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THE Actuary

American Actuaries In Japan

by Valeria S. and G. Clinton Myers

What can you say about a country that selects *Rising Sun Evening News* for the name of a major daily paper? One thing you can say without fear of contradiction is that life in Japan for an American is not business as usual.

It was our good fortune in January 1985 to be transferred to Tokyo to continue our efforts toward obtaining a license from the Japanese Ministry of Finance (MOF) for our Dutch parent company, Nationale-Nederlanden. The desired license was for the sale of life insurance to the domestic market - a privilege then enjoyed by only six foreign companies, all of which were of American extraction. Japan had previously been identified as an area with strong insurance consciousness, a rather antiquated line of products and tremendous growth potential. The availability to us of a nationwide marketing organization under Shell, a Dutch compatriot with a longstanding presence in Japan, provided critical access to the Japanese consumer.

Our responsibilities were primarily in the product and systems areas and represented a continuation of the previous two years' work in the home office in The Netherlands. While English was the official language of the Dutch/American/Australian/Japanese collaboration, it will of course only get you so far in Japan. To help us understand the details of Japanese laws, regulations and guidelines pertaining to product pricing and valuation, we were fortunate to have the able assistance of Mr. Yoshio Isogai, a Fellow of the Japanese Institute of Actuaries (FIAJ) and then

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Society Ambassadorial Visit to Asia

by Gary Corbett

The Society is becoming significantly more active on the international scene. Reasons include the growing number of Society members and students residing abroad, the internationalization of financial services and, probably most important, the fact that we are regarded by many actuaries in other countries as the premier actuarial organization in the world, largely supplanting the U.K. Institute, particularly in the Far East. Contributing to this increased stature is the preference of many developing countries for the American versus the British economic model. For whatever reason, actuaries in other countries look to us as a source of significant assistance. Our Board has decided to make our resources available where we can be helpful, provided our expenditure of time and money is modest.

Just last year we established a Committee on International Relations to oversee relationships with actuarial organizations and actuaries outside the United States and Canada. Late last year Past President Harold Ingraham signed a Memorandum of

Understanding with Nankai University in Tianjin, China, to establish an actuarial science program within the University's Department of Finance. Seven courses in this program will be taught by Society of Actuaries and Casualty Actuarial Society members.

In recent years, Society presidents have expanded their international travel beyond the traditional visits to the United Kingdom. In late 1985 Dick Robertson represented the Society at a meeting of the Southeast Asian Actuarial Association in Manila; in 1986 Harold Ingraham visited Mexico, Taiwan, the United Kingdom and, in 1987, Ireland. This year I visited Australia, Japan, China and Hong Kong.

My wife and I flew to Tokyo March 12 and returned to Atlanta three weeks later. Our visit to Japan had been arranged by Shuji Naito, Vice President for International Affairs of the Institute of Actuaries of Japan (IAJ), and by Mitsui Life's Chief Representative in the U.K., Kazuaki Naito in New York. We first met Kazuaki Naito

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Ambassadorial Visit cont'd.

The week was taken up with Institute of Actuaries of Australia (IAA) meetings and with company visits. As was the case in Japan, Australian actuaries are very interested in what is happening in North America, and 122 are Associates (not by examination) of the Society. There are four FSAs and eight ASAs by examination in Australia.

At an Institute meeting on Monday night in Sydney, I presented the president with a silver bowl encribed with the greetings of the actuarial profession in North America (see photo). On Tuesday morning I described to their newly formed Planning Committee how the Society's Planning Committee functions, the issues the Committee has considered in the last three years and the major issues facing the Society and the profession today — E&E, research, principles, strengthening the profession, The Future of the Actuary/The Actuary of the Future, and the growing international role of the Society.

That afternoon I lunched with the actuarial science faculty of Macquarie University and spoke to the actuarial students about FES/FEM and other issues. Approximately 50% of Australian actuaries come through the Macquarie program, most supported by company scholarships. Associateship-level examinations are waived for Macquarie graduates.

My last official duty was a luncheon Thursday with a dozen senior actuaries in Melbourne, where I spoke on my experiences in China, FES/FEM and the organization of the actuarial profession in North America, including recommendations for strengthening our position in the United States.

After a day with relatives near Melbourne, we flew back to Atlanta — 26 hours door to door, including a 13:30 hop from Sydney to Los Angeles. We were tired, but agreed it was probably the most interesting and educational three weeks of our lives. I'm confident our hosts in all four countries also benefited by our visit and that the Society's international presence was significantly enhanced.

Next June, at our Centennial Meeting in Washington, we are looking forward to returning their gracious hospitality.

Gary Corbett is President of the SOA for 1987-88. He is with Tillinghast/Towers Perrin.

Americans In Japan cont'd.

manager at Asahi Life Insurance Company — at that time the fourth largest participant in Japan's life market. Asahi Life's involvement was the result of its role as head of the Life Association of Japan during the year that our representative office was established in Tokyo. It is the local custom that the company then in that role offer assistance to any foreign insurers seeking entry to the Japanese market.

The range of life products offered in Japan has been limited. With the exception of the foreign companies which all sell nonparticipating products, the market is almost entirely mutual. Products marketed in the mid-1980s included little more than traditional endowment, term, and annuity policies with health, accidental death and term riders. Whole life was not offered until recently. One of the most successful new products, introduced by American Family and subsequently offered by others, provides indemnity benefits for cancer — the leading cause of death in Japan. The combination of this popular product with a novel marketing arrangement through corporate agents quickly resulted in large sales and the prospect of soon covering 10% of the population.

The proverbial bread and butter of the market, however, remains the endowment policy. While tax-deferred accumulations explain part of its appeal, we understood the true explanation to be more subtle. In Japan it is the responsibility of the individual and the family to save for retirement and final expenses. The purchase of term insurance is seen as a partial abdication of that responsibility. In Fall 1986 a variable life product was introduced to the market.

A particularly appealing area in Japan, implied by the much noted and pronounced aging of the Japanese population, is annuity products. Because Japanese employers generally provide a relatively small lump sum at retirement, and demographic trends put the welfare safety net under increasing strains, the life industry feels it has found some fertile ground. Annuities, however, have been a product line from which the foreign-based life companies have been largely foreclosed under a sort of "Catch-22." The MOF first required that annuities be sold only in a participating format. It then required that no company sell participating business until its

domestic operation reached a cumulatively profitable position. Barring a prohibitive capital infusion, foreign participants' only option has been patience.

Product pricing in Japan follows the "equation" approach and leaves little to the discretion of the actuary once the benefit structure and premium period have been set. The required mortality rates are based upon recent domestic industry insured life experience. Interest rates are also prescribed by MOF and vary primarily by par/non-par form and benefit period. While acquisition expenses were also inflexibly prescribed (presumably to ensure comparability across companies in their adjusted reserves), a degree of latitude proved to be available in setting maintenance expense assumptions. A unique feature in Japan was the requirement that any subsequent liberalization in pricing/valuation assumptions mandated by MOF be applied to both new issues and in-force business — bringing a decidedly new meaning to the term "nonparticipating."

The rather circumscribed role of the actuary in pricing was seen again in valuation, where the method and basis were defined by MOF. Additionally, none of the Japanese actuaries who had joined our company by the time of our departure had been exposed to the practice of profit testing either in their examination series or on the job. The overriding concern in Japan seems to be on preserving/enhancing market share with the implicit assumption that if you spread expenses far enough, profits will take care of themselves. The area of actuarial practice that appeared to enjoy the least regulatory constraint was in setting policyholder dividends, although the total was subject to MOF approval.

It should be noted that MOF officials involved in negotiations with life company representatives were not necessarily actuaries or even insurance professionals. In many cases they were bureaucrats on rotation in MOF's insurance division. It also was our understanding that the insurance division of MOF was largely a spokesman for the vested domestic interests and would not likely be accommodating toward any proposed novelties which might "disturb" the market (although MOF has at times used the foreign firms as a small testing ground for

Americans In Japan cont'd.

risky experimental coverages). Having productive discussions with regulators was accordingly problematic, although the many full color posters of female American golfers (such as Laura Baugh) that adorned MOF's walls helped some of us keep things in perspective.

Our involvement in the systems area was primarily in the definition of user requirements and acceptance testing. This portion of the project was performed in conjunction with the Melbourne office of PAXUS — the software affiliate of a New Zealand parent. The ultimate system was a state-of-the-art, real-time, fully integrated, bilingual database management system that had few rivals in Japan — partly because of the decidedly manual orientation of the competition.

With a market share in 1986 of only 0.7% of premium, the foreign life companies have not been seen as a major threat to the controlled, cartelized and concentrated Japanese market. The environment does, however, provide at least one distraction for the domestic companies: Post Office Life Insurance (POLI). In product parameters and delivery, POLI bears some resemblance to U.S. industrial insurance, except that it resides in the public sector. Each concession granted to POLI by MOF, such as increased face amount ceilings and broadened product offerings, is resisted by the private companies and denounced as unfair competition. (One cartoon we saw proposed having life companies commence the sale of postage stamps.) Their concern may be justified. POLI's premium income in the mid-1980s reportedly ranked it as the largest insurance entity in the world.

Because most of our co-workers lived several hours outside Tokyo, their business day did not begin until about 9 a.m. Like many expatriates, we had the good fortune to live in central Tokyo, an enviable 20-minute walk from work. In our office, all management positions were held by men and most clerical positions were held by women (with an exception being made for the most inscrutable life-forms: the foreign professional female). It was interesting to note that reporting relationships revolved to a large degree around age and school details. For example, an older man would rarely be subjected to the indignity of working for a younger man

unless the latter had truly exceptional academic credentials. Our organization chart showed each employee's age below his name. While we maintained what might be considered normal working hours, many of our co-workers would regularly work until well after 7 p.m. — giving them a few hours for snacks and refreshments with colleagues before catching the last trains home.

Our Japanese assignment concluded March 31, 1986. On April 2, 1986, National Life Hoken opened for business, thereby making us the first European company to sell yen-based life products in the Japanese market. Operations would have commenced one day earlier were it not for the date, April 1st, in addition to being the first day of the fiscal year, is not a lucky day in Japan. Any good astrologer would understand.

(Ed. Note: With the increasing internationalization of financial services, many SOA members are being exposed to the actuarial practices in the countries visited by Gary Corbett and others because of their companies' entry into these markets. Val and Clint Myers spent three years in the Netherlands and 15 months in Japan. In the future many FSAs will no doubt have similar experiences. Clint is now Associate Actuary at Life Insurance Company of Georgia and Val is Actuary at Associated Doctors Health and Life Insurance Company, both wholly owned by Nationale-Nederlanden.)

Insurance Catastrophes Conference August 25-27

The theory of insurance catastrophes will be the focus of the 23rd Actuarial Research Conference August 25-27 at the University of Connecticut, Storrs. Particular emphasis will be placed on the AIDS epidemic, which will be examined by actuaries active in this area, statisticians and medical researchers. Also scheduled are sessions for contributed papers on other insurance catastrophes topics.

The registration fee is \$75. For more information and registration forms, contact Conference Coordinator Dr. Charles Vinsonhaler at (203) 486-3944 or SOA Director of Research Mark G. Doherty at (312) 773-3010.

The conference is sponsored by SOA, CAS, Hartford Actuaries Club and the University of Connecticut's Department of Mathematics and Actuarial Science Program.

Fall Exam Preparation Seminars

Three universities are offering fall seminars to help students prepare for the November examinations.

- The University of Toronto will offer seminars for courses 120, 130, 135, 140, and 150. For details, contact Professor Samuel Broverman at his *Yearbook* address.
- Associateship seminars for courses EA2 and 210 will be offered by Georgia State University. For further information, contact Robert W. Batten at his *Yearbook* address.
- The University of Waterloo will sponsor seminars on courses 140 and above, except EA2, from October 15-30. Contact F.G. Reynolds at his *Yearbook* address for further information.

SOA Office to Move This Fall

The SOA office will move this fall to new, larger quarters in Schaumburg, Ill., to better serve the growing membership.

As SOA has grown, the number of staff members has increased to meet the demand for membership services. When SOA moved from Chicago to its present offices in Itasca, Ill., five years ago, the staff numbered 25; there are now 52 staff members and office space is cramped. Staff additions have been necessary, for example, to handle a 61% increase in the number of candidates registered for exams from 1983 to 1987. Other membership services that have required additional staff include continuing education and research.

The Society will occupy the entire eighth floor of a new office tower which is part of a complex called Woodfield Corporate Center, owned by The Prudential Insurance Company of America. The new office is large enough to accommodate further expansion of Society activities. The site selection was approved by the Board of Governors.

SOA Director of Operations Rachel L. Brody is overseeing the move to the new office.

Schaumburg is a suburb northwest of Chicago, about 15-20 minutes from O'Hare International Airport.