But if you don't have that, it's pretty difficult down the road to determine who's responsible for what when you have people all over the world involved in the same project.

In respect of applicable laws, again, the engagement letter was the source of information to make it clear that the assignment was to be conducted under Canadian law in this particular situation, even though the transaction was governed by other laws.

What professional standard should we apply in this situation? It was unclear. Our lead actuary for this project was a U.K. actuary located in Brussels. Work was about U.S. GAAP, and my client and I are Canadian. In addition, my contract with my client is Canadian. This initial phase was an opinion as to what extent the reporting under U.S. GAAP from the vendor was appropriate. So, we had to periodically report confidential findings to the client. Dollar figures at that point were ranges because membership data was not yet available. It was all estimates. So, we figured that because the lead actuary is an FIA, he applied his own standard in reporting to our client. And, because our client was Canadian and was involved in those things, we made sure that our reporting also complied with Canadian standards.

We reported the various findings to our client, and the client used some of our material with the vendor. The parties could not agree as to what should be the right number. The next step was for our client to prepare a revised audited financial statement of the acquired company to support the proposed adjustments. The auditors for our client required our firm to sign off on the numbers. So far we had not done any valuations. We just estimated the effect of doing all those things. We needed to get the data, the detailed plan provisions and everything from that point. We needed to produce a formal actuarial report because the auditors wanted us to sign off on the numbers. And for that second phase, I was the lead on the project.

The question then became, who should sign this report that includes the numbers prepared by about 20 actuaries of our firm around the world? Some of the numbers come from information provided by the vendor's actuaries. And what is the

applicable professional standard for such a report? Those were just a few of the questions. We determined three actuaries to sign and because of our team structure, I was one (FCIA practicing in Canada). Another one was an FCIA practicing in the United States. And the third one was a Belgian actuary working in the United Kingdom. By the way, this person was not the same as the U.K. actuary practicing in Brussels.

Because two of the actuaries we chose to sign this report were Canadian and one was Belgian, we already limited the number of countries we needed to consider for the purpose of choosing the applicable standard. Another issue was on whom we should rely for data because we had all the actuaries at Towers doing calculations, but we also had information and data that was provided by the vendor's actuary. The best we could do was to accept it the way it was. How can you validate the data if you previously didn't have the files or ways to check that payroll matches the actual payroll of the company and everything? You need to rely on the information that is provided to you by other professionals.

It's quite a process to determine what applicable standard we're going to use. First of all, the work is ordered by a Canadian company. So, that was one factor. The second factor was that it was based on U.S. GAAP. In many standards, depending on the countries, it depends on where the work is going to be used. You know that your work is going to be used to produce financial statements. That's going to have an effect on our client in Canada but also on the vendor in Europe and all their shareholders who are all over the world. So, who is the user? The end user is everybody. We obviously cannot comply with all possible actuarial standards on the planet.

We decided that Canadian standards would apply. The client was Canadian, and two of the three actuaries were Canadian. We decided to combine the requirements under Canadian and Belgian standards. The Canadian standards included all the requirements of the Belgian standard, so the three people who signed the report were covered from a professional standpoint for this part. Additionally, because it was based on U.S. GAAP, we decided that we needed to comply with U.S. requirements, too. And so we made sure that we complied with U.S. professional standards. Although we say the location of the users may be the driver to determine which standard applies, that can't always be the case. In the situation we had, it was not practical to determine who the users are because they're all over the place, and generally users don't care which standard is applicable provided it's robust enough.

So, the question that I'm leaving on the table with you is: As a profession, what should we do? You're probably aware of the whole debate on U.S., Canadian and international accounting standards. If you bring this back to actuaries' professional standards, would it be up to the client and the actuarial firm to agree on which standard applies in the engagement letter? Should we clarify each standard or at least the main standards as to its application for work abroad? Maybe we should

add an international standard for multinational projects? So, do any of you have any experience with this that you would like to comment on? If you've been involved in any multinational projects, you probably had to face similar question as to what standard you should use.

MR. DAVID SNELL: We do business in many countries. What we've discovered is that in some countries there might be a different valuation procedure. Some of the Asian countries in particular are very detail-oriented. To them it's important that everything be done exactly to the end, which might differ from the numbers that we might use from our methodologies. The position that we've often had to take is that whatever country we're dealing with, we have to meet their standards. Later we may have to rationalize with our standards. So, we need those also. But I'm not sure how you can choose just one or two countries and say because we have the majority of the actuaries here or our client is over here that we can ignore the fact that there might be participants in this other country because they have their own rules, and those have to be met for those participants.

MR. D'AMOURS: It depends on the kind of work you're involved with. In your situation you said in Asia they tend to be more detail-focused in what they require, but if you are in a transaction, and the transaction involves, let's say, two U.S. companies, but involving employees all over the place, do you still feel the need to comply with every country where you have employees in the transaction? Or, was your example more that the end user of your product is mainly people from Asia?

MR. SNELL: The end users of the product were mainly Asians.

MR. D'AMOURS: I agree with you that we should be sensitive to the end user, but sometimes the end user can be anybody, and we need to draw a line. In my situation it was North American more than anything else but in other situations it might not be so easy to even pick a standard.

MR. FRANK BUCK: I started my career in the United Kingdom, many years ago. Jeremy and I started out around the same time. I qualified as an actuary in the United Kingdom, and I've actually been working in an alien environment since 1978. I moved to Canada in 1978, then to the United States in 1984 where I've been ever since, except for a three-year stint in Hong Kong.

I'm going to talk a bit about some of the differences that I found over the years in these various countries. I'm going to finish by telling you a couple of stories that will probably raise the hairs on the back of your neck about a couple of the situations I've encountered in Asia.

When I first moved over to North America—it was about 25 years ago now—I observed some significant differences between the way the U.K. actuary, the U.S. actuary and the Canadian actuary were trained and were operating. I think things have changed a bit in some of the professional standards, but back then I had a

saying that the U.K. actuary is God. The American actuary would like to be God. And the Canadian actuary thinks he's God.

And what I really meant by that was that, in the United Kingdom, my basic training was geared towards protecting the policyholder. That was the number-one consideration. The policyholders came first. Secondly, the regulator was very important. You had to make certain the regulator was apprised of any problems. You followed all the rules and regulations properly. And finally, your responsibility was to your employer. So, it was very much in that sort of order of magnitude.

In the United States at that time, the actuary would work for whoever was going to pay him. He would work for the policyholder if the policyholders paid him. He would work for the company if the company paid him. He would work for a group of agents if the agents paid him. It was very much a different sort of approach to the way the actuary was being treated in the United Kingdom.

The Canadians were between the two, as they always are. They are close to the United States and have a lot of U.S. standards, but also have more of a U.K. heritage than the Americans. However, these things are changing, and standards are becoming much tighter throughout the world, and rightly so.

Probably the main part of the reason I was asked to speak was because of my three years in Hong Kong and the various things that I did when I was there. I worked in many countries while I was there, such as China, Hong Kong, India, Indonesia, Japan, Korea, Macau, Singapore, the Philippines, Taiwan and Thailand. I actually worked in a Hong Kong company that was a subsidiary of an Australian company that was a subsidiary of a French company. There you have different standards coming into play and various professional standards coming into play as well.

I spent a good bit of time working on companies in Korea and Taiwan. I joined the Hong Kong Actuarial Society. I did not join the others. Whether I should have or not, I don't know. I was certainly doing work there, but I don't think any of the consulting firms in that part of the world will consider making their consultants join the actuarial bodies of the various countries where they could be working. It just doesn't work that way. Anyway, that is certainly a weakness in the system and something we should address.

I did actually speak to two of the actuarial societies while I was there. I addressed both the Korean Actuarial Society and the Philippine Actuarial Society on various issues, and that was a good way of getting to know the actuaries in those respective countries.

Asia is a very different place. There are many cultural differences between North America and Europe and Asia. The working hours are longer in Asia, even though the United States and the United Kingdom tend to work longer than they used to. They have smaller living quarters. The average size of an apartment in Hong Kong for a family of four is less than 600 square feet. That has different ramifications for

their style of entertaining. They like buying big cars because they can show off their wealth that way rather than buying expensive accommodations.

There are clearly language difficulties when you're living and working overseas. Even though the general trend has been for the locals to learn English, in Hong Kong when the British left six years ago, for instance, the local international schools opened up the doors to the locals more because they feared that the expatriates were not going to come back. A lot of the local people are trying to learn English. But even then, you will very often get onto the phone with someone who speaks good English, but you can't quite understand them. So, what has happened is that e-mail has become much more prevalent, as has text messaging. A lot more e-mails get sent to and fro than you would see here in the United States.

There are also many business issues. The risk-management practices are certainly not uniform at the various consulting firms. Some firms have very strict standards. Some countries have very strict standards. Others have less strict standards. And when you're working in one country and another country has the contract, it can be quite a significant issue. For example, if a Taiwan firm needed to employ actuaries from Hong Kong to help them on a consulting project, the risk management would normally be done by the Taiwan firm. The subcontractors would assume that the risk-management process has been done properly. That does not always happen, and you have to be very careful to make certain that the appropriate risk-management practices have been gone through.

Regulation is very different. It's much weaker than in the West. And that is changing quite a bit. Certainly risk-based capital solvency standards are coming into many Asian countries. They are being phased in right now in Korea, Singapore and Indonesia. One or two other countries are also considering solvency standards. And, ironically, the solvency standards are one of two types, either a U.S. type of risk-based capital or U.K. type, and the countries tend to adopt these standards even though the underlying reserving system may be quite different from the underlying reserving system for those standards in either the United Kingdom or the United States. This can cause problems.

Another big thing in Asia is significant asset/liability problems. Most countries will be selling long-term liabilities like whole life insurance. In some marketplaces the insurance contracts can be incredibly complex. In Korea I saw a contract that had about six different lives, and the amounts paid on each life were in a different proportion depending on who had died first out of the other six. There were also various health riders. It got incredibly detailed and incredibly complicated, and everything is usually all on one policy rather than having a series of policies. So, it's very difficult.

But for the asset/liability situation, the main problem in Asia is in most countries you cannot buy long enough assets. In Korea, for instance, about the longest bond you can get is five years, and if you sell whole life insurance it's not possible to

match it with a five-year bond. Most of the countries have suffered as interest rates have fallen. I think Japan is probably the most notorious example, but even in Korea a lot of companies have gone bankrupt because they could not meet the long-term interest-rate guarantees.

Another business issue is that audit firms are not necessarily required to use actuaries in many of the countries around the world. In fact, that was true in England until about five or six years ago and I do not think that it is an absolute requirement in Canada to this day. It is coming in, but it's still not absolutely true there.

I am now going to go through a couple of situations. These are real-life situations. I am not going to tell you which country they are in or which company it is. I have to maintain confidentiality. But I hope that in talking about these various issues it will give you some insights as to what you can see that will be quite different from your U.S. experience.

The first one concerned a very well-established and well-respected company. It had been in business for a number of years. It wasn't a company that you thought could possibly get into trouble. It was listed on the local stock exchange. It had reported earnings and reported its balance sheet on a regular basis. The assets were fairly sound and fairly solid. The liabilities all seemed quite reasonable. And the surplus was about 10 percent of assets. It had steady profitable growth. It seemed well-managed. It really was a well-managed company. And part of the remuneration package for the senior executives depended on the growth in the company's embedded value, which is a fairly typical way of remunerating senior executives. This company asked consulting actuaries to come in and provide an appraisal value for them as part of determination of management remuneration.

So we started work and started going through and built a model, calculated some reserves and compared them with the reserves that the company had been providing. We found that we were beginning to disagree on some of the reserve calculations. You couldn't quite get there. Our reserves were a little bit higher than theirs in many situations. It took a long while and some discussions with the company before they eventually admitted that they knew they had a computer problem. They knew that when a policy went through a policy change the duration of that policy was fixed at that time.

So, if you made a policy change in the third year, three would suddenly appear as the duration, and your reserve will be a three-year duration going forward. Obviously, on a day-to-day basis you wouldn't actually see the difference in the results. If you were testing the results, you wouldn't see any sort of major changes, but over time you're going to get into trouble. And in this particular case it was worse than we thought because a policy change could be a change of address, and it suddenly became a much bigger problem. The eventual outcome was that the

reserves were about 10 percent understated and the increase in reserves actually wiped out the surplus.

The next problem was that a clean audit opinion had been given one week earlier by the auditing firm, and, of course, the actuarial firm and the auditing firm are the same firm. The auditors had not used actuaries in the audit because it wasn't part of their mandate to do so. So, here we had a potentially difficult situation to deal with. So, what did we do?

First of all, the chief actuary had to be informed that we had a potential major problem with the reserves at this company. Obviously we had to tell the risk-management people in the consulting and auditing firm that there could be a problem. At this point, there was a strong feeling that there was something wrong. However, we didn't know for certain. At this point, didn't know the extent of the problem. Everyone agreed that a complete reserve review had to be undertaken. The findings confirmed what we initially suspected. And we met again with the company and found that the chief actuary hadn't at that point told his CEO or the board what was happening. So the senior management of this firm was totally in the dark as to potential problems.

The dilemma then became deciding who should be informed and when. It was very difficult. We have to be transparent, but the consulting actuary clearly has a conflict here. He has responsibilities to the shareholders, the policyholders, his or her employer and the regulator. Somehow all of those audiences have to be satisfied. The consultant must have thoroughly researched the problem and be totally sure of the facts. You can't go whistle-blowing if you don't know that what you're saying is absolutely right. Obviously the audit opinion had to be revised in this particular case. The company wasn't as clean as we thought it was. However, blowing the whistle early could cause a big collapse. If we had gone out to the marketplace and said that the company was having problems, the share price would have collapsed, and that would not be the right answer. You have to draw a balance here.

What do we do about the company actuary who has known this information for one month and has done nothing about it? At least he has not told his board. He has not told his audit committee. He has not told his CEO. I don't think he told the chief financial officer (CFO) that this was a problem. And obviously the best response for everybody concerned is a coordinated solution from all parties—the company, ourselves, the audit firm, etc.

Well, this case actually had a happy ending. The company had one majority shareholder who agreed to invest more capital. That shareholder invested sufficient capital to make up the necessary capital requirements. An announcement went to the press, the public and the investment analysts explaining what was happening. It explained there was a capital injection and why there was a capital injection. There had been some problems, and the audit opinion was revised, but it was back to

being a clean opinion with sufficient assets and liabilities. And the good news for all of the actuaries is that the auditors plan to use actuaries on future audits.

The next case is fascinating. Once again we have a well-established, well-respected company that has a good name in the marketplace and has been in business for a number of years. It's been issuing financial statements that show a small surplus that is less than 1 percent of assets or liabilities. The country is introducing revised capital standards and revised solvency standards, and the company cannot meet those solvency standards. However, the regulator wants to help the company to get to those standards and has sent out a request for proposal from various consultants to advise them on how this company could get into compliance in a reasonable time frame. They were prepared to be somewhat lenient in getting there.

So, we started investigating, and the first thing we found was that the financial statements were audited, but they had an adverse auditor's opinion. The auditor's opinion actually says "in our opinion these financial statements do not fairly represent the financial condition of the company." I had never seen that before. In all my years of experience I have never actually seen that opinion before, and that opinion had been given to this company for each of the last six years. The financial statements are published. The auditor's opinion is not published.

We looked at the balance sheet. The largest asset was a deferred increase in liabilities. We know that problems arose back in 1994. There was a small currency mismatch problem and the company asked the regulator to allow them to put in a deferred increase in liabilities and amortize it over four years. That was fine because it was only a small problem and the plan was to get rid of it in four years. As of now, not all of that deferred increase in liabilities in 1994 has been amortized, and it has certainly been added to considerably since then without permission from the regulator.

As you look further, the company data is very questionable. Here we had two sets of data. One was the data from the head office, and the other was the combined data of the branch offices. They were both wrong. We looked at both. We compared both. There were significant problems with both sets of data. Some things had not been put on the books in the first place, and some things hadn't been taken off or they had been taken off in one place and not in another. So it was very complicated. We did some extensive data checks to come up with something on which we could base some sort of model for modeling this business.

They had many liabilities designated in U.S. dollars, and they were backed by assets in the local currency. The investment manager said that the return on the local assets was a lot higher than return on U.S. dollar assets. Therefore, he was investing in local assets and mismatching. Then there was the currency crisis in 1997, and the exchange rate in that one year changed by a factor of about two-and-a-half and then got worse yet again. So, you have the U.S. dollar liabilities at this level and the assets just plummeting. The difference became pretty large.

The company knew they had some problems back in 1999, and the policyholder representative council, which is the group that is responsible for the whole company, agreed to some benefit reductions. They said, okay, because of the problems you're facing we will reduce benefits by x percent. But, every benefit that's been paid since then has been at 100 percent. They haven't actually put this reduction through in practice, but they have reduced their reserves by that same x percent to cover it. So, they reduced their reserves but didn't actually reduce the payments.

The regulators knew there was a problem and arranged with the Asia Development Bank to have a loan back in 1998 to employ consultants to help them solve the problem. That loan had a five-year window, and literally within the last month of those five years they got around to engaging consultants to look at the problem. They have been sitting on it for five years and doing very little.

The regulator has said that he does not want to wind up the company, because there would be damage to the industry reputation. He also doesn't want to see many jobs lost. And also, to be fair, they have been allowing this company, that has been bankrupt for at least six years, to operate as if nothing had happened. And they knew that the published financial statements had this deferred increase in liabilities in it.

We have been told that the government will not invest capital. I was asked to do an appraisal value, and the appraisal value was negative. The shortfall, once you recalculate the assets and liabilities to appropriate current levels, cannot be made up by the profits on the inforce business or the future business. You would have to sell a ton of future business to actually cover it, and that's just not realistic.

And the culture is such that the company hasn't fired anybody in 15 years. So, there's no real downside to not performing on the job. I went to one of the large group sales offices, and there were many televisions around the office. That's fairly typical in the United States these days. In fact, in our office in New York we have televisions in the lobby, and we have televisions in the common areas, and they're always showing CNN or Bloomberg or something because people are interested in how the stock market is doing. In this office they were watching soap operas. That was something to occupy them when they were not playing computer games. So, the culture here is a little different.

The currency mismatch still exists. At this point the guarantee on the U.S. dollar policies is greater than they can earn on the U.S. dollar asset. So, the investment managers invest in local currency to get a higher return. And overall their investment returns are below industry averages. The regulator insisted that consultants find alternative solutions with precedents. Trying to find a precedent for this is very difficult.

The solution is still to be found, but it's probably going to be a combination of reduced benefits, capital investment, sale of part of the business, reduction in expenses and a new investment strategy. We have now discovered that reducing benefits is against the contract law in the country under concern. So, that might be even more difficult than we thought it was. But the good news is the government has realized it is going to have to put some money in if they want to keep this going. So, either they put money in or this company gets wound up.

We talked about selling part of the business, but there's nothing there that's worth very much, and certainly nothing that will cover the big shortfall they currently have. And we will reduce some expenses going forward that will save a little bit. We will also improve the investment strategy, which isn't very good. There is a lack of trust between the investment department and the actuaries, so the investment manager has kept a lot of money in cash because he wanted to meet short-term liabilities. That is not necessarily the right way to get good long-term returns.

I want to make some general comments to finish.

If you are involved in an overseas assignment, working in a country outside of your norm, make certain you perform all the risk-management processes before you start work. That really is key. Get all those risk-management processes in place and make certain that the local office has done the right sort of risk-management processes, once again, before you start. If you do encounter problems, make certain that you inform everybody you need to. Don't shout it to the world, but tell your risk-management people and tell the company. Make certain that everyone is aware of the problem so they can all work on the problem together.

Document what you are doing thoroughly. With the sort of situations that can arise, I wouldn't be at all surprised if there's a lawsuit in five years' time for at least one of these cases. You need to know just what you said five years ago, and it's very difficult to reproduce that five years down the road. So, document what models you built, what assumptions you made, where you got those assumptions from, what sort of reserving bases you're using and why you're getting different numbers from the client.

Talk to people. Discuss it with all the appropriate people, and make certain you're right. Do your homework. Take the time to do the investigation you need to do to make certain that you're not misunderstanding the situation. And don't be pressured into an inappropriate solution. You are professionals, and you have to give the right professional answer with the right degree of professionalism to the right standards.

MR. BESNER: I have a question for Jeremy. Being president of the Institute at this point in time probably gives you some insight on how the different bodies are addressing these issues. Is this on the radar screen at all? Who's taking the lead?

MR. GOFORD: We do have a thing called the Presidents' Forum, which is made up of the presidents of actuarial organizations in the United States, Canada, Australia, United Kingdom and South Africa and also includes the presidents of the IAA and Groupe Consultatif. At the last meeting, we discussed whether it might be a good idea to try to collect the caveats and engagement letters and reports to see if we couldn't come up with some consistent recommendations of best practice. We'd probably do that through the IAA because this Presidents' Forum doesn't have any particular standing. We're meeting in Johannesburg shortly, and on the agenda there will be the issue of dominance risk, which has brought the downfall of Independent, Equitable, split-capital trusts, Long-Term Capital Management and you name it. We'll be talking about what responsibility actuaries have and, indeed, what they can do about it where there's a particularly dominant culture that is the wrong sort of dominance. We do think actuaries in particular can contribute to avoiding policyholders taking out new policies when it's clear that the culture's going to drive an organization into the ground.

But, as far as working cross-frontier, when I did the research for this and looked at the requirement for SOA that states you have to look at the rules and guidance notes for where your work is used, I wouldn't like to live up to that regime. So, we might talk about that in Johannesburg.

MR. BESNER: Frank, in the first case that you presented it'd be interesting if you could comment on the professional rules that applied in the country where that situation was present and the implications for the chief actuary of that company.

MR. BUCK: I'm not sure I can. Certainly it's not an action we would recommend. We have people in that country who would not have acted the way the chief actuary did, but they didn't have the equivalent of an Actuarial Board for Counseling and Discipline (ABCD). So, there was no real forum for reporting him to the profession at this point. The profession is very different from the professions in United States or the United Kingdom.

MR. TODD DANIELS: This question's for Frank. You alluded to the language barrier that you face in a lot of your work. Aside from being fluent in all those languages of the different countries you worked in, what is the best way you kind of came up with to overcome a lot of the communication difficulties? A lot of times what I found is you can communicate by e-mail, but there are times when you have to have conference calls or other things, and what are some ways you shorten those calls?

MR. BUCK: I'm not sure if you can. You have to be patient. If you don't understand, ask them to explain again. Make notes. And write back with the notes of the discussion to the person you're speaking to. Give them an opportunity to correct any misunderstanding you might have.

MR. GOFORD: I do a lot of meetings of the IAA, for example, and we persuaded the British and the Americans to speak in what we call Conference English. In other words, translate what you want to say into a language that you think people will understand. Sometimes that means having shorter sentences that have a subject, a verb, and an object and is a fairly clear statement of what you want to say. This is quite an effort. It doesn't come easy. But certainly people for whom English is not their first language really do appreciate that, and there are a few British and a few Americans who've really gotten this down to a fine art. The trick is to regard the language you communicate in as a completely separate language, what we call Conference English.

FROM THE FLOOR: Can you talk about the level of consolidation of companies overseas? There seems to be a lot of consolidation of insurance companies in the United States. I wonder if there's the same pattern overseas.

MR. GOFORD: As far as the United Kingdom is concerned, we went through a huge consolidation that probably dried up a couple of years ago. There were numerous demutualizations and acquisitions. The problem is that what's around to buy isn't exactly wonderful quality these days. There's no money to buy them anyway. So, there are reconstructions. There's closure to new business. There are expense reductions. I think the M&A market will pick up a bit soon. There's a suggestion that there might be some what I call vulture funds to buy out closed blocks, but I don't see an opportunistic or strategic purchase of an ongoing company with a full distribution system likely to happen in the next year or two in the United Kingdom.

MR. BUCK: In most of Asia there are reduced interest rates. Most companies are in trouble one way or the other. So, there is not a lot of attraction in buying those companies. I think in Taiwan they're now pricing at an interest rate of 1 or 1.5 percent—not that long ago, the interest rates were double digits. It is very, very difficult to be solvent or very, very attractive in those marketplaces. So, not a lot is happening.

MR. GOFORD: I have a statistic about insurance expenses. The average cost per household in the United Kingdom of the life insurance industry is 570 pounds per year. That's about \$800. That's a huge amount to me, and it's been going up at 12 percent per annum for the last five years, although, funnily enough, it dropped by 1 percent last year. So, it was a huge turnaround. There are some things happening to squeeze expenses out of the industry, which will be driving closures and consolidations.

MR. BESNER: The second situation that you described is so foreign to the environment that we are used to working in and, of course, that our own professional rules are geared to deal with. So, how do you try to work your way through a solution that works for everybody in a case like that within the context of your own professional rules?

MR. BUCK: It is difficult. It's something I have not encountered before. All you can do is document, review, analyze and come up with projections of what's going to happen under various scenarios. When will the company actually run out of cash? They have had positive cash flow for a number of years, but obviously the reserves are rising, and they're not taking full account of those reserves. You just have to document things properly, keep the right people informed and hopefully the right thing will happen. Either the company will be wound up or the government will put in a lot of money.

MR. GOFORD: Just remember it's not your fault that the company's insolvent.