

International News

ISSUE 50 APRIL 2010

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International News

ISSUE 50 APRIL 2010

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Editor's Note

By Carl Hansen

Welcome to another issue of *International News*. I hope that readers will notice that we have added an “Ambassador’s Corner” feature. This ongoing feature will give updates on ambassador activities from various countries. The basic idea came from survey responses of International Section membership. Many members noted that they want more information on the ambassador program—in particular, who the ambassadors are and what they are doing. We hope this new feature will help to make some connections at the local level.

This issue has the remaining four entries from the 2009 Country Feature competition—a diverse selection of articles on the actuarial profession in Barbados, the impact of International Accounting Standards in Taiwan, insurance in Bhutan, and the experiences of an expatriate working in Europe. Thank you to the authors of all of the 2009 entries, and congratulations again to Nicholas Kallis for his prize winning entry on Cyprus, “A Flourishing Career on the Island of Aphrodite,” printed in the August 2009 issue of *International News*. I am pleased to report that the International Section Council will once again sponsor the competition in 2010, with a prize of US\$2,000 to the winning author. We look forward to sharing another cohort of exceptional entries with our readers.

Finally, I would like to give special thanks to Jill Hoffman for her many contributions to *International News*. Jill is helping us kick off our Ambassador’s Corner in this issue, as well as providing readers with another installment in our periodic series on life as an expatriate. □



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Chairperson's Corner

By Darryl Wagner

I am honored and excited to serve as the International Section council chair for the 2009-10 council year. I am also fortunate to be able to pick up from the great work of last year's council and those before. My sincere thanks go to our outgoing council members, Bosco Chan, Alistair Cammidge, and Carl Hansen. In particular, I'd like to thank Bosco for his exemplary leadership as council chair, Carl for his untiring efforts as our Spring and Annual Meeting representative and newsletter editor (the latter role I am very pleased to say he will be continuing), and Alistair for his advocacy of our section members in relation to the recently adopted Continuing Professional Development requirements.

I'd also like to acknowledge our new council members, Michael Lockerman, Alycia Slyck, and Genghui Wu. They have certainly hit the ground running and made numerous contributions already.

Our section is made up of you, our members, and serving you is our mission. As in prior years, we recently conducted a survey of our membership to help us better assess what you value and are looking for as part of your section membership. Thanks to Rich de Haan and Jill Leprich, SOA project support specialist, for leading this effort. We were pleased to see that the results of the survey indicate a high overall level of satisfaction among our members. The areas you cited as most important to you include this newsletter, sponsored meetings and seminars, monthly e-mail communication, and local networking events. As the council has made plans for the coming year, we gave great weight to the survey results and each of these areas figures prominently in our agenda.

We are certainly proud of our newsletter and will continue its strong tradition. Thanks to all of you for your many contributions. I don't have all the statistics to back this up, but I do believe our newsletter is the thickest, on average, of all the sections! Alan Cooke and Genghui Wu will continue to help Carl with the editorial duties this year, and we are pleased to again offer our Country Feature Competition. So keep those contributions coming! And look for a new feature this year: the Ambassador's Corner.

With respect to meetings, in addition to sponsoring sessions at the Spring and Annual meetings, we will again be sponsoring an International Financial Reporting seminar in Hong Kong this summer. Like last year, we also plan to arrange for some of our Hong Kong speakers to visit other countries in the Asia region. We are coordinating with the SOA China Region Committee to make our collective seminars as seamless as

possible and we are also exploring seminars on other topics such as employee benefits. Thanks to Bill Horbatt (a true friend of the council), Joe Chou, Michael Lockerman, Peter Duran, and Alan Cooke for steering these efforts.

We will also continue to issue our monthly blast e-mails, increasing our level of coordination with our country ambassadors to make the content more relevant to your local area. The SOA is continuously exploring the use of social networking to keep its members more connected. The International Section Council will stay plugged into these efforts, with the goal of facilitating connections and idea sharing among our section members.

With regard to networking, the ISC hosted another successful Annual Meeting reception in 2009, with co-sponsorship from the Caribbean Actuarial Association, the Chinese Actuarial Club, the Institute of Actuaries of Japan, and the International Association of Black Actuaries. This event provides a great opportunity for personal networking as well as learning more about other international actuarial organizations. We also encourage our country ambassadors to hold local networking events, and we have dedicated part of the section's financial budget toward this purpose.

I've mentioned our country ambassadors a couple of times. Our survey feedback shows that our ambassador program is not as visible to our members as we would like it to be. This will be an area of focus for the council in the coming year. In addition to the newsletter features and e-mail blasts, we will be holding quarterly calls with our ambassadors to up the level of communication and coordination. We are also actively recruiting ambassadors in currently unrepresented countries. Joe Chou will be leading our efforts around the ambassador program, assisted by Joanna Chu (Asia), Alycia Slyck (Europe and Middle East), longtime council friend Cathy Lyn (Latin America), and Martha Sikaras from the SOA.

As you can see, we are in for a busy year! The theme that I see weaving through all these activities is connection. We want to stay more connected to you, our members, and help you stay connected with each other. These connections, and the shared knowledge and experience that results from them, benefit us all. Of course, connection is a two way street, so please stay in touch with us as well. Whether it's a suggestion for an article or seminar, an idea for a networking event, or an interest in volunteering, your council would love to hear from you. Let's stay connected! □



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Insurance in the Land of the Thunder Dragon

By Michael Cohen

Bhutan, a small Himalayan kingdom, tucked in between Tibet to the north and the Indian states of West Bengal and Assam to the south, is famous for mountains, monasteries and a monarch who has recently bestowed democracy on his people. But even in Shangri-La people need insurance.

Ngultrum, which is pegged to the Indian rupee. RICBL's establishment predated the arrival of the airport at Paro by eight years; this is why the head office is on the border with India. Now that the capital Thimphu is a good deal more accessible than a 10 hour drive over treacherous roads from the nearest Indian airport, moves are afoot to relocate the head office to the capital city. Not only will this make it easier for RICBL personnel to get to work, it will also make life a lot easier for consultants, reinsurers and others who wish to visit the head office.

Last year I made three memorable trips to this isolated kingdom to help bring RICBL into the 21st Century. Even getting there is a challenge—a three day trip from Ottawa, Canada, via Delhi (and yes, I flew by airplane). Twice I landed and took off from Paro Airport, the trickiest airport in the world. The pilots have to thread their way through the Paro valley to a tiny airstrip. And Paro was chosen for the site of the airport because it was the easiest place to land! Thimphu is now a short 45 minute drive away—before the new road was built, the 45 km trip took two hours. On my second trip I spent most of my time in Phuentsholing, on the border with India, where RICBL's head office is situated. This involved a flight to a regional airport in West Bengal and a two and half hour trip by road. I've also been driven between Thimphu and Phuentsholing, a seven hour trip for a 170 km journey on mountain roads that are prone to landslides, travelling mostly in the clouds—hence the need for frequent Buddhist monasteries and prayer-wheels (including ingenious hydraulically operated ones by the side of the road).



Flying from Kathmandu to Paro, a glimpse of Everest.

Until about 40 years ago, the country was essentially closed to outsiders (you needed an invitation from the king to visit!). There was no national currency, no financial institutions, and no links to the outside world. Royal Insurance Corporation of Bhutan Limited (RICBL) was established in 1975, shortly after the kingdom's central bank, the Royal Monetary Authority and the national currency, the



RICBL Building in Thimphu, with picture of HRH the fifth Druk Gyalpo, Jigme Wangchuk.

Visiting Bhutan is like stepping backwards in time. Men are required to wear their national costumes in public, the *gho*, which resembles a knee-length dressing gown, with an immense kangaroo pouch at the front, to be worn with oxfords and long argyle socks. Women wear the *kira*, a tight ankle length dress, on ceremonial occasions, but they wear a tight long skirt and short jacket on a daily basis. Foreigners are exempt, but some long-term residents wear the Bhutanese costume, especially for formal occasions. Wearing a suit to meetings with Bhutanese officials makes one feel distinctly over-dressed! There are no skyscrapers, only traditional two or three story buildings decorated with good luck symbols (including the ultimate good luck symbol, a phallus, to be seen on a number of official buildings!). And no need for smoker and non-smoker rates, this is the world's first non-smoking country (the sale and importation of tobacco products are prohibited). Unfortunately, this is made up for by the national habit of chewing *doma* (known in India as *paan*), the so-called betel nut concoction that makes teeth and gums go red and accounts for the red blotches all over the side-walks (although spitting is prohibited). *Doma* is also carcinogenic, of the mouth rather than the lungs. We have not yet recommended chewing and non-chewing rates!

Given the time-warp look of Bhutan, it's not surprising that the insurance line-up has an old-fashioned look to it. Being the only insurance company in the kingdom, it is naturally a composite. Draft legislation, in accordance with best international practice was about to prohibit composite insurance companies, but fortunately this was

changed to permit existing companies to remain composite, provided the accounts were carefully separated. This was an example of taking "best international practice," misapplying it and nearly messing up a perfectly good company for no good reason. Unfortunately, there was a further legacy from the past which was not quite so easy to fix. Since RICBL was one of the first financial institutions in the kingdom it tended to be "all things to all people." As a result a considerable portion of the assets consists of personal and business loans. While this might not seem to be all that bad for a "financial conglomerate," RICBL is not structured in this way. Given the limited investment opportunities in the kingdom, rearranging RICBL to look more like a financial conglomerate is proving very challenging, but hopefully will be achieved without too much dislocation.

On the property and casualty side, naturally the vast bulk of the premiums are for compulsory motor vehicles insurance, and most of that is third party. Also fire insurance is a significant line. All lines are very heavily reinsured. The project examined the retention from a variety of stand-points and concluded that retentions could be increased very considerably—RICBL was simply ceding away most of its profits. This is probably the case with many insurance companies in emerging markets. It follows the Indian tariffs, which of course have very little to do with experience in Bhutan. Also India is "de-tariffing," in other words, the Indian market is being liberalized, so Bhutan risks using tariffs taken from another jurisdiction which no longer uses them! At some point Bhutanese experience will have to be examined and applied to rate

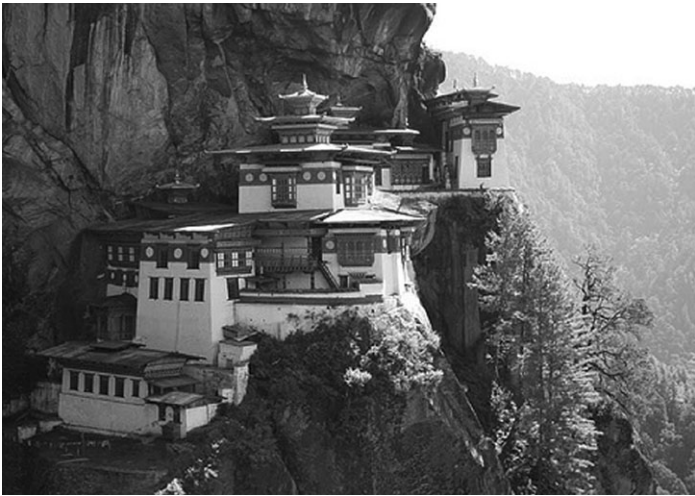
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Insurance in the Land of ... | from Page 5

making and reserving. Reserving is completely arbitrary, based on government fiat of 60 percent of premiums. Earned or written? Who knows? Probably written, although the accounts say earned. In fact, one line showed very anomalous results that were quickly straightened out by switching from written to earned (at least on an approximate basis, given the data in the annual reports), which was a text book case of distortions introduced by using written premiums for loss ratios. Claims? Probably mostly paid, but given that these are quickly developing lines, the distortion is probably not too bad, but I did include “Insurance 101” in my training course, an eye-opener for most of the staff.

One challenge in fire insurance is to insure Buddhist monasteries, of which there are a great deal and many very historic. In fact these are *fortified* monasteries (*dzongs*) going back to the days when the monks were armed and fought pitched battles with each other and various invaders (the image of peaceful Buddhist monks is strictly late 20th Century). Monasteries burn hundreds of votive candles, which are permanently lit, in small

wooden structures next to the monastery and of course no sprinkler systems—fire insurance quote anyone? Mostly they are rebuilt by the state when they burn down (including tragically Takhsang, or the Tiger’s Nest, which is a four hour hike from the parking lot but is magnificent. Though, not as magnificent as the original which burned down in 1999).



The new Takhsang, a national treasure but also a fire hazard.

On the life side, most of the policies are traditional U.K. style reversionary bonus with profits. Most are very savings-heavy and in fact the most popular policies are the ones that give cash back relatively quickly, begging the question as to why people save at all. Rather picturesquely, the valuation is done by an Indian actuary on an old manual Remington, complete with corrections in liquid ink, but on a policy premium method. The draft legislation wanted to mandate the net premium valuation method (with zillmerization). I also suggested that they require it to be hand-written with a quill pen. Again, my recommendation was a more modern approach to life insurance valuation (preferably by computer, but if they want to type the report on an old Remington, that’s okay by me). Of course, the reversionary bonus was calculated in shall we say a “non-transparent” method and people (including senior officials of the company) tended to equate the bonus rate to the rate of interest earned on bank deposits. People wanted to compare the “investment return” from the life policy to returns on other investments, a challenge for actuaries, let alone the lay-person. My suggestion was to junk all this stuff (including a quaint policy aimed at “the ladies”—politically correct hasn’t reached Bhutan yet) and replace it with universal life, which can be compared more easily to other investments.

I also suggested a guaranteed issue policy for those seeking pure life insurance. In fact there is a case for “death insurance”—funeral rites, the *puja*, can run to over \$1000, a fortune in Bhutan, especially for rural dwellers (80 percent of the population). Often families go into debt for this. The government provides some subsidized insurance, but not enough.

“It does not measure progress by means of the increase in Gross National Product, but in GNH—Gross National Happiness”

Bhutan is famous for inventing “stochastic analysis”—in fact “stochastic” comes from a Greek root meaning “ability to shoot an arrow straight” and this is exactly what happens in Bhutan—archery is the national sport, as this picture shows (it also illustrates the *gho*).



A straight-shooter, stochastically speaking.

It is also famous for inventing the six-sided form of statistical analysis, as illustrated below:



No need for insurance—divination by a throw of the dice

But change is coming to the kingdom. Not only did they hold their first democratic elections recently, but the Royal Monetary Authority (the financial regulator) is examining applications for licenses for new insurance companies, so competition is coming to the cozy world of the RICBL. Also, a more rigorous regulatory regime is in the works. When this happens, RICBL will need to move proactively to protect its position by offering more competitive rates and a better range of products. It has recently created a customer relations unit, which has undertaken a customer satisfaction survey, so the company is clearly moving in the right direction.

Bhutan is in the forefront of the environmental movement—while it desires development it will not sacrifice its fragile environment in the process. In fact it does not measure progress by means of the increase in Gross National Product, but in GNH—Gross National Happiness. Forests, rivers and mountains are sacred, so although it has abundant hydro-electric resources it plans to exploit them mostly by flow-of-the-river turbines rather than by building dams and reservoirs. Tourism is encouraged, but only in limited numbers. Climbing Bhutan’s highest peak, Jhomulhari is off-limits. This cautious approach to development will present the insurance industry with challenges (currently the “industry” is only one company, but that will change in the not-too-distant future). Direct writers can only retain very small percentages of mega projects and other hazards (for example Druk Air, the only airline to fly in and out of Paro, only a few basis points are retained). As tourism grows there is scope for enhanced insurance, at least of the tour operators (most of the visitors would hopefully have their own insurance), especially if more hazardous sports, such as sky-diving and white-water rafting are permitted. More in-

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novative life products will expand coverage and give consumers more choice and of course greater retention will keep more Ngultrum in Bhutan and give the insurance industry more opportunity to practise a wider range of risk management.

This was my second project in Bhutan (the first was a pension project) and my wife and I fell in love with the country (as do most visitors). I am hoping to return to help Bhutan's financial sector (both pensions and insurance) progress into the 21st Century. While much will change in Bhutan, and for the better, it is the fervent hope of many of us who visit Bhutan that much will remain the same. This is one of the most unusual places in the world and surely the model for Shangri-La. It is the last Himalayan Buddhist kingdom and contains many treasures from the past. I am privileged to be able to work and live there, and to get to know the people (who all speak impeccable English, as well as Dzongka, the national language and often their own local languages as well) and partake of the customs (for example, chilli peppers are eaten as a *vegetable*, bring your fire-extinguisher to every meal). I have only seen a small part of the country, and hope to see more on further visits. I also wish to monitor their progress in increasing GNH and developing their country in an ecologically sound manner. While Bhutan has much to learn from

the West, we could do no worse than looking for wisdom in an ancient land that still reveres nature and develops its economy by working with nature and not destroying it. Insurance has its part to play in both preserving what is good and guarding against hazards that could damage the natural order. I hope to be able to continue to help the Bhutanese to achieve this.



Michael has been involved in consulting in developing countries in projects mostly funded by international donors for the last eight years. He has undertaken insurance, pension and regulatory strengthening projects in East and Central Asia, Eastern Europe, Africa, the Caribbean and Latin America. □

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CAA Crossing Boundaries

By Alecia Harris



For 19 years the Caribbean Actuarial Association (CAA) has been supporting and reinforcing the development of actuarial science in the Caribbean so as to maintain the highest standards of proficiency and a credible image in the region.

This year we attracted the largest number of delegates as some 180 brilliant minds from the Caribbean and other parts of the world convened December 3–4 at the Rose Hall Resort & Spa for the CAA’s annual actuarial conference. It was a full programme with over 30 speakers in the main practice areas: life and general insurance, pensions, health and investment. The participants were treated to three panel discussions: The impact of the financial crisis on the Caribbean with views from leading industry businessmen; strengthening the financial system with messages from the regulators; and legal issues in pensions from a panel of international and local attorneys.

Under the leadership of Chris Daykin, past president of the Institute of Actuaries and Helen Gregson, U.K. Actuarial Profession staff actuary, December 2 was entirely dedicated to a professionalism course for students and associates aspiring to become more competent leaders. Many attendees thought the discussion of the Actuarial Code of Conduct most useful. Fellows who needed more hours in Professional for continuing professional development could join us too.

According to Past President St. Elmo Whyte, last year’s conference took place when the world had just entered a deep recession and was experiencing a devastating credit crunch. The conference theme for this year, “Crossing the Boundaries of Tradition,” was deliberately chosen to focus on the



PHOTO BY MICHELLE THOMPSON

trend that actuaries are crossing the boundaries of traditional work (life insurance and pensions) into the wider fields and all areas of risk management as businesses demand their skills to manage volatility and uncertainty profitably.

In keeping with this theme the conference was graced with erudite presentations from a number of prominent actuaries travelling from various countries around the world. Presenters included but were not limited to: Mike McLaughlin, president of the Society of Actuaries, Ronnie Bowie, president of the Faculty of Actuaries, Bob Howard, president of the Canadian Institute of Actuaries, Roger M. Hayne, president of the Casualty Actuarial Society, Chris Daykin, past president of the Institute of Actuaries, Adam Reese, president-elect of the Conference of Consulting Actuaries, and Margaret Tiller Sherwood, executive director of the IACA and past president of the CCA.

Pictured L-R: Hon Professor Gordon Shirley, keynote speaker, Astor Duggan, Conference Committee chairman and W. St. Elmo Whyte, president of the Caribbean Actuarial Association.

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PHOTO BY MICHELLE THOMPSON

CAA 2009 coffee break

These presenters delivered both local and international topics of interest on actuarial trends and practices in Australia, Canada, the United States, and the United Kingdom from which Caribbean professionals could develop home grown solutions to business problems. Several prominent Caribbean presenters spoke as well. Hon. Gordon Shirley, pro vice chancellor and principal of Mona Campus (UWI) gave the keynote address, Rohan Barnett, executive director of the Financial Services Commission spoke about regulation and

strengthening the financial system in the region, Constance Hall, principal of Eckler offered some practical solutions for some of today's pension dilemmas and Ravi Rambarran, CEO of Sagicor International gave a passionate talk on Building Institutional Capacity in the Caribbean.

This was the first occasion when the organizers arranged parallel property and casualty breakout sessions to make a more comprehensive programme and attract more people from the industry to the conference. These sessions were well attended and the CAA received good feedback.

At the CAA's annual general meeting on the last day of this same conference Cathy Lyn assumed the office of the president and her supporting council was elected. They are in office for two years. This was another great international event offering opportunity for prominent actuaries to exchange ideas and knowledge with their colleagues and students in the region to improve in depth knowledge for society's benefit.

The atmosphere was truly energetic and promising and we look forward to meeting for the next conference in Barbados in December 2010. □

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Integrating In

By Jill Hoffman

In my last article “Ex-Pat and the Family” (published in *International News*, Issue 48, August 2009) I wrote briefly on enjoying the expatriate assignment. But how does one go about integrating in a new home? As I realize I do not have all of the answers, I asked a statistically insignificant, but emotionally significant group of friends and acquaintances how long it was before they truly felt settled. As a caveat, the majority of people I asked currently live in Singapore, which I think, is one of the easier ex-pat assignments as English is spoken here. However, my view was not necessarily shared by others as I soon found out. I also asked my working friends, so responses may be different for the stay at home spouses.

EX-PAT SMALL TALK

You are at a party and see a fellow ex-pat. A typical conversation will include the following questions:

- How long have you been here?
- Where are you from originally?
- Have you lived in other countries?
- Is your family here?
- Which school are your children attending?
- What do you do and who do you work for?
- Where in the city do you live?

Of my 20 friends that I asked, here are some of their answers:

- Six of them have been in the ex-pat country for over five years, the majority have been here longer.
- The ex-pats that I have met in the actuarial circle are from Canada, the United States, South Africa, Australia, the United Kingdom, Germany and Switzerland. In Singapore, the oil and gas

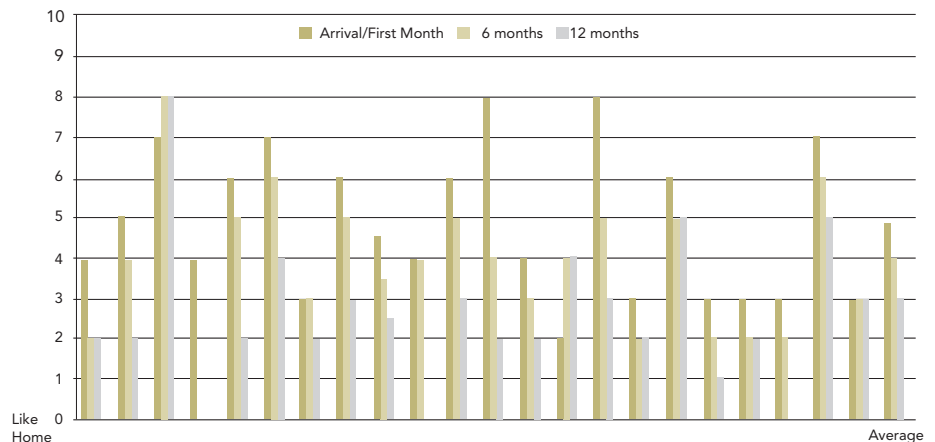
industry will have more Northern Europeans and Americans than I meet in the actuarial circles.

- Eight of the sample are turning into serial ex-pats—that means that they have lived in other places before their current assignment. This is quite common and I am turning into one as well. It is a great lifestyle.
- There can be delays of several months up to several years for families moving as spouses try to leave jobs, waiting for the end of school year, etc.

HAVE I LANDED ON MARS?

No matter how many vacations you have taken to an ex-pat country, arriving there can make you feel like you have landed on Mars. I asked, on a scale of 1 to 10, with 1 feeling like you have not left home and 10 feeling like you landed on Mars, how long did it take to feel comfortable? Again, different results will be given for different assignments. Moving from New York to Beijing is different than moving from London to New York.

How Foreign Does it Feel?



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The graph on page 10 shows for the people surveyed, how foreign the new place felt. The average is under “5” at arrival, and decreases thereafter to around “3” after a year. As some people have not been here for a year, not all data points are filled in. Generally speaking the feeling of “foreignness” decreases over time.

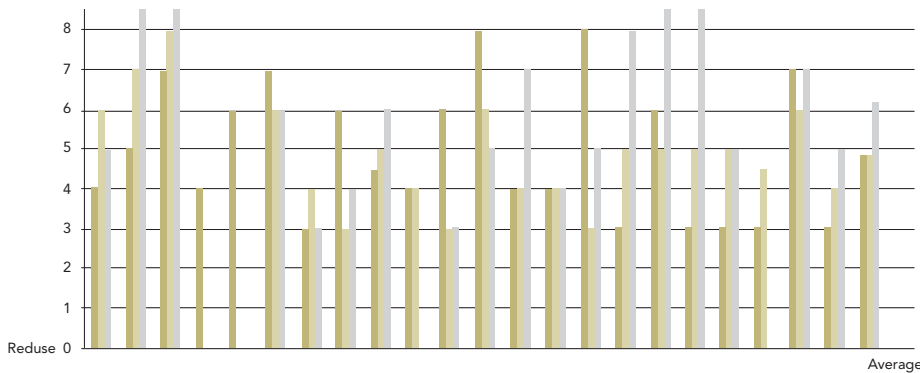
BUT WILL I HAVE ANY FRIENDS?

The answer is yes. But you need to put in the effort. In the survey, I asked people about their social life.

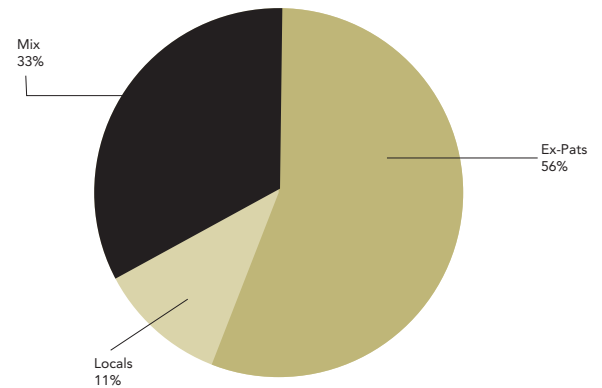
People seem to have a pretty active social life. I think if you were active at home, you will have an active social life wherever you live.

When asked who your friends are, the following response was given. I do not find the responses that surprising. Locals already have a network of friends and family, whereas the ex-pat is actively seeking out new friends. The ex-pat life is also very transient, but some people feel that these relationships will remain in place, even if relocation occurs.

How is the Social Life?



Who Are Your Friends?



ANY ADVICE?

I asked my friends for advice on ‘integrating in’ for new people considering or moving abroad. Here is a sampling:

- Many conveniences in your home country may not be there in the ex-pat country. Instead of whining and complaining, try looking at it from the viewpoint of the people there—usually there is a reason for not having those conveniences

that we take for granted at home. Be sensitive about topics like politics, religion, race, etc.—this helps to be more empathetic and will go further when making friends.

- Some countries are easier to fit in than others. Obviously, the United States has many foreigners and it is almost difficult to know who the locals are and who moved there. In “ex-pat country,” the foreign community is usually very small and you have to accept that you will always be seen as a foreigner even in the situation where you have lived there for 15 years and can speak the language perfectly. And obviously, traveling as a tourist and living somewhere is completely different.
- It may not get easier the more you move; there is a perception that once you have become an expat the move to the next place will be easy. You have to start again with new circles of friends, and kids can misbehave as they also have to start again and do not understand why they have

moved. It can also emphasize that you have no fixed roots—a feeling of where next? On the flip side, it is very exciting, a great experience for kids and an opportunity to travel, not to mention generally great for your CV/resume.

- The more and sooner that you integrate locally, the better the assignment will be.
- Have an open mind—there are many ways to do the same thing. Stay curious, learn, and listen. No matter where you are there are always positive and negative things—focus on the positive ones. Try the food in places the locals go, go shopping where the locals go and do not be only a patron of the glitzy malls. Explore!

Embrace the opportunities, they are wondrous, even the difficult experiences add to your wealth of experiences! It is a great time in your life that will change you forever. □



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The Actuarial Profession in Barbados

By Ayodele Marshall

Barbados is the ultimate island paradise, offering any visitor a true tourist experience complete with sun, sea and sand. Barbadians can also boast of producing pop sensations Rihanna and Shontelle who are topping the music charts across the world, and putting “Barbados” on lips where the name of this little country would never have been uttered. We Bajans, as we call ourselves, are a very proud people, and justifiably so. Any Barbadian would interject that we may not be as big as the other countries in the Caribbean, or furthermore the world, but we have made much progress in terms of the indicators of development. In recent times, Barbados has been named the number one (1) developing country in the world by the United Nations, outranking countries such as Indonesia, Fiji and Egypt. No minor feat for a country so small that it is often described as being 21 miles long and merely a smile wide. Our economy for instance, is one of the best in the developing world, and continues to grow superlatively.

Not only has Barbados made progress in money terms, but we have always been at the forefront of social development in the Caribbean region. Our literacy rate is 99 percent, and every Barbadian child is educated compliments of the Barbadian Government. Statements have been made that our health care is one of the best, in fact, the “the best, the best in the west!” as one social commentator boldly claimed. Every week it seems that the local newspapers feature a centenarian celebrating his or her milestone, and this is no exaggeration—Barbados has the second highest number of centenarians per capita in the world. Additionally, the family planning association which operates under

the aegis of the Barbados Government is one of the oldest and most efficient in the Caribbean.

Another attribute of which Barbadians can be proud is the social security system operating here. The social security system has existed somewhat informally since the late 19th century. The timeline of this system runs from rudimentary origins in the Sugar Workers’ Fund which provided benefits for labourers, whose tireless work on the sugar plantations contributed to the building of our first-class economy. The country gained independence in 1966 from over three hundred (300) years of British colonial rule. On gaining independence, the need for a more structured social security scheme became evident. Thus, the official Barbados National Insurance Scheme was established in June 1967. The National Insurance Scheme has been providing benefits to generations of Barbadian workers, and persons employed and living in Barbados. This scheme grants benefits such as maternity benefits, sickness benefits and injury benefits over the short-term, as well as disability benefits, survivors’ benefits and pension benefits over the long-term.

Actuarial reviews of the National Insurance Scheme performed in the 1980s revealed the need for reform. For years, the need for Pension Reform has ranked high on the agenda of policy makers throughout the world, and Barbados is certainly no different. The same factors, about which Barbadians boast, are the main factors which necessitated the reform to our pension scheme. In common with many nations, Barbados had been experiencing fundamental changes to the demographics of the population. The successful initiatives of the

“The image of an actuary ... was now somewhat like that of a super-hero.”

Barbados Family Planning Association led to a situation where the estimated fertility rate was as low as 1.65 live births per woman, and this fertility rate is sub-replacement level.¹ Improved health care led to Barbados achieving lower mortality rates and a higher life expectancy. Thus Barbados, like many countries across the world, was faced with an “elderly problem”—an ageing population with a comparatively great percentage of the population over the age of sixty-five.

While these factors spelt out a success story for Barbados as the number one developing nation in the world, they presented the challenge of sustaining the NIS pension fund as it stood. For the mathematics of the relationship between contributions paid in and pensions paid out to be effective, measures had to be taken to ensure that there would not be complete depletion of the National Insurance Pension Fund. Therefore, the Board of the Barbados National Insurance Scheme appointed a sub-committee in the year 1999 to determine practical solutions to maintaining the stability of the Barbados NIS Pension Fund. Persons from different fields of academia as well as stakeholders in both the private and public sectors of the country were employed as members of the committee. Placed at the helm and given the most important job of all was local actuary Stephen Alleyne. Mr. Alleyne was elected to steer the committee in researching sound ideas to deal with the challenge of sustaining the Pension Fund.

This is where the image of the actuary received a major facelift in Barbados, and the actuarial profession started to gain popularity on the social stratosphere of this country.

To say that the actuarial profession in Barbados was not well-known is litotes of the highest order. The actuarial profession in Barbados is one of the smallest bodies of professions here, with only a handful of qualified actuaries earning their keep. The profession is not well-known among citizens and was not as popular a career choice as other, more traditional, pursuits. Simply put, many persons just do not understand what actuarial science entails.

However, Barbadians soon began to sit up and take notice of the actuarial profession. The impact that players in the field had on an important facet of the country’s management was significant, and could not be discounted. Among the few persons who knew about the profession, the image held of an actuary was confined to the offices of life insurance companies, but in the saga of the pension reform, actuaries featured prominently and played very important and public roles. Soon Barbadians on the street, in the supermarket and on the call-in programs could be heard discussing the pension reform changes. They spoke of how the “bright boys” in the Pension Reform Committee proposed the need to work longer and retire later. The purposes of the public awareness campaign were to

¹ Replacement fertility level refers to a rate high enough to replenish the country’s population with natural increase. For countries with low child mortality, the replacement fertility level is approximately 2.1 children per child-bearing woman.

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educate the masses of the need for the pension reform, and its effects for the average contributing Barbadian. Moreover, the campaign was designed to get them involved in the discussion and policy-making.

Indirectly, the average citizen was informed of the role that actuaries play in modeling for the various contingencies of life. As a result, the field of actuarial science gained much mileage. Guidance and career counselors now had points of reference and examples of actuaries working in the public domain. A more defined path of where to guide young bright mathematicians was provided. The image of an actuary, once nerdy with calculator always in hand, was now somewhat like that of a super-hero. Actuaries did the necessary calculations, and made projections and models to save the fund, and thus saved the day.

Now many bright young students are exploring the possibility of studying actuarial science. It is ranked almost as popularly as traditional pursuits such as medicine, law and engineering. At career fairs and showcases held in Barbados, many young persons flock to the actuarial booth to inquire about the profession. Future Barbadian actuaries can also study with their Caribbean counterparts in their own backyard. A Bachelor of Science degree in Actuarial Science is offered at the University of the West Indies in Jamaica, and each year there are increasingly more applicants looking to study closer to home. Through this degree programme, students can gain the Validation by Educational Experience credits necessary for Fellowship in the Society of Actuaries, as well as tutelage in the syllabi for the preliminary exams administered by the same body. Previously, Barbadian actuarial hopefuls would have to travel to universities in the United Kingdom and Canada, but now they can study at significantly reduced costs.

While it is true that actuarial science has gained some popularity as a career choice among the crème de la crème of the school aged, it still remains not as widely known as other professions, and certainly not as populated. In any given actuarial exam room, there are likely to be only three persons, with the invigilator included. There are some positives though, as this lends an air of exclusivity to the profession and it is perceived to be one where only the brightest and the best thrive. Individuals who have an understanding of the aspects of the profession are very impressed by actuaries, and assume that they are very, very intelligent—“geniuses!” is usually the exclamation associated with actuary. There is also a growing coolness factor attached to the profession. Young males in the field have given anecdotes about impressing the ladies with details of their daily responsibilities. It also helps the image of the profession to be consistently ranked as one of the top five jobs annually.

It is not all glitz and glamour in this profession though. There are huge sacrifices to be made on the part of anyone aspiring to be an actuary. On many occasions, while Barbadians are enjoying all the sights and sounds that this tropical paradise has to offer, those studying for exams have to be stuck inside the office with their heads in the books. Many a beautiful day is spent indoors pouring over syllabi, while friends are gallivanting on the beaches. Fortunately, there are rewards. For not only is prestige gained with the profession, the skills set obtained on the path to attaining qualification affords the opportunity to contribute to the upkeep of this superb nation that we hold so dear. □



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Europe—the Adventure of a Lifetime, a Learning Experience of a Lifetime

By Ryan Hinchey

Editor's Note: This article was written in May 2009 for the Country Feature Article competition and refers to the state of the market at that time.

I will be completely honest with you. When I decided to take a job allowing me to live in Europe, I was not thinking about my career or my professional development. Rather I was thinking about the adventure of a lifetime—living on a continent rich in culture that had been calling for my return ever since I backpacked through the beautiful cities and countryside three years prior. The thought of getting back there kept me disciplined to pass my exams as fast as I could. With that last exam behind me, destiny was mine. I was heading back to Europe!

I was hired by one of the large U.S. consulting firms as part of a team of five actuaries and consultants assigned the task of starting an office in Europe. I accepted the job without being given the details of which city or country I'd be living in; Europe was all I needed to hear. Essentially we were exporting the variable annuity concept that was so popular in the United States and Japan and bringing it to Europe.

The first of my many interesting experiences had me spending several months working on site with a German client and it was here the adventure began. "How different could office life be in a foreign country?" I wondered. As I learned, it's the little things that really throw you for a loop.

Getting a cup of coffee would seem simple enough. However, when presented with a machine with several options in a language you don't understand, well it turns into a trial and error process—and just hope no one is watching. The

cafeteria experience was a different story. Every day, I would stroll around the various serving stations, instinctively looking up at the menu boards, only to be reminded that it was all in an unfamiliar language. Determined not to go starving, I used the international language of pointing and nodding to get the food which looked most appealing. It was always a fun game of seeing if it tasted like what I thought it was. Sure, this isn't everyone's cup of tea, but when the little mundane things in life are turned on their heads, life for me gets a little more interesting.

While my on site experiences were interesting, even more so were the random jobs involved in setting up the home office. One day I received a call from my colleagues in the United States, instructing me to hop on the evening train to Amsterdam—I was going apartment shopping the next morning.

So there I was the next morning at the realtor's office in the middle of Amsterdam, meeting my agent Tijs. The first thing he asked me was whether I had a bike with me. While I couldn't help but notice the plethora of bikes on the street, the question still took me by surprise. Fortunately, the Realtors had an extra for me. Tijs and I spend the better half of the morning riding around Amsterdam checking out apartments, dressed in suits no less. My instructions were simple. I was to find a place that could sleep five and also be used as office space. As such, my adventures in Europe took another interesting twist—it would be five American actuaries living and working in the same house in Amsterdam—it was like a really bad reality show idea.

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The early days were indeed the craziest as we were trying to function as a normal, professional office without the normal office amenities such as printers, or an internet connection. I found myself in one situation where I needed to send some results to a client by noon one day. I was working up to the last minute to get the job completed. There I was with a finished product and a half hour to spare, but no internet connection. I packed up my laptop and ran down the street looking for the first place that had wireless internet. As it would turn out the first place I came across was one of those coffee shops you can only find in the Netherlands—and I'm not talking about the Dutch answer to Starbucks. As I hit the send button, I took a brief second to take in the scene. I was pretty certain that I was the only person in there using the internet for business purposes. I couldn't help but chuckle. Only in Amsterdam.

Over time, the work life became a bit more normal. With the distraction of setting up an office behind me, it became clear that there was substantial opportunity for me to develop as an actuary. Before my time in Europe, I was an actuarial student, working in the variable annuity trenches, running models and crunching numbers. But when I came to Europe, I brought a unique set of skills with me that put me in a position where I could transform into a consultant and provide valuable advice to senior management looking to introduce variable annuities into their own country.

Quite frankly, the U.S. variable annuity guarantees came out of the gate too fast for their own good. The concept of adding a guaranteed floor to a mutual fund type investment was a great sales proposition especially in light of the down market that preceded it. However, in the haste to get these products out while the memories of market losses

were fresh in investors minds, insurers exposed themselves to a number of risks that could have been avoided.

At their essence, these products are exotic put options. For those familiar with the Black Scholes option pricing formula, you will recall that the higher the underlying asset's volatility results in a higher option price. Well, the early versions of these products allowed investors the option to put all of their money in a single highly volatile fund such as a tech fund. This meant that for a knowledgeable investor, they could essentially buy a product that was way under priced. Now it wasn't that the U.S. companies didn't realize this at the time—they did. Rather, they were more focused on piggybacking the guarantee onto an existing product, and changing the base product would have delayed the time to market (among other reasons).

In contrast, many European insurers were starting from scratch building these products. On top of that, they were a product generation behind the United States and Japan, which they could use to their advantage to learn from their predecessors' mistakes. My background put me in a position to help show them the way.

While the American companies continued to push out bigger and richer guarantees, many European companies took their time rolling out products, and focused on strong risk management fundamentals baked into the product development process. Due to the willingness of these companies to listen and learn, my colleagues and I were able to advise them on some of the pitfalls. For example, some European companies would allow their policyholders to choose their asset allocation, and then charge them based on the amount of equity exposure (volatility level), reducing adverse selection.

“My adventures in Europe took another interesting twist—it would be five American actuaries living and working in the same house in Amsterdam—it was like a really bad reality show idea.”

Looking back to the products I’ve worked on with European insurers, many are better built to minimize losses from the recent severe down markets. While annuity players around the globe are tweaking their product designs these days, many U.S. insurers will have the most work to do. My advice to them would be to take a look at their European counterparts to learn some valuable lessons of their own.

As I’ve recently moved back to the United States, I bring with me three very full years of memories,

experiences, and most importantly professional development. Having the opportunity to work directly with senior actuaries was a valuable experience. Working in a small office and doing a little bit of everything including marketing and presenting are all skill sets that I have taken home with me. Europe has given me the adventures that I craved and allowed me to develop into an actuary and consultant along the way. □

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Impact of Moving to International Accounting Standards in Taiwan

By Yihong (Sherry) Du

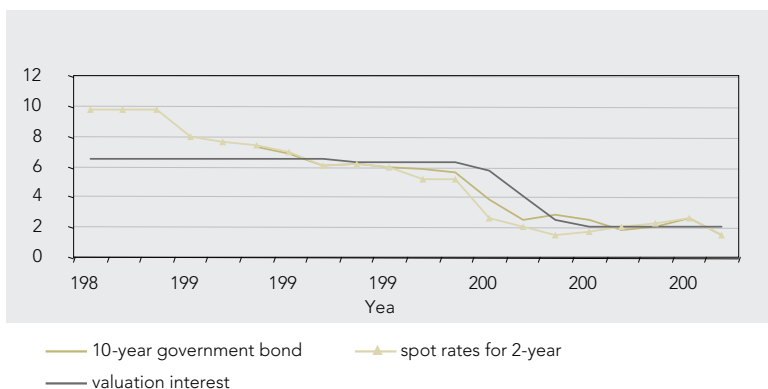
APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN TAIWAN

The International Accounting Standards Board (IASB) has been developing a framework of accounting rules, known as the International Financial Reporting Standards (IFRS), which aim to more accurately reflect the economic nature of the business, and improve transparency and comparability across sectors and companies.

Considered to follow the Securities and Exchange Commission in the United States, the Financial Supervisory Commission of Taiwan announced that Taiwan is likely to adopt the International Accounting Standards in 2014.

This has drawn discussion and concerns among many insurers in the market, especially regarding the proposed Phase II changes, including the fair valuation rule on liabilities, the replacement for current locked-in valuation interest rates by risk free discount rates, the mismatch of assets and liabilities, and other practical implementation issues.

Taiwan Yields/Interest



This paper will discuss, in a high-level nature, the potential impact of moving to International Accounting Standards on life insurers in Taiwan.

THE REPORTING PRACTICE PRIOR TO INTRODUCTION OF IFRS

Current Taiwan statutory valuation rules require that mathematical reserves for traditional insurance contracts are calculated using a net premium method, with assumptions based on conditions at policy inception. This means that the valuation basis is locked in at policy inception and will remain unchanged over the lifetime of the contract. Should the market conditions change, the adjustments on valuation basis are only applied to new business.

While a conservative basis for insurance risks is usually used in the statutory valuation basis, the assumptions for investment return rates are believed to be optimistic under the current investment environment. The following chart shows the 10 year government bond yields, the 2 year deposit rates and the statutory valuation interest rates in Taiwan in the past 20 years:

As both the 10 year government bond yields and the 2 year deposit rates were historically high, the statutory valuation interest rates were set at a level of 6.5 percent prior to the Asian financial crisis in 1997–98, and then reduced gradually to less than 2 percent today. This has caused negative interest rate spreads of 250 to 500 basis points common for large blocks of the in force life insurance portfolios issued before 2003.

ELEMENTS UNDER PROPOSED IFRS PHASE II

The IASB discussion paper proposed that liabilities be measured using the following three building blocks:

- Current estimates—explicit, unbiased, market-consistent, probability weighted and current estimates of the contractual cash flows.
- Discounting—current market discount rates that adjust the estimated future cash flows for the time value of money.
- Margins—an explicit and unbiased estimate of the margin that market participants require for bearing risk (risk margin) and for providing other services if any (service margin).

POTENTIAL IMPACT OF IFRS PHASE II ON DIFFERENT PRODUCT LINES

Old generation traditional products (contracts issued before 2003)

Old traditional policies that have substantial negative spreads such as whole of life and endowment products are likely to be significantly adversely affected by the proposed IFRS Phase II. As discount rates for those policies would be reduced to the level of risk-free rate, hidden negative spreads that would be realised in the future years under the current accounting standards would be fully crystallised and the losses would be recognised in the profit and loss account.

As the in force business sold before 2003 still constitutes the major part of Taiwan's insurance portfolio (in terms of reserves) as at the end of 2008, this impact is likely to be material on the financial statements of life insurers in Taiwan.

IFRS Phase II proposes to use current estimates instead of the conservative basis, which is currently used in statutory valuations in Taiwan. This would reduce the liabilities of old generation traditional products, and partly offset the impact by using risk free discount rate. However, the net impact is still likely to be significant.

A quantitative study is included in the end of this paper.

New traditional products (contracts issued after 2003)

New traditional policies recently incepted have no or little negative spreads as the pricing and valuation interest rates have fallen down in recent years. The impact of using risk free discount rates is likely to be relatively small, which could be largely or fully offset by the release of risk margin from the current statutory valuation basis.

New participating products

It is not clear how the future policyholder bonuses should be treated under IFRS Phase II. However, because the market share of this type of products is minor, the potential impact is not expected to be material.

Investment-linked/variable annuity products

The reserves for investment-type products, including investment-linked and interest-sensitive life and annuity products, are in principle measured at market values of underlying assets, so the reserve values may not be materially affected by the introduction of IFRS Phase II.

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The explicit fair value of options and allowance for the guarantees is not compulsory under current statutory valuation. The introduction of IFRS Phase II would require such guarantees to be fair valued. Therefore, policies that have such options or guarantees may be adversely affected by IFRS Phase II, although the impact may not be material at an industry level.

Traditional annuity

Longevity risk, particularly in annuity products, is not allowed for under the existing accounting standards because of the locked-in principles of assumptions for statutory reserving. However, if IFRS Phase II is adopted, any assumptions will be restated at each valuation date if relevant. Moreover, if there is any improvement in mortality, such improvement will be taken into account in the future cash flow projections for reserving. Therefore, traditional annuity products are likely to be adversely affected by incorporation of longevity risk under IFRS Phase II.

Business volumes of this kind of product in Taiwan are relatively small, and so the impact of introduction of IFRS Phase II is unlikely to be material.

Accident and Health

Accident and health contracts may be affected by both the application of risk free discount rates and the release of the risk margins from the current statutory valuation approach. These two factors offset each other and the net impact may not be material.

Policyholders' dynamic behaviour

Financial anti-selection may occur to life and annuity products when market interest rates rise compared to the level of guaranteed interest rates within the products. Such policyholders' dynamic

behaviour is incorporated in the future cash flow projections for reserving under the proposed IFRS Phase II.

However, there is very little experience in the Taiwan market for policyholders' dynamic behaviour on discontinuance as a result of changes in the investment environment. Implementing the proposed changes for policyholders' dynamic behaviour under IFRS Phase II is likely to be difficult in Taiwan.

A QUANTITATIVE STUDY OF IMPACT OF USING RISK FREE DISCOUNT RATES FOR OLD GENERATION TRADITIONAL LIFE PRODUCTS

As the old traditional are expected to be significantly adversely affected by the proposed IFRS Phase II, a quantitative study of such impact has been carried out to show a high level indicative comparison at an industry level in Taiwan for traditional business issued before 2003 between current statutory reserves and policyholder liabilities determined on a gross premium valuation basis using risk free rates to discount cash flows.

The Taiwan government zero coupon bond yields for the coming 30 years from December 31, 2008 were chosen as the risk free rates. The forward risk free rates were then derived and used in this quantitative analysis.

The model points were chosen to represent the major features of traditional products issued before 2003 in Taiwan with various issue years, valuation interest rates, policy terms, premium terms and benefit features. Neither traditional contracts issued after 2003, nor other types of products such as investment-linked products, universal life products, and interest-sensitive annuities, were included due to their less significant impact.

The current estimates of experiences, including assumptions such as mortality, morbidity, expense and lapse, were set based on the market condition and the features of life insurance business in Taiwan. Sensitivity tests were also carried out to show the effect of different margins on current estimates of experiences and the effect of allowing for liquidity premia.

RESULTS

The output from this study shows that due to the severe negative interest rate spreads in old generation traditional products and the long-term characteristic of these contracts, the impact of using risk free discount rates in calculating policy liabilities is significant, with policy liabilities in the range of 73 percent to 105 percent higher than the current statutory reserves.

Individual Taiwan life insurers which have large existing portfolio of old traditional products or have more embedded options in their portfolios, are likely to see more significant impact than those which issued less old generation traditional products and less embedded options.

On the other hand, the valuation of assets would also be impacted by moving to IFRS Phase II. A shift from amortised cost to fair value for categories of trading and available-to-sale could lead to a significant change in the value of these assets (depending on the company's asset types and features), and this could partly offset the impact on liabilities. The fair valuation approach and the use of risk free discount rate are likely to lead to a more volatile value of balance sheet assets and liabilities if they are badly mismatched (this is the common case in Taiwan).

The outstanding liability durations of in force contracts affects the results significantly, whereas the effect of risk margins is much less significant.

An allowance for liquidity premia within the discount rates can offset the rise in policy liabilities. However, this is a contentious issue and caution should be taken in place in determining whether it is appropriate to allow for such liquidity premia based on each insurer's particular situation.

Attentions would be drawn to the fact that the precise details of Phase II of the IASB Project are still under discussion. This paper is purely for indicative purposes and in no way should be taken to represent the actual impact of moving from Taiwan's current accounting standards to Phase II of the IASB Project. □



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Standard Life Table Mortality 2009 Egyptian Life Insurance Companies 2003 to 2006

By Mohamed F. Amer

INTRODUCTION

The purpose of this project was to investigate Egyptian life insurance mortality for ordinary standard life insurance business in Egypt, for the period July 7, 2003 to June 30, 2006.

The study was on combined male and female experience, as sex was not recorded with all data. Also it was based on number of policies and not individuals insured. The study was on aggregate basis and a select and ultimate study is planned for the next study.

Data from two major companies were included. These were the same companies that were analyzed in the previous mortality study as the other companies were recently established and provided incomplete data. It was decided to exclude the newer companies for the current study because

most of the business will be in the select period and will be included in the next study which will allow for a two year select period—possibly with male and female analysis.

All substandard business was excluded together with all single premium and paid-up business.

The last Egyptian insurance mortality study was published in 1996 for experience for time interval 1986-1991.

GRADUATION OF CRUDE RATES

Several attempts were made and tests for the weighted sum of the squares of the differences were calculated with weights being the exposures.

The graduation with reference to the British A49/52 ultimate gave the least deviation from the crude rates and was applied.

$$WSSE = \sum [W^i \cdot (q^{i \text{ actual}} - q^{i \text{ fitted}})^2]$$

$$\text{Graduated } q_x = -0.00070 + 1.148 * q_x^{(A49/52)}$$

Because the data after age 65 were not sufficient, it was found that extending the table far beyond age 65 is not reliable.

Age (x)	Crude 100000.qx	Exposure Weights	Gompertz Formula			w.r.t A49/52		w.r.t. A67/70	
			(1000000. μx)	(100000. qx)	WSSE*	(100000. qx)	WSSE*	(100000. qx)	WSSE*
22.5	40.6	3.4%	25.7	27.2	7.6	58.1	10.3	64.4	19.2
27.5	59	7.6%	45.7	48.4	13.3	60.4	0.1	57.1	10.8
32.5	78.4	13.1%	81.5	86.3	1.2	69.5	10.3	56.3	64.3
37.5	122.6	17.9%	145.2	153.7	90.9	105.1	54.4	107.6	40.6
42.5	205	19.3%	258.6	273.6	548.7	211.3	7.7	225.3	77.9
47.5	399.9	16.5%	460.7	486.9	591.8	443.2	308.4	447.9	366.8
52.5	886.3	13.8%	820.7	865.7	668.1	841	283.5	835.3	416.3
57.5	1450.5	8.4%	1462	1537	0.1	1468.3	27	1480.5	31.8
		100.0%			1921.7		701.8		1027.7

*Exposure weighted least sum of squared errors

FINAL RATES OF MORTALITY

Below are the resulting rates of mortality for ages 20 to 71.

Egyptian Insurance Standard Mortality Rates for 2003–2006 Medical and Nonmedical Combined

Age	1000qx	Age	1000qx
20	0.575	46	3.571
21	0.575	47	4.122
22	0.575	48	4.742
23	0.586	49	5.431
24	0.586	50	6.177
25	0.586	51	7.003
26	0.598	52	7.910
27	0.598	53	8.909
28	0.609	54	9.988
29	0.621	55	11.18
30	0.632	56	12.48
31	0.655	57	13.90
32	0.678	58	15.46
33	0.713	59	17.17
34	0.759	60	19.05
35	0.816	61	21.10
36	0.896	62	23.36
37	0.988	63	25.84
38	1.114	64	28.56
39	1.264	65	31.56
40	1.459	66	34.83
41	1.688	67	38.43
42	1.952	68	42.38
43	2.274	69	46.71
44	2.653	70	51.45
45	3.089	71	56.64

Endowment types of insurance were the most common and tests showed that the new table will result in very little effect on net premiums and reserves for this type of insurance.

Summary Rates of Crude Rates of Mortality Medical vs. Nonmedical

Average Age	Crude Mortality Rate (non-medical)	Crude Mortality Rate (medical)
22.5	0.00064	0.00019
27.5	0.00062	0.00057
32.5	0.00079	0.00078
37.5	0.00138	0.0011
42.5	0.00239	0.00179
47.5	0.00395	0.00404
52.5	0.00865	0.00902
57.5	0.01533	0.0138

Summary of data by number of policies

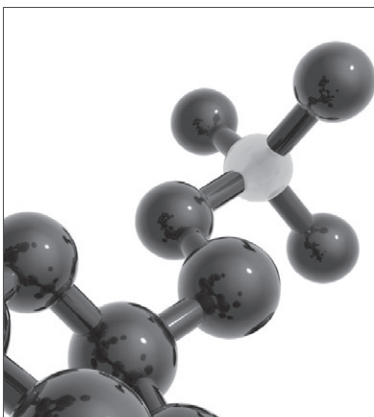
Age group	Exposure	Deaths
20-24	19695	8
25-29	44064	26
30-34	76518	60
35-39	104439	128
40-44	112197	230
45-49	96015	384
50-54	80564	714
55-59	49226	714

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Standard Life Table Mortality ... | from Page 25

Limited Life Expectancy to age 75 (ex:75-x)

x	Current				1986-1991
	Mortality Study	A49/52	A24/29	A67/70	Egyptian
10	58.4	58.0	55.5	59.4	58.1
20	48.7	48.6	46.5	49.7	48.6
30	39.0	39.1	37.6	40.0	38.9
40	29.2	29.6	28.5	30.4	29.3
50	20.0	20.4	19.8	21.0	20.1
60	11.7	12.0	11.6	12.4	11.9



Equity-Based Insurance Guarantees Conference

May 31-June 1, 2010
Tokyo, Japan

This seminar is designed to give professionals with limited-to-moderate experience an understanding of how to better quantify, monitor and manage the risks underlying the VA and EIA products.

Learn more at www.soa.org.



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Ambassador's Corner

Editor's Note: The "Ambassador's Corner" will feature regular reports from our Ambassadors on activities in their respective countries. In this issue we are pleased to include Jill Hoffman's report on 2010 actuarial activities in Singapore and Cathy Lyn's report on the 2009 activities in the Jamaica .

SINGAPORE AMBASSADOR UPDATE

By Jill Hoffman

I want to give you an update on the actuarial activities happening in Singapore over the next year.

SINGAPORE ACTUARIAL SOCIETY (SAS)

- March 26: Annual General Meeting & Annual SAS Dinner
- May 6-7: General Insurance Conference
- June 7-9: 2nd Health Insurance Conference: Public Private Health Insurance Partnership
- October: Joint Life Insurance Association and SAS conference
- December: Appointed Actuary's Seminar

Please see the Web site at www.actuaries.org.sg for more details.

SOCIETY OF ACTUARIES

- TBD: Session on the new CPD rules and submission
- TBD: Drinks night

Please let me know of any interest in the above SOA events. I look forward to seeing you.

NEWS FROM JAMAICA

By Cathy Lyn

I am pleased to tell you that we have had a variety of events here in Jamaica which has raised the profile of actuaries in Jamaica over the last

year. Many of them have been held in conjunction with organizations in related disciplines. This is a good sign that we are integrating. Almost 40 years ago our first Jamaican actuary who acquired her fellowship in England returned home and started practicing in Kingston. Today, we have about 17 fellows working in Jamaica and about 50 fellows in the Caribbean. We are still small in number compared to the accountants and the lawyers but we would like to add some positive influence to the financial sector. Here are some of the events during the past year in which the actuaries played a part.

The University of the West Indies Actuarial Society (UWIAS) hosted its third annual Awards Ceremony and Dinner on Sunday February 28, 2009 at the Hilton Hotel. This provided an opportunity for interaction between actuaries, employers and actuarial science students, whilst honouring top students for excellent academic performance. The attendance was the largest so far with about 100 persons and an increased number of sponsors. UWIAS invited Mike McLaughlin, then president elect of the Society of Actuaries, to give the keynote address. Everyone listened with interest as Mike gave an account of his actuarial career which started as a programmer with an international insurance company that serviced business in many other territories from their Kingston operation.

For Mike, this was his first official visit to his homeland and he had a busy week end of appointments. We are very proud to have a Jamaican elected as president of the Society of Actuaries, the largest professional body of actuaries in the world. When Mike arrived, we squeezed in a meeting on the first night with the executive committee of the Astronomical Association of Jamaica. Mike is an amateur astronomer and they had a good time sharing photos of the skies and eclipses they had

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seen. The next morning Mike started his day with two radio interviews, then a tour of the University of the West Indies (UWI) Mona campus (where he had completed his undergraduate studies in Physics) and afterwards taped a television interview in the afternoon. The day ended with an interesting presentation on Emerging ERM Practices to the Caribbean Chapter meeting of the Global Association of Risk Professionals here in Kingston. We had a grand turnout of about 60 persons in the risk management field.

Following Mike's visit to Jamaica, he arranged the Caribbean Actuarial Scholarship in memory of Basil L. and Monica G. Virtue, his wife's parents. This scholarship is administered by the Actuarial Foundation and is intended to be an annual award to UWI actuarial student(s) who demonstrate a strong record of accomplishment, leadership qualities and a commitment to becoming an actuary. The first two scholarships were granted to Sheldon Lewin and Shauna-Kay Miller in July 2009.

In July 2009 we had a visit from Randy Bauslaugh, a prominent pension lawyer in Toronto. During this visit a leading local law firm decided to put on a seminar on Recent Developments in the Pensions Industry breakfast seminar joint with a leading consulting firm of actuaries. The speakers gave international and local legal perspectives of topical pension matters and Cathy Lyn, a local consulting actuary and then, president elect of the Caribbean Actuarial Association (CAA) was invited to speak on Plan Design and Employer Risks. The invitation list for an exclusive audience of thirty only gave people two days notice to respond and over 70 persons registered!

One of our providers of administration and investment services for pension funds partnered with The Private Sector Organization of Jamaica to host a Pension Seminar: Pension Plan Types and Annuities, The Impact on Needs and Risk in Retirement on September 29, 2009. Two actuaries were among the speakers invited to present;

Rod Marshall from the United Kingdom spoke on Moving away from DB—issues to consider and Cathy Lyn from Jamaica presented on Trustees' Challenges. This seminar was very well attended with trustees, sponsors, administrators, investment managers, attorneys, regulators and actuaries in the industry.

Not all activities take place in Jamaica. On September 10, 2009 the Institute of Actuaries had a Caribbean evening at Staple Inn to celebrate the unveiling of the crest donated by the CAA. There was much revelry in the great hall with limbo dancing accompanied by a steel band. The Caribbean has close ties with the Institute since the first generation of local actuaries did the Institute examinations and several actuaries from the United Kingdom have worked in Jamaica and Trinidad over the last 40 years.

The Caribbean actuaries flocked to Boston to celebrate Mike McLaughlin taking office as president of the Society of Actuaries. About 20 Caribbean actuaries, who work in the Caribbean and overseas, filled two tables at the Presidential luncheon on October 26, 2009. It was a marvelous reunion. This group included Daisy Coke, a founding member and the first president of the CAA, Astor Duggan, a past president of the CAA, Horace Johnson, secretary/treasurer of the CAA, Ronald Poon Affat, newly elected to the SOA Board of Governors, John Robinson, president of the International Association of Black Actuaries and Cathy Lyn.

Recent Pension Reform upgraded the operation of approved retirement schemes in Jamaica. These are the formal arrangements which allow individuals who are not members of employer sponsored pension funds to save for retirement with income tax concessions. The Financial Services Commission arranged a Pensions Expo on November 3, 2009 for the public. Two actuaries were invited to speak; W. St. Elmo Whyte and Cathy Lyn who were president and president elect of the CAA re-



New Kingston Photo by Ray Chen

spectively at that time. Many organizations who offered approved retirement schemes took the opportunity to be sponsors and showed their products to the audience. There were speakers through the day who made presentations. We heard the common message that everyone should start saving for retirement early and throughout their working life. However, the majority of the audience looked as if they had already retired and probably wanted tips on how to manage on fixed incomes in a high inflation environment.

More congratulations are in order. For many years the CAA has been talking about conducting a Caribbean mortality study. We are pleased to let you know that about four companies have submitted data to participate in the Experience Study service sponsored by the International Section. A preliminary report was made at the CAA annual conference in Jamaica last December. Three more companies have expressed an interest so we hope they will accelerate the pace and submit data soon.

Retirement has been a popular topic for seminars as financial institutions compete to manage the savings. W. St. Elmo Whyte was invited to speak on several occasions on personal financial planning, particularly with reference to retirement. He has published a book on the subject to provide a source of material with local content. He has also spearheaded group medical cover for groups of individuals as an alternative to employer sponsored medical plans.

The 19th annual conference of the Caribbean Actuarial Association was held in Jamaica on December 3–4, 2009. This turned out to be our

largest conference with 180 persons registered, 33 speakers and 18 sponsors. (For more details, see the article in this issue, “CAA Crossing Boundaries.”)

GARP Caribbean has invited actuaries visiting Jamaica to speak at their chapter meetings. This has opened up the discussions on risk management to areas other than financial risk and some searching questions have arisen during Q&A sessions. On December 7, 2009, Mr. Christopher David Daykin, retired U.K. government actuary spoke on Risk Management of Social Security and Employer-Sponsored Pension Plans and Helen Gregson, staff actuary, The Actuarial Profession, presented on Risk Management—An Actuarial Spin on Managing Employee Health Risks. Both topics are very relevant for a community that does not have a government sponsored welfare programme. Average earnings for the working population are about US\$170 weekly so dealing with retirement and medical needs is critical for a large majority of the population.

In January 2010 the Jamaican government found their bonds rated CCC minus from Standard and Poor with a falling outlook. The public debt stood at \$1.27 trillion or \$423,000 per person (Aug 2009) with the following breakdown: Local portion issued in Jamaican dollars: \$713.17 billion and External portion issued in US dollars: \$558.1 billion. The fiscal deficit was \$65.8 billion or 5.9 percent of GDP (April to Sept. 2009) and increasing at an uncomfortable rate. It was clear that the

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government could not service the existing debt and could not manage to borrow at ever increasing rates (over 20 percent per annum about a year ago and lowering to about 17 percent per annum with persuasion but the climate was very unstable) to pay existing commitments.

Interest costs were of the order of 45 percent of fiscal revenues. The Jamaican government went to the International Monetary Fund and decided to do a debt swap. They asked all holders of Jamaican dollar debt to consent to a swap for new bonds issued with lower coupons and longer terms to maturity with a better spread of dates (about 11 percent per annum at the short end and 13.25 percent per annum at the long end). In addition, they reduced the number of bonds to improve the secondary market. The success of this action depends on whether the government will contain and reduce the fiscal deficit to gain market confidence with a sustained fall in interest rates and inflation and increased productivity.

The interesting part of this exercise is that the government did not have any dialogue with the pensions industry before the swap was announced. There are about 1.4 million persons in the working age group. Occupational pension funds only cover about 60,000 of these persons and their funds likely hold about one seventh of the local debt. Strengthening the retirement system and increasing coverage for retirement will mean these savings are a good source of long term capital the government should not ignore. When the government borrows these retirement savings, using these funds for capital projects to increase productivity should be a priority. So far the behaviour pattern has been to borrow these funds for consumption so it will take hard work and a lot of discipline for the leaders to change their way of managing the country's finances.

After the announcement of the swap, the pensions' working party of the CAA Jamaica Chapter

worked hard and quickly to tell the pensions industry and the public the aspects that they could ask to be investigated to assess the impact of the swap on the funds, their beneficiaries and their sponsors. We supported the debt swap and the move to lower interest rates on a sustainable basis. The media welcomed this input and we were able to give the public some pointers through the press release, radio and television interviews. The debt swap has been successful.

Many pension funds are overweighted in Jamaican government securities given that they have a likely risk of default. This risk could be mitigated by reducing the exposure and using more diversification both by diversification by country and diversification by other categories of investment. However, the choice of investments in other categories is small and the markets are small and the legislation restricts investment overseas. Also, the Regulations only allow investment in overseas government securities with an A grade while the rating of Jamaican government securities is lower and unlikely to be A grade in the near future. The snag is that the regulators and the Statements of Investment Policies and Principles treat securities issued or guaranteed by the Jamaican government as risk free. It may be time for trustees to voice discomfort and ask the regulators to consider acknowledging this risk. The argument that everyone is in the same position if asset values disappear is little comfort. There is a solution for the Jamaican government to set the stage to improve macroeconomic stability, reform the tax system, create an enabling legal and regulatory environment, reform industrial, trade and investment promotion policy then all Jamaicans can improve productivity. □

JUNE 28-30

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