



SOCIETY OF ACTUARIES

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Great Wall Call

by R. Thomas Herget

I spent an exciting two weeks in January experiencing the hospitality of the insurance industry in China, the world's most populous country. I toured three cities and met hundreds of actuaries. How did this come about?

In 2004, Taiping Life of Shanghai decided it would like more American experience within its company. Taiping's managing actuary, Wanchon (Wilfred) Lu volunteered to serve a year in the United States. He interviewed several companies in the United States and selected my firm, PolySystems, to gain this experience during 2005.

The concept of an "exchange actuary" was an excellent idea because we could learn about Chinese practices while Wilfred got hands-on experience dealing with American regulations, reporting and all kinds of culture.

Toward the end of Wilfred's visit, the director of the actuarial program at Fudan University, Professor Hanji Shang, contacted Wilfred to ask him if he knew of any speakers who might like to come to his school and deliver a lecture. Wilfred asked me if I would like to speak. Never having been to China, I eagerly replied yes. A topic and a business reason for this talk would materialize later.

It evolved to be two lectures in China with

different audiences. One was professional actuaries; the other was student actuaries. I chose two topics. The first was entitled "New books for your financial library from the IAS and SOA." This addressed new accounting ideas from the International Accounting Standards Board plus overviews of two recently-published books from the Society of Actuaries. These tomes were *US GAAP for Life Insurers, second edition* and *Insurance Industry Mergers & Acquisitions*. The theme for the students was Skills and Traits an employer looks for. Arrangements were made for presentations in three cities: Shanghai, Beijing and Hong Kong.

At Fudan University in Shanghai, the professors, senior actuaries and I enjoyed tea prior to the lecture. At the presentation, there was a huge poster that welcomed me (so I presume) to the university. (See the photo below.)

The lecture focused on the impact of different accounting bases on a simple product. To assure comfort with the approach, we first looked at balance sheets and income statements for a new product under Chinese statutory accounting principles. We then looked at how this differs from U.S. statutory accounting principles. Both bases displayed losses in the initial year followed by profits. The next step was to look at this product under an embedded value approach, capitalizing the present value of distributable earnings as an asset. Earnings in the first year were significantly positive.

We then moved to how this product looked under U.S. GAAP. Naturally, profit emerged on a level basis. We then moved to IAS's entry value method, which showed no profits at issue. Finally, illustrations with financials using the exit-value method were presented, revealing a healthy first-year profit, since it was deemed to be a favorable era for buying and selling blocks of business.

The participants got to see the wide range of earnings patterns under six approaches.



Tom Herget speaks at Fudan University in Shanghai.

Year one was most revealing. One extreme showed devastating losses in the first year while the other extreme showed profits in the first year that exceeded the cumulative profits that would be ultimately reported. We took a second look at this accounting picture assuming a shock in experience in year three.

There was a lot to digest, both at this speech and at the following dinner in which ten of us enjoyed a traditional 20-course Chinese meal.

Shanghai is both an ancient and a modern city. Downtown, buildings built by Europeans in the 1900s graced one side of the river while across the water were the modern, gleaming structures reflecting contemporary Chinese architecture. What was the most popular car? Buick. What was the restaurant that appeared the most? KFC (Kentucky Fried Chicken).

The next day I talked to the students at Fudan. A few days later I would address students at Peking University. These students were not bashful. We had lively discussions as they posed good questions:

- How do you become a Governor?
- Is accounting important?
- What happened to exam discounts?
- Why are exam fees so high?
- What happened to professional development?
- Which is more important, a pricing actuary or valuation actuary?
- What is new with risk management?
- What is most important to students to be a good actuary?
- Is continuing education coming to Asia more often?
- What do you think of Chinese actuaries?
- In which industries can actuaries work?



From left to right: Wilfred Wanchun Lu, Debin Chen, Secretary of Shanghai Insurance Industry Association; Hanji Shang, Professor of Fudan University, director of Fudan University Actuarial Center; Tom Herget; Won How Lo, Chief Actuary of China Pacific Insurance Group; Yuanhan John Zhang, Chief Actuary of Citi Insurance in Shanghai; and Zhigang Xie, Professor of Shanghai Finance & Economics University.

- What is better, CFA, MBA or FSA?
- What are you doing about FRM?
- What are the best ways to analyze cash flows?
- Tell me about actuarial software.
- Why can't the SOA do more to help find us jobs as interns?
- There is only one chief actuary in a company; what are all the others doing?

The cost of exams and the paucity of discounts were a major issue. I asked, "Why should I, as a U.S. businessman, support subsidies for you? You yourselves look pretty prosperous." The students quickly countered that I should see the countryside from where they came; the poverty is evident and prevalent outside the cities. Most students were taking loans to complete college. I felt that the students I met here could do well in the busi-

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From left to right: Tom Herget, Yaojun Wang, Chen Yi, and Fangfang Wu.

ness world. I urged them to adapt to the local culture, wherever they landed.

It was a pleasure to meet the students and faculty at two of China's very top universities.

I enjoyed the cuisine as well in these Chinese cities. The menus boasted both familiar and somewhat exotic fare. I wasn't bold enough to try the Strange Taste Cashew Nut, Brined Goose Head, Hairy Crab, Stir Fired Mud Eel, Crispy Young Pigeon, Braised Pig Blood or the Dry Bull Frog.

For the country that invented the queue, there really weren't too many lines. You had to bull your way to the front and act like a New Yorker to hail a cab.

I don't think I'd ever drive in the big cities of China. It's every man, woman, child and bicycle for themselves, literally. Obedience to traffic lights is expected for vehicles but optional for pedestrians. Crossing the street should be an Olympic sport.

The hotels that catered to foreigners had many employees to help out. Each room had a card that said "return me to the hotel at such-and-such address," printed in both Chinese and English. Don't leave your room without it!

In Beijing I met with actuaries who were employed by life companies, by the government and then with those still studying in the university. It wasn't the cold that created their high-energy level; it was the deadlines.

Work-wise, things are similar to conditions in the United States. The actuaries have to work hard to meet many deadlines. Generally, the actuaries are much younger since the industry's birth was coterminous with the introduction of capitalism 10 to 15 years ago. Of course, there are some differences. One company has 600,000 sales agents! Not policyholders, sales agents.

The final leg of the trip was Hong Kong. Its temperature was a welcome uptick from the cold climes of the mainland. This former western outpost has not yet entirely integrated into China. It still has its own currency, and people drive their cars on the British side of the road. The expatriate community has dwindled significantly.

The Actuarial Society of Hong Kong was very hospitable. The standing-room-only crowd of a hundred ASAs and FSAs peppered me with more questions about the direction of IAS accounting. We also spent time looking at the contents of the two new SOA books.

We discussed the 200 new pages in the second edition of the GAAP textbook. These comprised SOP 03-1, high lapse rates causing negative reserves, equity indexed annuities, searching for embedded derivatives, SFAS 141 and SFAS 142 business combinations and goodwill, reinsurance, SFAS 133 and DIG B36, insights on fair value reporting, new foreign product discussions and financial statement presentations.

We then reviewed the contents of the Mergers and Acquisitions book, focusing on the procedures and end products for due diligence as well as the essentials of integrations.

I think more professionals should consider visiting this country. Its actuaries are eager to learn and exchange ideas and opinions. They are eager to take their place in China's economy and after that, around the world as well. Now is a good time to get to know them. □



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