



SOCIETY OF ACTUARIES

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Ryan Hinchey, FSA, MAAA, is president and consultant at Annuity Riders Inc. in Avon, Conn. He can be reached at ryan.hinchey@annuityriders.com.

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.

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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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