



SOCIETY OF ACTUARIES

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IAJ Expresses Gratitude toward SOA

by R. Thomas Herget, Maria Torres, Vince Tsang and Martha Sikaras

The Institute of Actuaries of Japan (IAJ) initiated a program for its recently qualified fellows that involved travel to North America for participation in the Society of Actuaries Annual Meeting for life, health and pension practitioners and participation in the Casualty Actuarial Society meeting for non-life practitioners. This program had been a longstanding component of the Japanese education process and had been discontinued for a number of years. The Society of Actuaries was pleased to assist in the preparations to revive this program which is designed to provide opportunities for both cultural and technical exchange. With the assistance of several SOA members, we planned a series of private lectures, which followed the meeting in New York.

The group was also given an opportunity to have a private breakfast meeting with the SOA

volunteer leadership including President Neil Parmenter; President-Elect Steve Kellison; Incoming President-Elect Bob Beuerlein and Past Presidents Harry Panjer and Jim MacGinnitie. SOA Board members Bruce Schobel, Shu-yen Liu, Stuart Wason and Tom Bakos were also present along with International Section Council members David Parmee, Marc Slutzky, Rejean Besmer and Bill Horbatt. Mr. Masaaki Yoshimura also participated, as he is the past secretary general of the IAJ, now living in New York City. That evening, group leaders Hidenori Ishigaki, Otsuka Tadayoshi and Yoshiki Natsui attended the International Section Council reception at the United Nations.

David Pelletier, past president of the Canadian Institute of Actuaries and president/CEO of RGA Life in Toronto opened the private lecture series on Thursday, October 28, with a presentation on peer review and recent developments in the actuarial profession. That afternoon, SOA Board of Governors member Tom Herget of PolySystems was joined by Maria Torres and Vincent Tsang from Ernst & Young for a presentation on U.S. GAAP. A more detailed summary of this presentation follows. On Friday, the pension practitioners in the group visited the offices of William M. Mercer while the life and health practitioners participated in a lecture given by Kevin Keith, Marc Slutzky and Kosuke Iwasaki on Universal Life, Variable Annuities and Health. That afternoon, the entire group participated in a lecture on Enterprise Risk Management given by Dave Ingram of Milliman USA while Lisa Kuklinski-Ramirez spoke to the pension practitioners.



Presentation by the Institute of Actuaries of Japan to the Society of Actuaries Leadership. The delegation from the IAJ expressed their gratitude by giving the SOA a hand-painted silkscreen.

From left to right: Otsuka Tadayoshi, Hidenori Ishigaki, Masaaki Yoshimura, immediate past general secretary of the Institute of Actuaries of Japan, President Neil Parmenter, President-Elect Steve Kellison, Incoming President-Elect Bob Beuerlein

****** (The offices listed for the SOA officers are listed as they were that day; since that meeting, Neil has become immediate past president with Steve and Bob assuming president and president-elect roles.)

Thursday Afternoon Session with Herget, Torres and Tsang

Vince discussed the latest developments in book guarantees for variable annuities. Because the associated equity risk is not diversifiable and the policyholder may select against insurance companies, the insurance industry is questioning the appropriateness of the typical formulaic approach to determine statutory reserves and GAAP reserves for variable annuities with book guarantees. Vince

also talked about the principles of the proposed Actuarial Guideline VA CARVM and its reserve implications.

Tom then covered U.S. GAAP. After a preliminary discourse on the fundamentals of financial statements, he discussed the origins of U.S. GAAP and its subsequent evolution. He explained how it co-existed with U.S. statutory and U.S. tax. He talked about the many pronouncements that affect insurance companies. Tom illustrated how certain GAAP ratios (such as “k” factors and net to gross premium ratios) can be used to help manage the business as well as present financial condition. Tom commented on the effects of reinsurance and reinsurers on today’s financial statements.

Vince then discussed the SOP 03-1. SFAS 97 was first introduced in late 1980s to provide GAAP guidance for universal life type contracts and investment contracts. Due to market innovations, SOP 03-1 was adopted in 2003 to provide supplementary GAAP guidance for nontraditional long-duration contracts. Vince covered the basic principles of SOP 03-1 and highlighted the implementation issues.

After a break, Vince returned to the lectern and addressed Regulation XXX. The advances in medical science and public awareness of the benefits of a healthy lifestyle have decreased the mortality of the general population and increased the longevity of mankind for developed countries. The reduced mortality rates have led to a reduction in premiums for term insurance. Vince talked about the reserve

implications of Regulation XXX and the changes in the term insurance market before and after the adoption of Regulation XXX.

The session culminated with Maria’s presentation on International Financial Reporting Standards (IFRS) for insurance. Within one year, all companies listed in the European Union will be reporting under IFRS and some European countries may extend this requirement to non-listed companies. Maria provided the audience with an overview of current developments, the objectives of the standards and the key requirements for insurers. She covered the valuation methodologies for assets, insurance and investment contract liabilities. She also illustrated the key concepts discussed with several case studies, which highlighted the major business implications of the IFRS framework.

The instructors said that it was a challenge for the participants to follow such esoteric concepts, especially in their second language. So, as a reward for their attentiveness and comprehension, a pack of baseball cards was awarded to each participant at the end of each module.

Amongst the attendees, one person was designated to write up each session (with editing assistance from the presenters) for circulation to their peers and colleagues in Japan.

The IAJ graciously honored the presenters with a lively dinner at Rockefeller Center. The presenters, senior members of the SOA and the visiting professionals all got to know each other better through the experience. □



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Malaysia Update

by Hassan Scott Odierno

In Malaysia the major concern for actuaries right now is the issue of risk-based capital (RBC). Current solvency margin requirements originate from the old European Union standards of a percentage of statutory reserves and a percentage of the net amount at risk. New standards are expected to include asset charges, which depend on the asset class actually invested in, as well as much more detailed liability risk charges.

As a guidepost for RBC requirements, neighboring Singapore has introduced new requirements effective January 1. The other issue of concern to actuaries in Malaysia is with respect to property, casualty insurance (called general insurance here), where IBNR reserves will be required to be calculated at a 75 percent confidence level. □

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Building Solid Business Relationships — A Reflection of Everyday Relationships

by Bosco L. Chan and Catherine D. Lyn

In all business, and especially in benefits and pension consulting, the key to success is relationships. How do you create them, how do you foster them, and most of all, how do you make them last? We have been in the employee benefits consulting business for many years and have seen many changes. Today's environment is highly competitive and demanding, and there are many reasons for that: some are caused by global trends, some are the usual sources of change and some are due to new forces. The bad news is that it will only get worse as each organization desires a greater market share of the business.

The world is changing, and thus we, as actuaries, need to adapt in order to survive. We need to broaden our view of business, because globalization is happening in almost all spheres of activity. We see insurance companies expanding globally; we see multinational companies appointing global actuarial consultants for their employee benefit programs. The demand for business skills will escalate as actuaries advance in existing and new markets.

In a local context, the word competition is no longer limited to internal competition between actuaries within the firm. It includes competition amongst actuarial firms and, now, even competition from other professionals in related disciplines. The users of our work are more informed than in the past. With an increasing number of lawsuits and a trend to strengthen governance, our clients are no longer satisfied with what actuaries tell them. We see clients challenging our work on a more frequent basis. Saying, "Don't worry, trust me!" is an unacceptable answer in this day and age.

So, what about me? No matter which actuarial practice you are in now, the forces affecting the profession in general, affect you either directly or indirectly. In order to stay at the leading edge of the traditional markets and, at the same time, place a stake in the new markets, we need to prove we have the skills needed.

Without business savvy, especially communication and marketing skills, there is little chance we can convince our customers that we can add value to their business. Without communication skills, actuaries become back-room calculators providing answers for less knowledgeable presenters to receive cheers from their audience. In addition, if the trend to convert defined benefit to defined contribution pension plans and the merger and acquisition of insurance companies continues, we would

expect that fewer actuaries are needed in the traditional practice areas. If we maintain the status quo, do you think we can survive the next wave of change? If the nontraditional practice area is a possible path to escape the sinking boat, we had better make sure we have this life jacket with us. If you don't have one yet, go get one.

The Society of Actuaries' Strategic Planning Committee of the Board of Governors sponsored research in 2003 to investigate ways to enhance the actuarial profession. Here are some key findings:

- Actuaries are seen as having strong quantitative skills and strong ethics. However, their leadership and business skills are seen as less effective than their competitors. In both the traditional and nontraditional markets, top positions reflect an emphasis on business and thought leadership aspects, rather than on technical skills.
- Members and employers both see a need for actuaries to improve in areas such as business communication skills, business acumen, being proactive and focusing on the big picture.
- Employers see actuaries as having greater skill than competing professions in quantitative modeling, financial assessment and reporting, industry knowledge and solving complex problems.

The findings are not surprising. We know who we are. So, after articulating our strengths and weaknesses, what is next? If good relationships are the key to business achievement, then what else is there to learn?

We propose that all these skills are an extension of those we use to find a long-term mate on a personal level. We can easily name a few similarities between business development and dating:

- Before starting, understand yourself / your products
- Search for potential mates / customers
- Establish contact

The world is changing and thus we, as actuaries, need to adapt in order to survive. We need to broaden our view of business, because globalization is happening in almost all spheres of activity.

- Discover and understand each other's needs and resources
- Find a mutual fit or decide to part
- Review the relationship regularly and resolve conflicts periodically
- Make the partnership last forever

It is easy to see that the interaction between the parties should be built on a fair basis with no hidden agendas in order to form trust, which, in the long term, leads to a mutually fruitful relationship. It is also clear that transparency and trust are very important elements in strengthening the reputation of a consultant or a firm. If you have a good reputation, more business will follow.

Pacific Rim Actuaries Club of Toronto Response to Challenges Facing the Profession

Seeing a demand for change in behavior patterns, the Pacific Rim Actuaries' Club of Toronto feels that there is a need to contribute to the actuarial profession by assisting future actuaries to prepare for the changing world. As the actuarial profession finds itself operating in a more volatile business world and expands in nontraditional practice areas, future actuaries need more than just the traditional skills. Market forces are changing the way business competes in the traditional area. Our past education material shaped us to become problem solvers with strong analytical skills. However, our work environment requires us to act as a business person with abilities to communicate, interact, present, resolve conflicts, mentor juniors and deliver aggressive corporate targets. We are being squeezed from both ends.

In the fall of 2003, a few of the senior committee club members had a strategic market-positioning meeting. We wanted to position the club to increase our membership base and, at the same time, help our members meet the upcoming challenges in the actuarial profession.

We have developed the social aspect of the club, which can be demonstrated by the high attendance at our dinner events, and so decided to further expand our scope and pay special attention to other needs of our club members by offering business workshops. We believe this is a profound breakthrough for our club as we align ourselves to the new policies developed by the Society of Actuaries and other professional bodies.

Using personal predicaments as the starting point, we came up with seven workshop topics, which we will roll out in due course.

These workshops address the challenges people commonly face in dating and family situations. We identified some possible problems at each stage of a typical relationship and converted them into business issues. We summarized them into the following questions:

Q: Are you reluctant to ask an attractive person for her/his phone number? We have a course called

1. How to Make a Date in 60 seconds - Breaking Barriers with Strangers

Q: Have you ever feared eye contact? We have a course called

2. Face to Face - Fearless Presentation

Q: Have you ever found it difficult to read your mate's mind? We have a course called

3. Tell Me What I Said - Communicate Effectively

Q: Have you failed to resolve disagreements with your mate? We have a course called

4. Receive What You Don't Deserve - Fundamentals of Negotiation

Q: Have you ever felt your mate's parents dislike you? We have a course called

5. Bring Your Enemies over to Your Side - Conflict Resolution

Q: Do you find your kids don't listen to you? We have a course called

6. Mission Impossible - Multicharacter Leadership

Q: Have you found it problematic in sharing housework with your family? We have a course called

7. Everybody in Action - Building a Successful Team

The first two business workshops were rolled out in June and November 2004. We must admit that at that point, we were still in the experimental stage of developing these workshops. These were new products for our club. In order to increase our resources and to fully utilize materials developed for business, we retained an instructor who holds a management position in the commercial world with qualifications including an MBA degree and academic experience.

We have formed a partnership to customize the workshop material for our profession's specific needs. The workshops turned out to be a great success. Not only did we have higher-than-expected attendance; we also received positive feedback from the attendees. Our

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Update on the SOA International Experience Survey

by William R. Horbatt, Jack A. Luff and Ronora E. Stryker

The Society of Actuaries International Experience Survey (IES) is into its second year and continues to evolve. The IES working group has expanded the topics being studied, from individual life insurance mortality and persistency experience, to also include agent retention and productivity. Besides increasing the number of topics studied, Phase II expands the survey's geographical reach by adding Argentina, Chile and Malaysia to the existing Phase I countries studied (Mexico, South Korea and Taiwan). Lastly, Phase II includes data updates for the 2003 experience year.

A preliminary report of IES Phase II results was presented at the Society of Actuaries Annual Meeting in New York on October 25, 2004, and the current version of the report is available on the SOA's Web site at:

<http://www.soa.org/ccm/content/research-publications/experience-studies-tools/top-experience-studies/>.

Data is being collected and the SOA will be updating this report as additional data is received.

Tremendous support has been received from the contributing companies, all of which are represented on the IES working group. Zurich has joined the original Phase I contributing companies, which is composed of ALICO, ING, MetLife, New York Life and Prudential Financial. In addition, the International Section Council has provided funding for visits to Brazil and Poland to meet with local companies to explore the expansion of the survey to these countries.

The local country initiatives in Brazil and Poland represent an effort to recruit local companies as well as international companies to participate in the survey. Technical support will be provided to the local companies to conduct studies of interest to themselves and the global actuarial community. This effort has also been successful at recruiting additional companies to participate in the IES. Generali, Hartford, Nationwide and Winterthur have joined the survey by agreeing to participate in Poland and/or Brazil. In addition, the SOA is talking with the Greek Actuarial Society, which is constructing new Greek mortality tables.

We will update the readers of *International News* in future issues as progress is made and new information becomes available. □



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members told us that we are heading in the right direction. By offering industry-wide workshops, we provided our members with an opportunity to learn in a team environment with other actuarial practitioners who are facing similar challenges on a daily basis. The workshop material covered the skills they need to know but that cannot be easily learnt by self-study and exam writing. These are lifetime skills that still apply even if they relocate to work in another country.

We see a storm approaching our profession. Some people already feel the wind. People may think that the sunny days have gone. We believe that with proactive preparation, we can survive the bad weather. History tells us

sunshine follows storms. We believe that pattern will continue. Do you, too? □

References

Anna Sharratt, On the Same Page, Benefits Canada, August 2004.

Cathy Daykin Lyn (Canada), M. T. alandra (Canada), C. Daykin (United Kingdom) – Actuarial Education – “*The Business Element*”, 27th International Congress of Actuaries, March 2002.

Mike Lombardi, Spock vs. Kirk – Beyond the Final Frontier, Canadian Institute of Actuaries Bulletin, November 2003.

IAA Update from Sweden

Editor's Note: Photo taken by Stuart Wason, a past CIA president and SOA vice-president.

This photo was taken June 5, 2004 on a boat in Stockholm, Sweden during a dinner at the IAA June meeting in honor of the 100th anniversary of the Svenska Aktuarieforeningen (Swedish Actuarial Society).

Don't let the afternoon daylight outside the windows fool you. This was around 9PM. It gets dark after midnight that time of year — and even then it's never really that dark.

In Jan's left hand is the CIA 100th anniversary gift (a native Inuit sculpture). Both Alf and Jan are each holding a bottle of Canadian ice wine, compliments of Mike and Jacquie Lombardi. Mike Lombardi is not holding another wine bottle but a microphone that was used to announce the presentation.

Above Jean Louis' head and to the right is Luis Huerta, the 2004 IAA president. □



Standing left to right: Alf Guldberg, former president of the Svenska Aktuarieforeningen and incoming IAA president in 2005, Jan Hagberg, current president of the Svenska Aktuarieforeningen, and Mike Lombardi, CIA president.

Seated on right: Jean-Louis Masse, CIA past president, and incoming president of IAA for 2006.

International Section Takes a Field Trip to the United Nations



Randy Makin, past newsletter editor and section council member, joins Theresa Winer, SOA BOG member and their fellow section members for a trip to the United Nations



"All Aboard!"

More section members board the bus heading for the United Nations on October 26, 2004.

Bermuda Update

by Michael Gabon and Philip J. Bieluch

Regulations are changing in Bermuda. All insurance regulatory authorities are being reviewed as part of an international initiative on insurance regulation. The regulatory review is done through the International Association of Insurance Supervisors (IAIS) and the International Monetary Fund (IMF). Bermuda has undergone an initial review by the IMF and is in the

process of making some changes and clarifications to the regulatory procedures. Under these new requirements, the Bermuda regulatory authority will become more proactive in reviewing and monitoring Bermuda insurers. The Approved Actuary's Opinion is crucial to the regulatory process, and requirements are more formal, have greater depth and breadth, and must be unqualified.

“Outlined below are companies recently forming and exiting/in run off, existing companies expanding their life reinsurance operations, and companies rumored to be forming.”

Companies forming more recently:

Name	Type of Business	Approx. Initial Capital	Notes
Citi Insurance Reinsurance (Bermuda) Ltd.	unknown	unknown	unknown
Global Life Ltd.	unknown	\$100 million	unknown
Catalyst Re	variable annuity guarantees	unknown	parent constitution Re/Soc Gen
Manulife	universal life product for worldwide (non-U.S.) distribution	unknown	recently established a Bermuda operation
MassMutual	unknown	unknown	recently established a Bermuda operation
NF Reinsurance Ltd.	unknown	unknown	unknown
Northstar Reinsurance Ltd.	unknown	\$100 million	unknown
Quanta Life Reinsurance Ltd.	finite/structured multi-line	parent \$100 million	unknown
Transamerica	annuity reinsurance	acquisition of Global Preferred Holdings Ltd.	owned by Aegon (as is Transamerica)
Wilton Re Bermuda	life reinsurance	approx. \$600 million	parent (also Bermuda)

Companies exiting / in run-off:

Annuity & Life Re	in run off
Centre Re	in run off
Global Preferred Holdings Ltd.	by acquisition sold itself to Aegon/reinsured annuities written by a producer group
Hampton Re Limited	in liquidation

Insurance Admissions Committee

The Insurance Admissions Committee meets on Friday mornings to review applications for new insurance companies. The two life actuaries who sit on the committee are John Rayner of Abbott & Assoc. and Michael Smith of Wilton Re Bermuda Ltd.

Existing reinsurers expanding their life reinsurance operations in the business include:

- **Ace Tempest**, currently underwriting variable annuity guarantees reinsurance, existing company, wanting to enter new product line
- **XL, Life Reinsurance**, existing company, recently emphasizing life side

Several reinsurers are rumored to be setting up in Bermuda including:

- **Boston Re**, a subsidiary of CSFB to write variable annuity guarantee reinsurance
- **Fenimore Re** is rumored to be setting up by former Centre Re employees to reinsure blocks of Centre Re business.

- **Goldman Sachs** is rumored to be setting up a subsidiary to write VA death and living benefit guarantee reinsurance
- **Lennox Re** is looking for capital to write VA guarantee reinsurance

Bermuda is the venue of choice for companies setting up a reinsurer to securitize Guideline XXX business.

The following life actuaries have been named to senior positions of non-life companies:

Gregory E A Morrison
President & CEO, Platinum Underwriters (BM) Ltd

John F Mulholland
Co-CEO, Independence Re

Miodrag Novakovic
Vice-president, Underwriting, Catlin Insurance Co Ltd □



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