

# International News

ISSUE 58 JANUARY 2013

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Competition - Cash Prize of  
U.S. \$1,000!**

# International News

ISSUE 58 JANUARY 2013

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## 2012 SECTION LEADERSHIP

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Doug Carey, Council Member  
Theodoros Iaponas, Council Member  
Warren Rodericks, Council Member  
Michael Witt, Council Member  
Lina Xu, Council Member

## Newsletter Editor

Carl Hansen  
e: [chansen@bwcigroup.com](mailto:chansen@bwcigroup.com)

## Assistant Newsletter Editors

Doug Carey  
e: [doucarey@deloitte.com](mailto:doucarey@deloitte.com)

Alan Cooke  
e: [vancooke@telus.net](mailto:vancooke@telus.net)

Jill Hoffman  
e: [jhoffman@munichre.com](mailto:jhoffman@munichre.com)

Vincent Xuan  
e: [xu.xuan@prudential.com](mailto:xu.xuan@prudential.com)

## SOA Staff

Kathryn Baker, Staff Editor  
e: [kbaker@soa.org](mailto:kbaker@soa.org)

Jill Leprich, Section Specialist  
e: [jleprich@soa.org](mailto:jleprich@soa.org)

Martha Sikaras, Staff Partner  
e: [msikaras@soa.org](mailto:msikaras@soa.org)

Julissa Sweeney, Graphic Designer  
e: [jsweeney@soa.org](mailto:jsweeney@soa.org)

This newsletter is free to section members. Current issues are available on the SOA website ([www.soa.org](http://www.soa.org)).

To join the section, SOA members and non-members can locate a membership form on the International Section Web page at <http://www.soa.org/International/>.

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## Editor's Note

By Carl Hansen

Welcome to the first digital version of *International News*! The section council sees this as an important action to better meet the needs of the section membership while keeping costs down. As always, if you have any comments on this new format (or any other newsletter issues), please feel free to contact the editorial staff or the section council.

Welcome to the new International Section Council members—Carlos Arocha, Warren Rodericks and Rong Rong. This issue includes a brief introduction to each of them on page 5. Thank you to Michael Lockerman, Alycia Slyck and Genghui Wu for your contributions on behalf of the section over the last three years.

This issue of *International News* also marks a transition for the editorial staff. This will be Alan Cooke's last issue. Alan has been an exceptional volunteer in many different roles for the International Section over the last few years. I will certainly miss his guidance and support, and I hope he continues to contribute articles to the newsletter as we go forward. Vincent Xuan from Prudential in the United States is joining the editorial staff. He has already been very helpful in pulling together this issue. Welcome, Vincent!

We have two more excellent entries from the 2012 Country Feature Competition in this issue. I suggest that potential authors start planning for the 2013 competition, as the deadline will come quickly following the many work requirements early in the year. See page 26 for more information.

I would like to draw the reader's attention to the article on "A Global Perspective of the Health Insurance Market" by Michael Frank on page 18. This is a summary of an exceptional "grass roots" initiative that benefits the students involved in the program, the instructors and future employers. The SOA and the international actuarial profession should encourage more exchanges such as this, both within countries and across borders, to develop critical thinking and a global outlook in the next generation of actuaries. □



**Carl Hansen, FSA, FCA, MAAA**, is international director at BWCI Group in Guernsey in the Channel Islands. He can be reached at [chansen@bwcigroup.com](mailto:chansen@bwcigroup.com).



**Ben Marshall, FCIA, FSA, CERA, MAAA, J.D., CLU, Ch.F.C.** is VP, Head of Insurance Risk Governance and Capital Management at the Royal Bank of Canada in Mississauga, Ontario. He can be reached at benjamin.marshall@rbc.com.

## Chairperson's Corner

By Ben Marshall

It is a new year, and a time of farewells and of new beginnings. I am grateful for the opportunity to serve as the new chair of the International Section Council for the coming year.

In looking back over the past year, I'd like to offer my sincere thanks and best wishes to Genghui Wu, our outgoing chair of the International Section, for his engaging style of leadership, his outstanding collaboration, and his constant friendship to me personally and to many of our members and all of our council. At the same time, we have two additional members retiring from service on the council. I'd like to thank Michael Lockerman for his strong ideas and his equally strong sense of humour while serving actively from Hong Kong, and to thank Alycia Slyck for her enthusiastic service even in the midst of pregnancy and dealing first-hand with the "perfect storm" of crises in Japan.

In looking forward to the coming year, it is my pleasure to welcome new council members Carlos Arocha, who is based in Switzerland; Warren Rodericks, based in Toronto; and Rong Rong, based in London. All three were chosen by the membership in the fall elections, and each has great strengths and has expressed commitment to the section's objectives by volunteering for service in various activities of the council. I look forward to working with them!

As we look even further ahead, the International Section appears poised to be able to make a significant impact

with and for our stakeholders. The international presence of SOA-designated actuaries is on the increase, both with ex-pats in remote locations and with indigenous actuaries choosing the SOA for their actuarial education and research needs. Nearly half of SOA candidates are currently writing their exams outside of the United States, and fully half of the top ten exam centres are outside of North America.

Not surprisingly, the SOA recognizes these trends and has undertaken a strategic initiative toward globalization of its services. The International Section will be aligning many of its activities to complement those of the SOA's International Committee in realizing this goal. We will continue the International Section's focus on educational seminars and webcasts, the fulsome content of the *International News* (which will now be published in an electronic format), and our Ambassador Program for networking activities in key locations across the globe. However, we will be directing them toward a broader array of practice needs for actuaries working or volunteering internationally. In doing so, we plan to leverage partnerships with other SOA sections and with indigenous actuarial associations and other stakeholders for actuarial services globally. Look for announcements via email, website updates, LinkedIn, and future newsletters that will outline events and activities to serve your needs or enlist your involvement. □



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The Singapore Actuarial Society is the host of the **17TH EAST ASIAN ACTUARIAL CONFERENCE (EAAC)**, "Redefining Risk, Creating Value" being held at Resorts World Singapore from **October 15 - 18, 2013**. The EAAC brings together actuarial professionals in the Asia-Pacific region to discuss various international and topical issues.

If you are not familiar with Singapore, Resorts World is the premier destination in Singapore, with Universal Studios located on site. Other attractions include the casino, shopping and famous Singapore food. For more details see [www.rwsentosa.com](http://www.rwsentosa.com). We will continue to provide more details closer to the date. [www.actuariesasia.org](http://www.actuariesasia.org)



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## Newly Elected International Section Council Members



**Carlos Arocha, FSA, MAAA**, Managing Director, Arocha & Associates GmbH, Switzerland.

### PROFESSIONAL BACKGROUND

Carlos Arocha is managing director of Arocha & Associates. With 20+ years' experience in the actuarial consulting and (re)insurance industries, Carlos is broadly-recognized for his technical functional expertise in pricing, risk modeling, and enterprise risk management in a variety of geographies, and in particular, in the developing insurance markets of Asia, Eastern Europe, and Latin America. As an experienced knowledge transfer professional, he has helped a host of insurers think in original ways about their approach to risk assessment and mitigation. He developed SIMM©, a stochastic insurance management model application that illustrates ORSA and ERM concepts for executive training purposes. Prior to Arocha & Associates, Carlos held various positions with Swiss Re, a world-leading reinsurer, from pricing actuary to head of the life insurance training and consulting activities at the Swiss Insurance Training Centre (SITC) in Zurich. Prior to this, he was Director, Latin America with The Mercantile & General Reinsurance Co. Carlos also gained valuable consulting expertise before entering the reinsurance industry with a few

consulting firms, including Hewitt Associates (Aon Hewitt), Watson Wyatt (Towers Watson), and Buck Consultants. Carlos graduated from Universidad Anahuac, Mexico City, with a B.S. in Actuarial Science. He is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Member of the Swiss Association of Actuaries. He serves as the SOA Ambassador in Switzerland, and lives with his wife and three children in Adliswil, a town on the outskirts of Zurich.

### SOCIETY OF ACTUARIES EXPERIENCE (SECTION AND COMMITTEE MEMBERSHIPS AND PARTICIPATION)

- SOA Ambassador in Switzerland.
- Member of International Section.
- Member of Joint Risk Management Section.

### EXPERIENCE (RELEVANT TO CANDIDACY)

While educated in America, Carlos Arocha has broad functional experience in international insurance markets, particularly in solvency regimes and ERM. Carlos started his actuarial career as a consultant, and went on to work for more than 15 years in reinsurance, where he dealt with insurance companies around the world. At present he provides actuarial consulting services in ERM and risk modeling through his own consulting practice, based in Zurich, Switzerland. Besides English, Carlos speaks fluent German and Spanish.

### WHY ARE YOU INTERESTED IN LEADING YOUR SECTION?

I am interested in serving on the International Council of the Society of Actuaries by leveraging on my exposure to global markets and having worked with actuaries across borders. I was born in Mexico City, and have lived in Houston, Toronto, and for the past 15 years,

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in Zurich, Switzerland. I spent many years engaged in reinsurance and had the opportunity to work with clients in many countries around the globe, particularly in the less developed insurance markets of Latin America, Asia and Eastern Europe. I regularly participate in ASTIN/AFIR meetings, and also in activities of the Swiss Association of Actuaries, where I network with actuaries from other organizations worldwide. I am following international developments in ERM, solvency regimes, and am interested in fostering cross cultural exchanges between SOA members and actuaries from other organizations. I would like to encourage young people to consider the FSA/CERA paths for their professional development.



**Rong Rong, FSA, CERA, MAAA, FIA**, Risk Actuary, Swiss Re, London U.K.

#### PROFESSIONAL BACKGROUND

I am a Fellow of Society of Actuaries (FSA), Institution of Actuaries (FIA) and a member of American Academy of Actuaries (MAAA) and also a Chartered Enterprise Risk Analyst (CERA). I am working for Swiss Re, a world leading reinsurer. My previ-

ous role is to support U.S. individual Life pricing and also involved in different ad hoc projects to help achieve transparency and efficiency in the company's U.S. actuarial community. After completing actuarial exams, I accepted a product actuary role in Swiss Re London office, where I lead and support several U.K. and Ireland Life and Health pricing tenders across all product lines. Now I am on a secondment to work for Swiss Re group risk management to support risk review and governance. I am always interested in volunteering for SOA: proctoring exams, assisting organize social event, active in research project participating section projects, etc.

#### SOCIETY OF ACTUARIES EXPERIENCE (SECTION AND COMMITTEE MEMBERSHIPS AND PARTICIPATION)

(Covered in professional background)

#### EXPERIENCE (RELEVANT TO CANDIDACY)

I have worked in international roles for five years. During this time, I have worked in several markets, with my primary focus being Latin America. I have developed contacts with a number of companies and industry organizations (including actuarial organizations). As a result of my professional experience and interactions with international actuaries, I have developed a good understanding of the challenges and opportunities for actuaries in the new global environment.

#### WHY ARE YOU INTERESTED IN LEADING YOUR SECTION?

I hope to bring more energy, innovation and commitment to the International Section and give back to the actuarial community.



**Warren Rodericks, FSA**, Senior Manager,  
Deloitte, Toronto, Ontario

#### **PROFESSIONAL BACKGROUND**

I currently work as an actuary for Deloitte Canada, focusing on audit and consulting. I recently returned to Canada from Japan, where I spent over 5 years as a consultant in Tokyo, working on a variety of projects throughout the Asia-Pacific region as well as globally. Prior to that I spent several years working in life insurance and actuarial software companies in Canada. I have volunteered for the International Section while in Japan, and am also a research member of the Institute of Actuaries of Japan (IAJ), sitting on the ERM, Financial Reporting, and Cat Risk sub-committees.

#### **SOCIETY OF ACTUARIES ACTIVITIES**

I have been a member of the International, Financial Reporting, Joint Risk Management, and Product Development sections for several years. In addition, I served as the “Japan Ambassador” to the SOA. I have also spoken at the SOA Global ERM webinar.

#### **RELEVANT BACKGROUND**

Having worked in a financial capital like Tokyo for a number of years, I have personally

experienced the various challenges of working in a multi-national environment involving different products, markets, financial reporting, languages, cultures, and even time zones. In my role as the Japan Ambassador, I worked to provide networking opportunities for the SOA members in Japan and acted as a liaison between the members and the SOA. I also strived to build relationships between the SOA and IAJ. I arranged for the then president of the SOA to speak at an IAJ seminar and meet with the IAJ leadership, and joined the IAJ as a research member. In this capacity, I was able to arrange a joint seminar with the SOA and IAJ. I have also traveled extensively and speak a few languages including Japanese.

#### **WHY ARE YOU INTERESTED IN LEADING YOUR SECTION?**

I have an acute understanding of the challenges of working internationally. Through my work and volunteer experiences, I have become a firm believer in the value of meeting people, sharing information, and building relationships. I want to help others to do the same, and would love to share my experiences with the International Section and its members. □



**Alan Cooke** is a retired actuary living in Vancouver, Canada. He may be reached at [vancooke@telus.net](mailto:vancooke@telus.net).

## The International Section at the SOA Annual Meeting

By Alan Cooke

**T**he 2012 SOA Annual Meeting & Exhibit was held in National Harbor, Md., from October 14 to 17. Attendees included members from around the world, and the International Section Council was very busy at the SOA annual meeting.

### INTERNATIONAL SECTION COUNCIL MEETING

The International Section Council activities commenced at 5 p.m. on Sunday with our annual council meeting. At the meeting we welcomed three new council members (Carlos Arocha, Rong Rong and Warren Rodericks) and said goodbye to three members (Genghui Wu, Alycia Slyck and Michael Lockerman). The new officers for 2012-2013 were elected, and they are Ben Marshall (chair), Sunil Sen (vice-chair), Carlos Arocha (treasurer) and Rong Rong (secretary). Ben will be commenting in more detail on the council's planned 2013 activities in his "Chairperson's Corner," which may be found on page 3 of this newsletter.

### INTERNATIONAL RECEPTION

Our ever-popular Tuesday night annual reception sold out again. As usual, it was an evening of networking and catching up with old friends. This year's event was financially assisted by Reinsurance Group of America and Prudential Financial U.S. This year's event featured several short speeches, door prizes, many varieties of food and an open bar. Tonya Manning, the incoming SOA president, talked about the SOA's international strategy. Several other former SOA presidents were also in attendance. A good time was had by all, and we look forward to seeing many of you again next year. Special thanks to Lina Xu and our financial sponsors for their efforts in making this year's event a success.

### ANNUAL MEETING SESSIONS

The International Section was involved with several sessions at the annual meeting. The materials for the sessions may be found on the SOA website.

The first session was a Monday breakfast discussing "SOA International Strategic Objectives." This session was moderated by Ben Marshall and featured Darryl Wagner, chair of the SOA International Committee, and Genghui Wu as the speakers. On Monday afternoon, the International Section sponsored "The European Debt Crisis and the Impact on the Insurance Sector." This session was moderated by Genghui Wu and featured Mike Lombardi and Kulli Tamm as the presenters. We also sponsored Session 110 on Tuesday afternoon: "Interactive Forum: Changing Dynamics in Global Solvency Regimes." Sunil Sen moderated, and Carlos Arocha, Jorge Luis Lopez Araiza, Brian Paton and John Rowland were presenters. All of the sessions received favorable reviews, and we anticipate a high level of participation next year as well. □





**Jingjing Vicki Zhang, FSA, MAAA,** was a consulting actuary in the United States and Canada. She is the author of *Understanding the Ascent of China: A Brief Guide*, and is currently completing a master's in Political Economy at the University of Toronto. She can be reached at [vicki.zhang@gmail.com](mailto:vicki.zhang@gmail.com).

## China at the Crossroads

By *Jingjing Vicki Zhang*

**T**he story of the rise of China reads like a tale of two nations. As late as the mid-1970s, Mao, the charismatic yet increasingly insecure leader, ruled his near-billion subjects with help from an army of under-educated peasant cadres. All instruments of production were owned by the state. Strict residence registration prevented any rural-to-urban migration and denied peasants access to jobs or benefits in the urban economy. In the urban area, a planned economy mobilized massive manpower to work in the heavy industry, while there were less and less consumer products to buy in the stores. Workers ended up putting the money into the state banks, which in turn financed the heavy-industry-centric planned economy. Urban employees were locked into all-encompassing work units. To further reduce inequalities, wage increases and bonus payments for workers were extremely limited. This was a nation of stagnation, doomed to a miserly decline.

Fast forward to today. Technocrats dominate key roles of leadership. A vibrant private sector, including both indigenous and foreign companies, is building the backbone of a consumer-oriented economy. A booming but overheated commercial housing market helps many realize their dream of becoming billionaires while keeping the rest in rented apartments, praying for windfalls to pay for that first down payment. Graduates from school enter an exciting and yet tempestuous labour market. The new social contract rewards those with good connections, a spirit of entrepreneurship, a foreign education and working experience. Peasants move into cities in overwhelming waves. Some succeed in becoming urbanites with a package of social benefits the previous generation could never have dreamed of, while many others leave a long trail of heart-wrenching tales about



broken families and societal discrimination. This is a nation of great vibrancy and individual drives, coupled with equally great anxiety and uncertainty.

In the wake of a global financial crisis that seemed to have facilitated a paradigm shift of economic power from the established Western economies to emerging economies like China, this essay examines several key factors that have contributed to China's success in the economic reform spanning the past three decades and the double-edged nature of these factors going forward.

One common question people often wondered about the Chinese economic reform was this: How did the country achieve the miraculous combination of rapid growth and relatively low inflation rate throughout the reform years? We have all read about the hyperinflation rate that to an extent brought down the communist regimes in Eastern Europe and the

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former Soviet Union in the late 1980s and early 1990s. In China, however, there had always been an almost rhythmic cycle of fast growth and retrenchment. Many political economists now believe that the competitions between the generalists and the technocrats within the Communist party had surprisingly contributed to a generally stable reform era by creating checks and balances within the one party ruling. Generalists within the leadership build their careers in multiple provinces and party apparatuses and have a much larger base of supporters from local governments. Technocrats, on the other hand, usually ascend vertically through a certain bureaucratic group and have a much smaller base of support, but a greater and more direct control over monetary and investment policies. We see this factional competition most pronounced through the banking sector. When generalists dominated, in order to cultivate support from the local governments, they decentralized financial discretion and offered local cadres incentives to invest in their local economy. More loans and credits became accessible from banks that had to take cues from the prevailing economic policies and directives, which eventually led to inflation expectations. Generalists had to rely on the technocrats to overhaul economic activities through monetary and fiscal policies to prevent the inflation expectation from being materialized. Once technocrats gained control of the economy, they would centralize the financial authority through policy control, therefore steering the system away from a near-collapse. This would result in less lending from the banks and more stable market prices. However, as the technocrats had a much smaller support base, their agenda-setting power would soon be taken away by the generalists as soon as the inflation crisis was gone, and the cycle would start all over again.

The downside of this mechanism, however, is that it distracted leaders from genuinely

putting forward an agenda of thorough and fundamental reform. After more than 30 years of reform, real changes in the banking system remain modest, and efficiency of capital allocation stays low. The People's Bank of China, China's central bank, is headed by a government minister and still values directives from the political leadership above market cues. In a way, a real reform of the banking industry would be threatening to both the generalists and the technocrats in the leadership. The generalists would lose the resource of rewarding their local supporters while the technocrats would lose the very reason they were ever allowed to seize power. No wonder, after rounds of structural changes in the banking system, the Big Four banks still often act like policy banks, and the bad loans to state-owned enterprises (SOEs) are still pervasive. A vicious cycle of channeling capital to the worst-performing sector while starving more dynamic ones creates mounting bad debts for the system and decreases overall credit availability crucial for economic growth. Moreover, in order to compensate for the low-interest non-performing loans that banks are essentially forced to issue, household deposit interest rates are kept low so that banks can take a much-needed breather in the gap between the low lending rate and the low deposit rate. Households, hit hard by the low interest rate, risk their money in China's fledgling stock and real estate market, leading to speculative behaviors and alarming bubble in these markets.

Another important factor of the Chinese economic reform is globalization. There was one thing the top leadership of China had been clear about from the very beginning of the reform: China has the largest population in the world, and it makes sense to initiate the reform through labour-intensive manufacturing business. Before diving headlong into a manufacturing- and export-centric economic strategy, China did not even bother to first clean up

One of the key areas of future reform that is particularly of actuarial interest is the government's stated desire of building a better and stronger welfare system including pension and health care programs, in order to close the financial gaps and mitigate tensions among various social groups caused by the unbalanced growth in the past three decades.

the house as Japan and South Korea had done during their period of modernization. This was made possible by the modulization trend in the global production chain. Thanks to modulization, knowledge and experiences that were previously tacit and transmitted face to face could now be codified and transmitted with low cost to anywhere on the planet. The result is that the formerly regimented production steps done in a single firm are now spread across multiple firms and nations. By allowing the multinational companies to outsource certain production tasks to China, China has outsourced the restructuring of its domestic industry to foreign companies. Gradually, international standards and rules have to be researched and adopted as foreign firms continue to push the compliance of their global standards. This leads to a trend, in which more westernized labour relationships and protection are followed, more technocrats rise to power, and a long list of international standards regarding enterprise ownership, foreign exchange, and legal codes are gradually adopted in China. In this sense, China has caught the globalization bandwagon on its way to modernization.

However, although a labour-intensive manufacture-oriented economic strategy has driven the rapid growth in China, created numerous jobs, and made China the largest export country, in recent years China has recognized that such strategy would only put itself squarely at the bottom of a global production value chain while the rest of the world reaps benefits from the higher-value activities such as product design, R&D, marketing and branding. An obvious solution is to move up the value chain. So far such attempts have been earnest but with mixed results. One pitfall of such efforts has been the emphasis on vertical integration—to move up one value chain. We often see Chinese companies reverse-engineer components of existing products, which on its own is a type of R&D activity. However, in

this process, the designing of the products is modulized and standardized due to the need of producing lower-priced products to compete with the original products, and that leads to lower entry barrier and thus lower profits. The policymakers may want to look into the Taiwanese model that emphasizes component specialization and horizontal movement among different potential end products that use similar components. Moreover, China should further strive to move up the R&D value chain as well, by focusing more on “R”—the research for new technology, rather than only on “D”—the localization of existing products and finding new product platforms based on existing technology. Indigenous firms interested in doing R&D need to have better access to bank credits and loans. Moreover, they need to attract talents, who have been trained using government subsidy but currently contribute more to the foreign multinationals in China. Intellectual property laws also need to be strengthened to provide more sufficient protection and incentive for indigenous R&D companies. Those policies would be crucial in determining whether China can successfully move out of the pitfall of dwelling at the bottom of the global production value chain.

Moreover, in recent years, especially during the financial crisis and collapses of overseas consumer markets, the trend has been to drive domestic spending and to build a consumer-oriented society within China. A few Chinese holidays are stretched from one or two days into week-long vacations in order to drive domestic consumption. During the 2012 Chinese New Year, I was astonished to see Central Television reporters frequent shopping malls to interview consumers who had just spent a fortune on gold jewelry. The previously quiet residential districts in my

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old neighbourhood in Shanghai have been transformed into a parade of endless shopping malls and restaurants. However, such trend has not prompted the paradigm shift that the economy needs, in order to move away from its unbalanced and unsustainable nature. The concept of working-hard-and-consuming-hard still builds on the dangerous assumption of perpetual growth, while clear signs of an economic slowdown have already been observed in China. The first-quarter GDP growth rate in 2012 is at a three-year low and lower than the average growth rate in the past 30 years. World economists within and outside China unanimously predicted that compared to the past three decades, China's growth rate would be permanently lower going forward. In the meanwhile, China now has a geographically mobile population and millions of people seek to enter the urban workforce. Even with the one-child policy, the population is still growing, with more working-age people needing jobs as well as more seniors seeking support from the young. Without new jobs being created quickly in a fast-growing economy, social instability may soon loom on the horizon. The energy and resource intensive nature of the past growth pattern also raises grave concerns on the destructive impact on the environment.

Therefore, China will need a new strategy for the economic reform going forward in order to face the many challenges that have become more and more evident recently. A balanced and sustainable growth should have less emphasis on capital-intensive and industry-led structure and allow more room for the public and private service sectors to grow. The government, as well as the masses, needs to see green development as an opportunity in both technological innovation and building a sustainable economic pathway. China must also continue its integration with the global markets

and trade networks, and keep demonstrating itself as a global team player.

One of the key areas of future reform that is particularly of actuarial interest is the government's stated desire of building a better and stronger welfare system including pension and health care programs, in order to close the financial gaps and mitigate tensions among various social groups caused by the unbalanced growth in the past three decades. As recently as in 2009, less than 30 percent of Chinese adults were covered by public pension plans, and that number quickly grew to over 55 percent by the second quarter of 2012. However, such aggregated statistics are far from telling the whole story. China's individual pension funds are not segregated from local governments' general funds and are therefore at the mercy of local officials. Some regions essentially implement a pay-as-you-go scheme by giving the current pensioners money from individual pension accounts that the younger generation paid into. Some local governments are reported to appropriate the pension funds for real estate market speculations or to pacify the disenfranchised laid-off workers from the earlier reform era. In the end, it is a matter of political will. But actuarial expertise and monitoring function will be crucial in the process of reform to ensure the future retirees receive their entitled share of the provisions the country in aggregate is consciously making for its future. This is especially important in light of the projected demographic changes and increased burden on the pension system in the next 20 years when nearly 30 percent of Chinese will be 60 or over. On the asset side, financial and investment actuarial skills will be essential to help transform the current Chinese stock market to a more mature and open one that offers a better investment environment for retirement savings. In the sphere of health care reform, China in

the past three years has made major headway in decreasing patients' share of spending, building or revamping community-based care centers, and increasing health insurance coverage for the population. However, the overall health care cost has not been overhauled in any significant way due to the fact that both utilization and unit price of medical services have long been driven by incentives to overprescribe treatments and sell medicines on the part of hospitals and doctors. China is still in its early stage of designing medical service pricing schedules and medical provider compensation schemes to curb the "grey income" and wastes

in the health care system that had resulted in the crippling costs for both the patients and tax payers. Health actuaries' expertise will most likely be in demand.

Future opportunities and challenges abound as China stands at the current crossroads. It is high time the nation and its leadership switch gears from a mentality of "crossing the river by groping for stones." The actuarial profession has a lot to offer in helping to chart out a new blueprint of China's economic reform with a more long-term, sustainable vision. □

SOCIETY OF ACTUARIES

# Attestation OPEN



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- ✓ **STEP 2:** Indicate whether you've met the SOA CPD Requirement.
- ✓ **STEP 3:** Identify which compliance path was used.

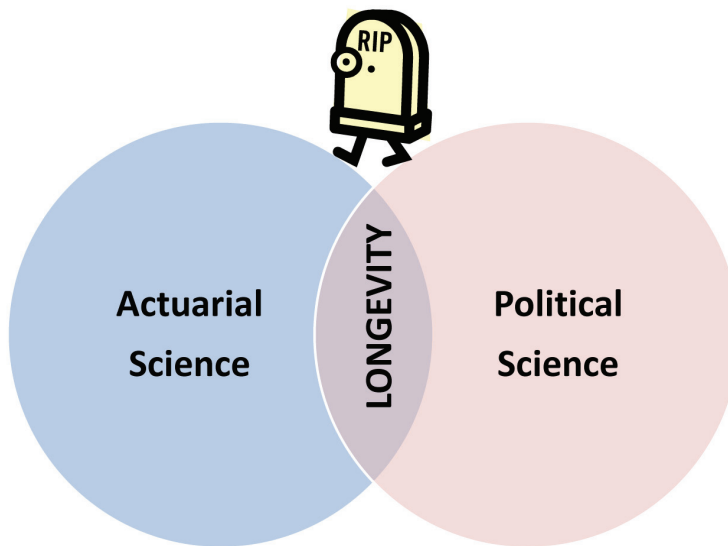
Attest today at [SOA.org/attestation](http://SOA.org/attestation).



**Geoffrey Melbourne, FSA, FCIA,** is a senior consulting actuary at Towers Watson in Toronto. He can be reached at [geoffrey.melbourne@towerswatson.com](mailto:geoffrey.melbourne@towerswatson.com). The views expressed in this article are not necessarily the views of Towers Watson.

## Canadian Old Age (In) Security

By Geoffrey Melbourne



In the winter of 2012, the Canadian Prime Minister, Stephen Harper, attended the World Economic Forum in Davos, Switzerland. Among the things of which he spoke<sup>1</sup> were:

- Telling developed countries they have to start making hard choices and stop taking their wealth for granted,
- Promising to make economic and labour force needs the central goal of Canada's immigration efforts in the future, and
- Promising changes to Canada's retirement system that are necessary to ensure it's available now and for the next generation, which is the subject of this article.

After enjoying the reputation as "Canada's natural governing party," the Liberal Party of Canada suffered successive defeats to the Harper Conservatives in 2006 and 2008, and then were relegated to third place in the 2011

elections in which the Conservatives earned a strong mandate as the first majority government in four elections (the New Democratic Party, with democratic socialist principles, forms the official opposition). Political responses to the retirement system changes from the opposition parties lamented the impact on low-income seniors, and protested the silence on the proposed changes during the 2011 election campaign (when they presume that the government would have known about them).

So just what do these changes entail in Canada, where the economic climate seems sunnier than in many other parts of the developed world, though the meteorological climate will often leave you with a chill?

The main pillars in Canada's social security system are Old Age Security (OAS), which is residence-based; Guaranteed Income Supplement (GIS), which is means-tested; and Canada Pension Plan<sup>2</sup> (CPP), which is based on employment earnings. According to the prime minister:

- We have already taken steps to limit the growth of our health care spending and must do the same for our retirement income system.
- CPP, the centerpiece of the retirement income system, is fully funded, actuarially sound and does not need to be changed.
- For those elements of the system that are not funded, we will make the changes necessary to ensure sustainability for the next generation while not affecting current recipients.
- Canada's demographics also constitute a threat to the social programs and services that Canadians cherish.

## Today there are four working-age Canadians for every senior; by 2030, there will be only two.

OAS is the single largest federal program. It is financed from general government revenue and provides benefits to most Canadians 65 years of age and over. It is designed to replace approximately 15 percent of income up to the average industrial wage (approximately \$50,000 in 2012)—the maximum pension payable in 2012 is approximately \$545 per month. GIS is payable to OAS recipients with income below certain thresholds. OAS pensions are also gradually clawed back once income exceeds a threshold of approximately \$70,000 in 2012, with full claw-backs after income exceeds approximately \$113,000 in 2012. Pension payments are indexed quarterly in line with the consumer price index (CPI).

The proposal would see the eligibility age for OAS and GIS gradually increasing from age 65 to age 67 over six years starting in 2023. In addition, there would be voluntary deferral of OAS pensions for up to five years, subject to an enhancement of 0.6 percent for each month of deferral. On the administrative side, there would be a proactive enrollment process that would remove the need for many seniors to apply for the OAS pension and the GIS.

The justification for the changes further adds that:<sup>3</sup>

- The number of Canadians aged 65 and over will rise sharply over the next two decades, due to the aging of the baby boomers and longer life expectancy. By 2030, seniors will represent close to 25 percent of the population, compared with about 14 percent in 2010. In that same time period, the working-age population will barely grow at all.
- OAS annual expenditures are projected to increase from approximately \$38 billion in 2011 to \$108 billion by 2030. Today, 13 cents of every federal tax dollar is spent

on OAS benefits. If no changes are made, by 2030—2031, this spending is projected to increase to 21 cents of every federal tax dollar.

- Today, there are four working-age Canadians for every senior; by 2030, there will only be two.

Canada's labour force growth will slow due to the increase in the number of retirements. This may also slow Canada's economic growth.

On the reverse page though, Parliamentary Budget Officer Kevin Page reports that the restrictions in health care spending alluded to by the prime minister allow enough room in the federal fiscal structure to absorb OAS cost pressures without raising the eligibility age by two years. Page suggests that there may be other policy rationales for the changes, which the cynic might interpret as being purely ideological—the pragmatic might see them as being more focused on economic growth.

Notwithstanding its prominence in the federal budget, with a target replacement ratio of only 15 percent of national average income, most Canadians would obviously be reliant on other sources of income for their financial security in retirement. CPP, the other main social security pillar, has a 25 percent target replacement ratio and has been assessed to be actuarially sound. The maximum pension payable at age 65 in 2012 is approximately \$987 per month, and benefits are indexed annually in line with CPI. In their pursuit of financial sustainability, CPP and other major Canadian pension funds received what some may consider as un-Canadian coverage by *The Economist*,<sup>4</sup> being given the haughty label of “Maple revolutionaries.” Depending on what one sees as the ideal overall

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## Canadian Old Age (In) Security | from Page 15

replacement ratio, there still exists considerable room for retirement savings at either or both of the personal or workplace levels.

There is significant underutilization of the tax-preferred savings options afforded to Canadians at the personal level. At the same time, like employers in many other countries, changes have been made and are being considered to workplace pensions in areas such as:

- Conversions from defined benefit (DB) to defined contribution (DC)
- Plan terminations
- Various forms and degrees of plan de-risking.

The federal government's main solution to the problem of declining pension coverage rests with the concept of pooled registered pension plans (PRPPs). These would operate on a DC basis, with features such as auto-enrollment (with an opt-out provision), voluntary employer contributions and (hopefully) low management fees. They have been welcomed by some stakeholders, not least of whom are the insurance companies who will have additional asset pools to manage (and who dominate the DC landscape for workplace pensions), and some employers who welcome the absence of any mandatory contributions on their part. Ontario, Canada's most populous province, continues to express reservation about PRPPs, favouring instead an expansion in the tried-and-tested CPP.

So what does all this mean for the retirement system? For those already retired, the OAS changes will have no effect. Given the phase-in, the ultimate eligibility age of 67 will only apply to those born in 1962 or later. Against the background of trends to increased longevity, and the recent release of mortality improvement scale BB, there is some justification for the higher eligibility age, though accompanied

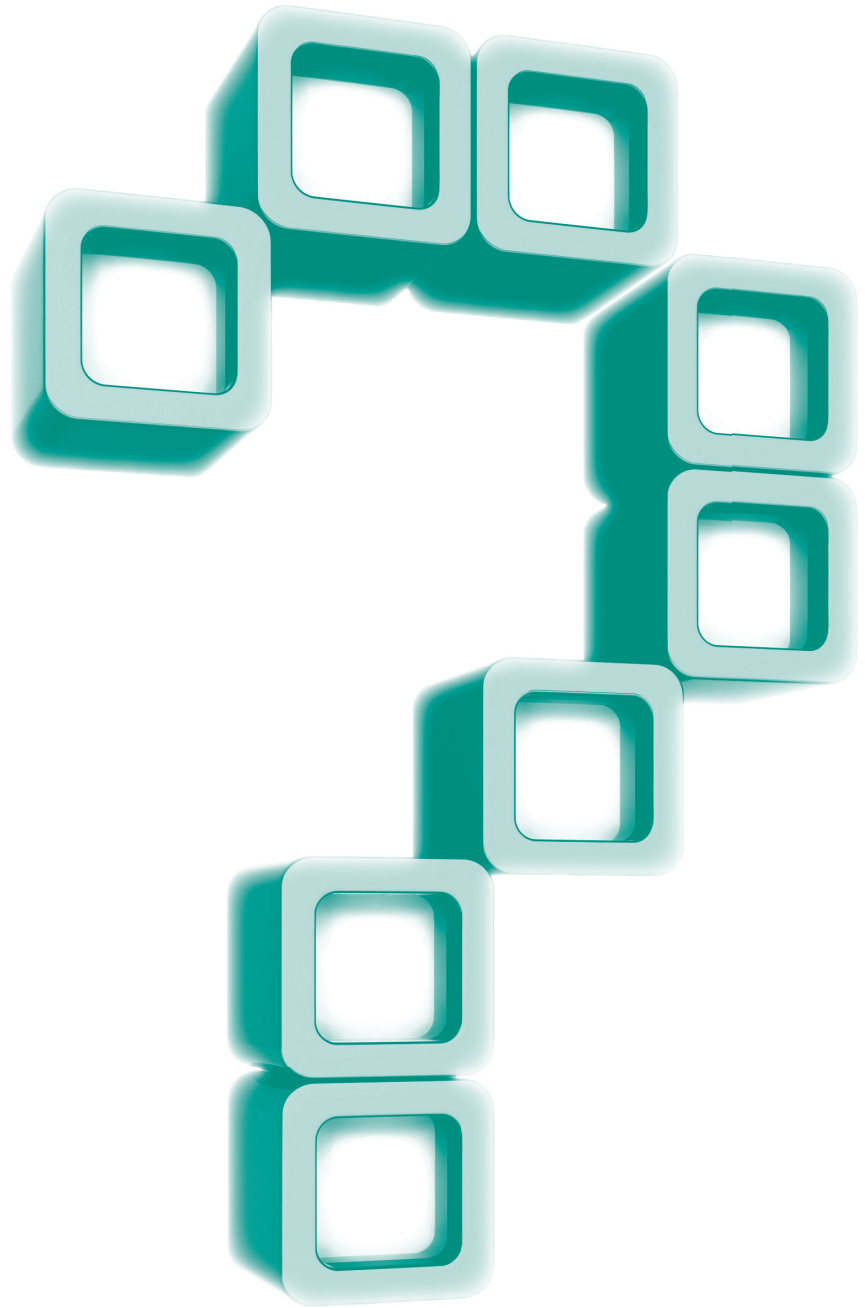
by the fear in some quarters about the erosion of the social safety net. The CEO of another of the "Maple revolutionaries," the Ontario Teachers' Pension Plan, which is facing acute challenges of a very mature membership profile, says "The changes are necessary. As long as the saving period is long enough, it's fair."<sup>5</sup> Although CPP is funded by employers and employees, some may find the optics of the eligibility age of 65 which prevails thereunder to be curious.

More generally, it is widely viewed that Canadians are not saving enough for retirement, over and above the benefits provided by the social security system, and it seems unlikely that employer sentiment toward workplace pensions will improve in a hurry. With increased longevity and low interest rates raising the bar, hopefully better use will be made of the savings vehicles already available to future retirees, and new ones such as PRPPs when they do come. Meanwhile, politically, pensions have often been thought to be one of the hot coals. The lessons from Canada seem to be that those in and close to retirement would best be left untouched, and timing is everything—the tailwinds of a resounding mandate from the electorate might provide a great opportunity to prescribe an antidote to the "fountain of youth." □

#### END NOTES

- <sup>1</sup> <http://www.cbc.ca/news/politics/story/2012/01/26/davos-harper-thurs.html>
- <sup>2</sup> Quebec Pension Plan (QPP) for residents of Quebec.
- <sup>3</sup> <http://www.servicecanada.gc.ca/eng/isp/oas/changes/index.shtml>.
- <sup>4</sup> <http://www.economist.com/node/21548970>.
- <sup>5</sup> <http://www.thespec.com/news/business/article/707046--five-questions-with-jim-leech>.





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**Michael L. Frank, ASA, FCA, MAAA,** is president and actuary, Aquarius Capital, and adjunct professor at Columbia University. He can be reached at [Michael.Frank@AquariusCapital.com](mailto:Michael.Frank@AquariusCapital.com).

## A Global Perspective of the Health Insurance Market

By Michael L. Frank



### GENESIS OF THE JOURNEY

While serving as president of the Actuarial Society of Greater New York, a student at Bard College contacted me requesting an information session at her school on the actuarial profession. This request expanded to visits to five college campuses, including Bard, Columbia, St. John's, SUNY-Albany and Vassar with a significant number of attendees being graduating math and business students in the actuarial profession.

Columbia University, with one of the largest actuarial programs, offered my business partner at Aquarius Capital, Don Rusconi, and me the opportunity to teach a course as adjunct professors, and to develop a course that would give students a perspective of what it would be like to work as a health actuary or a health insurance professional—e.g., chief financial officer, insurance broker, venture capitalist—as well as providing experiences applicable to their careers, and equally important, to their resumes.

### COURSE "BLUEPRINT"

In January 2012, we developed a course called "A Global Perspective of the Health Insurance

Market." The objective of the course was to provide an overview of the health care insurance industry, including different products available, various delivery systems (U.S. vs. international), health care reform, reinsurance and capital markets. We expanded the course to position students for C-positions (e.g., CEO, CFO, COO), covering material such as how publicly traded HMOs manage business; how rating agencies evaluate companies; the role of insurance/reinsurance brokers; consulting on international health care systems; and politics and its tie to local health insurance. Health care reform was addressed, but was not limited to the United States—we covered reform in 12 other countries. Actuarial standards of practice (ASOPs), traditional health actuarial projects and professionalism issues were incorporated into the course.

Material was developed as the classes progressed, as we observed what students could absorb (or not) over a short period of time (2.5 hours per week for 14 weeks). The course included a 700-plus-slide PowerPoint presentation and 200-plus articles on the industry rather than a traditional textbook to tailor material on current health industry issues at hand, both in the United States and internationally. The majority of the 200-plus articles were less than a few years old, so the course was very relevant and current. The course objective was for students to hit the ground running on their first job if they chose the health care profession, or any job in the insurance profession (the course covers other actuarial disciplines, although the primary focus is on health care). Students also benefited by expanding their resume through research and experience, which is critical in a difficult job market.

In January 2012, Columbia University developed a course called "A Global Perspective of the Health Insurance Market." The objective of the course was to provide an overview of the health care insurance industry, including different products available, various delivery systems (U.S. vs. international), health care reform, reinsurance and capital markets.

### STUDENTS CONTRIBUTED TO THE COURSE

Columbia provided a unique opportunity with the class having 39 international students from a variety of countries and backgrounds. Many students contributed significantly to the course, including providing questions that were focal points of future lesson plans and completing research projects that benefitted the class as well as the insurance industry. For example, students coordinated a poll survey on health care reform, which was used for teaching the course as well as a resource document to several insurance industry task forces in health care. See <http://www.aquariuscapital.com/downloads/HealthInsurancePollSurvey-052912.pdf> for details.

Many students published more than one piece of research in the industry. Students worked in teams, contributing and presenting research material, often taking them out of their comfort zones with experiences in public speaking, project management and team building. As part of the course, students were given homework assignments and readings to critique, and asked to provide opinions of items they liked/disliked. This effort ultimately became the framework of future research projects and class assignments. Students were also given traditional actuarial projects in pricing, reserving and underwriting as part of the course.

### INTERNATIONAL HEALTH CARE SYSTEMS

For the final exam, students researched the health care system of a specific country, wrote a paper (many were later published), and presented a lecture to the students and professors on their research using a PowerPoint 20- to 30-minute presentation.

Students were assigned to 11 teams with three to four students per team, with each team representing a different country. The 11

countries selected by students were Australia, Brazil, Canada, France, Germany, India, Japan, Singapore, South Korea, Sweden and the United Kingdom. As part of the project, students reached out to other students outside their team to peer review their final paper/research. Based on their own critiquing and likes/dislikes of other articles that they reviewed, the students developed the guidelines and framework on what they wanted their presentations to cover. Students used videos, humor, graphics, foreign language and social media as part of their presentation to teach the class.

Students contacted actuaries in their assigned country to obtain insights and research (e.g., the Brazil team contacted Ronald Poon Affat, a practicing actuary in Brazil). This was highly encouraged in the course, both to expand students' knowledge in a local market plus provide valuable networking opportunities, an important tool for future actuaries.

Overall, the international research project was a success. Although the research done by the students has its limitations (they are NOT practitioners with prior experience), their enthusiasm and interest to contribute to the profession at the beginning of their actuarial careers was very positive, and students learned a lot about 12 health care systems in addition to the U.S. market. To access students' work, visit <http://ce.columbia.edu/Actuarial-Science/Student-Work>.

### CONCLUSION

At the end of the course, students learned the day-to-day role of a health care actuary (technical aspects of the job) as well as a health care executive (e.g., CFO). The overall experience was very positive for students and the instructors. Several students volunteered

CONTINUED ON PAGE 20

A Global Perspective of the Health Insurance ... | from Page 19

to be a teacher's assistant for the next course, and many students were looking for internship programs to gain relevant actuarial experience. Some obtained opportunities through the networking that took place throughout the course and were gainfully employed upon completing the course.

Through course work, students learned firsthand how *local* health insurance is, which is an important lesson usually learned through many of years of experience. They also studied and observed how government and health care systems interact. Some students observed that although other countries are ranked higher than the U.S. system in controlling costs, many residents of those countries choose to come to the United States when they are sick.

#### THE FUTURE

This course will continue in 2013, expanding the study to additional countries chosen by the future students, and hopefully include more actuarial practitioners as student mentors. The course instructors will also be doing a similar course internationally, including this fall in the Dominican Republic, and China in 2013.

Following this course, Columbia University piloted an internship program this past summer with practicing actuaries creating projects for students to provide them relevant work experience and research. The overall impact was very positive based on student evaluations, practitioner feedback and successful student transition into the workforce.

#### THANK YOU

Special thanks to Noor Rajah, program director and actuary at Columbia University, for his assistance in getting this course off the ground, including trusting us to test pilot on his students, and to Donald Rusconi, vice president and CFO at Aquarius Capital for his work in

this joint effort. We also want to thank Ronald Poon Affat, vice president and CRO of Tempo Assist, Sao Paulo, Brazil, for his efforts in assisting students on the international project (his contribution for Brazil) and his encouragement/peer review of this article. His participation was valuable for the course, and we hope other actuaries will participate in the future.

Most importantly, a special thanks to the 42 Columbia University graduate students who went on this unchartered course called a "Global Perspective of the Health Insurance Market" since they made the program go. Visit <http://ce.columbia.edu/Actuarial-Science/Student-Work> for a full list of student names. Lastly, thank you to Weiying Liu, a college student at Bard College, for her LinkedIn email that set this ride in motion. □



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**Douglas J. Carey, FSA, FCA, EA, MAAA**, is director at Deloitte Consulting, LLP, in Stamford, Conn. He can be reached at [doucarey@deloitte.com](mailto:doucarey@deloitte.com).

## ISC Co-sponsored Retirement Seminar in Azerbaijan

by Douglas J. Carey

**T**he International Section Council in conjunction with the Actuaries without Borders section of the IAA and the Azerbaijan Actuarial Association recently sponsored a three-day seminar focused on retirement benefits in Baku, Azerbaijan. The Ministry of Finance of Azerbaijan and the Society of Actuaries contributed financially towards the seminar.

The seminar came about through efforts of the ISC to extend its successful Asian IFRS seminars into other subjects and geographical areas. The government of Azerbaijan is beginning a process to consider reforms to its pay-as-you-go Social Security System to transform it to a self funded one and, at the same time, introduce legislation to enable a private pensions market. The Ministry of Finance, recognizing that actuaries in that

country do not have the necessary training to support a private pension system, turned to ISC and AWB to provide this introductory course.

The seminar was held on November 13-15, 2012. It was attended by about 40 actuaries currently employed by life insurance companies and Azeri government agencies of finance and labor protection. Instructors for the seminar were chosen by AWB and included International Section Council member Doug Carey, FSA and AWB members Lindsay Neu, FSA and Tony Hewitt, FIA. The Azeri sponsors really appreciated the about 80 years of combined retirement experience of the instructors.

The seminar was a great success in the view of all three of the instructors, the Azerbaijan seminar sponsors and, most importantly, in the view of the attendees. The instructors received a number of very positive comments both during the seminar and at its conclusion. As a testament to the level of interest, attendees came promptly every day, returned promptly from breaks and most were extremely engaged in the numerous group activities that we held.

The seminar was organized into three days, each consisting of four 90 minute modules. Most modules comprised half lecture and half working group exercise. Each working group exercise dealt with a practical issue or problem and gave the attendees opportunities to discuss amongst themselves and practice what they learned before reporting out to the

Seminar Attendees; Instructors Tony Hewitt, Lindsay Neu and Doug Carey in front row beginning fifth from left.



The seminar came about through efforts of the ISC to extend its successful Asian IFRS seminars into other subjects and geographical areas.

entire group. With introductions, summaries, breaks and lunch, each day was eight hours long.

The days were organized as follows:

**Day 1:** Professionalism in the Actuarial Profession (principal instructor, Tony Hewitt)

**Day 2:** Design and Financing of Social Security Systems and Private Retirement Plans (principal instructor, Doug Carey, with the help of Nurlan Kazimov to discuss Social Security in Azerbaijan)

**Day 3:** Actuarial Assumptions, Cost Methods and Projections (principal instructor, Lindsay Neu)

The International Section Council leadership is particularly pleased to have co-sponsored this event and will be looking at similar opportunities in other emerging markets countries to extend the reach of the Society of Actuaries around the world and foster connections with other actuarial organizations. □



Azerbaijan Actuarial Association member Turan Mammadov reporting out from one of the subgroup exercises

## Ambassador's Corner

### New Ambassadors:

The International Section is pleased to advise that Ambassadors have recently been appointed for two more countries: South Africa and Japan. In this edition of the Ambassador Corner, we are providing biographies and 2012-13 work plans for these new Ambassadors. We will continue featuring articles from all of our ambassadors on their respective countries.

#### SOUTH AFRICA

##### **Samantha Walton, FSA, CERA, CFA**

Guy Carpenter  
South Africa  
samantha.walton@guycarp.com

#### **Biography**

Sam heads up the analytics department of Guy Carpenter South Africa. Sam's role within Guy Carpenter is analysing and providing risk management solutions using reinsurance arrangements. These solutions are for short term insurance treaty clients, as well as life, disability and liability catastrophe cover for large self insured pension plans and life offices. Prior to Guy Carpenter, Sam worked on the valuation of BEE transactions and other financial instruments at Deloitte and created the credit risk measurement methodology for the Fixed Income department at RMB Asset Management.

#### JAPAN

##### **Eduard Nunes**

Senior Manager,  
Actuarial Practice in Japan  
T +81 (0) 90-6478-7326  
E eduard.e.nunes@jp.pwc.com

#### **Biography**

Eduard is a member of PwC's actuarial practice in Tokyo. He joined PwC in 2011 after accumulating more than fifteen years of diverse experience in both life insurance company and consulting environments. Most recently at PwC, Eduard has been assisting the Japanese subsidiary of a large multinational with the Solvency II implementation of their variable annuity business. He has also been advising a reinsurer with its strategic entry into the Japanese market. Prior to joining PwC, Eduard worked for over five years at the Japanese subsidiary of a large multinational. He was responsible for various aspects of its variable annuity business, including product development and pricing, financial reporting, risk management, model validation, reinsurance, and hedging. In addition, as part of its Executive Committee, Eduard had an influence in the strategic outlook and decision making of the organization, particularly as it concerned the variable annuity business.

Before coming to Japan, Eduard acquired experience in M&A situations from a wide range of perspectives including pre- and post-implementation analysis while working at life insurance companies. He also served in advisory roles for both buy side due diligence and sell side valuation while working for more than



four years at a global actuarial consulting firm. Eduard is a member of several actuarial organizations including the Society of Actuaries, the American Academy of Actuaries, and the Canadian Institute of Actuaries. He also holds the Chartered Financial Analyst designation.

#### 2012-13 Work Plan

- Host social events for members of the SOA, IAJ and actuarial organizations to:
- Create an actuarial community for existing SOA members in Japan
- Expand the interaction between SOA members and IAJ members in Japan
- Expand the interaction between SOA members and members of other actuarial organizations other than the IAJ in Japan
- Reach out to SOA members coming to Japan on either short or long term visits to assist them with any issues as necessary
- Assist the SOA with the organization of any SOA events in Japan to provide CPD opportunities for SOA members in Japan
- Provide an article on the Japanese market for the International News to maintain awareness of the Japanese market for interested SOA members
- Write a year-end report to the SOA to update the SOA on Ambassador activities in Japan
- Assist the IAJ with their Overseas trip to SOA Conferences to facilitate knowledge exchange between members of the SOA and the IAJ □

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Using your credit card and our easy-to-use online payment system, you can pay your dues, renew section memberships or sign up for new section memberships. For your convenience, you can also sign up for IAA special interest sections at the same time you renew your SOA membership.

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# 2013 Country Feature Article Competition - Cash Prize of U.S. \$1,000!

## Do you want U.S. \$1,000 for writing about something you find fascinating and become a published author? Read on:

The International Section Council (ISC) is pleased to announce we are running our Country Feature Article Competition again this year. Here is a chance for you to win a cash prize of U.S. \$1,000 for first place, or U.S. \$500 for second place. If you are not an International Section member yet, simply join the section for U.S. \$25 and then submit an entry. You do not need to be an SOA member to join the International Section so please pass the word on to others who may be interested. The preliminary deadline is March 31, 2013 to ensure eligibility in the contest.

Markets vary by country due to such local factors as history, economic system, regulations, consumer behaviors, social values, and culture. The Country Feature Article Competition provides you with a forum to share your experiences, interesting facts, or statistics that reflect your country's distinctive qualities.

Your article can be about any non-U.S. topic or topics that you find informative and interesting. For example, it might be about local actuarial organizations and activities, the actuarial profession in traditional or wider fields, financial products, social security reforms, employee benefit practices, or the insurance sector in your country. It could be about market trends in pensions or insurance products. It could be technical or informal. The choice is yours!

### Eligible Authors:

- Any International Section member

### Rules:

- The article must be a previously unpublished article.
- The write-up should be no more than 2,000 words.
- Photos, charts, tables or graphics are encouraged for illustration. Any photo sent should be in either .jpeg, .tif, or .eps format with a print resolution of at least 300 dpi. We accept photos taken by you or photos with permission to use provided by its original owner.

### Deadline:

Please e-mail your submission to Jill Leprich (jleprich@soa.org) by March 31, 2013. Please give full contact details for the author.

Selection and Announcement: The ISC will select and advise winners in spring 2013, using criteria such as "That was so riveting" or "That explains what I always wondered about XYZ", etc.

We look forward to receiving your entry.

# CALL FOR PAPERS

The Institut des actuaires kindly invites you to attend the Colloquium of the International Actuarial Association to be held in Lyon, France, from the 24th to the 26th of June 2013. This colloquium is a joint collaboration of three IAA sections: Actuarial Approach for Financial Risks/Enterprise Risk Management (AFIR/ERM), Pension Benefits and Social Security (PBSS), and Life Insurance.

The program will include formal addresses, topical presentations and papers as well as many social activities in the beautiful area of Lyon.

You are cordially invited to attend **the Lyon Colloquium on 24-26 June 2013. REGISTER NOW!**

## SCIENTIFIC COMMITTEES

As you may know, these Colloquia are organized as to promote the publication of papers that contribute to the betterment and enhancement of the actuarial profession. They bring together both academics and practitioners, and provide an outstanding forum for the exchange of knowledge among actuaries of different countries and different disciplines in the application of research to practical problems. They also allow participants to keep up to date with the fast changes occurring in the actuarial profession.

We are sure you are aware that the most important part of the Colloquia is the presentation of papers by participants. We invite you to submit a paper for presentation during these events.

We are pleased to enclose the Call For Papers for each section:

- AFIR/ERM Call for Papers
- IAALS Call for Papers
- PBSS Call for Papers

## KEYNOTE SPEAKERS

During these events we will also have the participation of keynote speakers with international experience, who will share with us their ideas during their scheduled presentations:

- Rama Cont — AFIR/ERM: "Central Clearing of Derivatives"
- Michael Sherris — AFIR/ERM: "Longevity and mortality model risks in the valuation and risk management of long term insurance contracts"
- Annamaria Olivieri — AFIR/ERM-LIFE: "Longevity risk and related issues for the life annuity and pension business"
- Pauline Barrieu — AFIR/ERM : Title to be confirmed
- Richard Phillips — AFIR/ERM: Title to be confirmed
- Ermanno Pitacco — PBSS: "From benefits to guarantees: looking at risk transfers in life annuity and pension products"

Visit the [Colloquium website](#) for more details.

François Bonnin Chairman, Organizing Committee	Jean-Paul Laurent Chairman AFIR-ERM Scientific Committee
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Frédéric Planchet Chairman, PBSS Scientific Committee	Pierre Therond Chairman LIFE Scientific Committee
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## Find out more

For more information about the Lyon Colloquium, please visit our website at: [www.actuaries.org/lyon2013/](http://www.actuaries.org/lyon2013/)

**For any general inquiries relating to the Lyon Colloquium, please contact [lyon2013@institutdesactuaires.com](mailto:lyon2013@institutdesactuaires.com)**

475 N. Martingale Road, Suite 600  
Schaumburg, Illinois 60173  
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# International News