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# International News

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# International News

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# Editor's Note

By Vincent Xuan



By the time you open this new issue, we have said goodbye to the fruitful 2015 and welcomed a leap year of 2016! Please allow me to wish all of you a Happy New Year! With the first Olympics Games to be held in South America, the first privately built space plane debut and the first driverless car road testing getting close to the end, 2016 is indeed an eventful one. When we hear more and more about recent technology breakthroughs, we are expecting expedited changes both economically and socially. So is our own community – the International Section!

During the last SOA Annual Meeting in October 2015, new council members' terms started and new council officers were elected. Congratulations to **Wendy Liang** and **Graydon Bennett**, our new chair and vice chair. We wish them the best in leading the section to another period of success. As you may remember from the last issue, we expanded the editorial board to recruit more talented editors. Based on each editor's geographic and professional interests, they were appointed to lead the article sourcing, editing and relationship building for each continent. I am proud to introduce our editors to you.

**Carl Hansen**, our previous chief editor, generously decided to stay and help us build connections with European actuarial societies. **Arpita Das**, the lead editor for Africa, joined us with her abundant experience on micro-finance in VisionFund Kenya and active involvement with TASK (the Actuarial Society of Kenya). **Milanthi Sarukkali**, the lead editor for Asia outside Greater China, added her leadership in the actuarial community of Sri Lanka to the board. **Tim Paris**, the lead editor for Caribbean countries, brought in his years of transaction experience in foreign countries including Bermuda and Barbados and editorship from the editorial board of *The Actuary*. **Alex Slivinski** leads the European front with his presence in the United Kingdom and exuberant energy. **Qi Sun**, the lead editor for the Greater China region, added to the team his connections in Hong Kong, mainland China and Taiwan. **Peter Bondy**, leads the Latin America region with his plentiful exposure and personal root in this area. **Ning Ding**, the lead editor for Oceanian and North American countries, will also contribute in the Asian region.

Huge thanks to all of you who have voiced out your ideas through the *International News* survey. Your answers provided us an opportunity to create a benchmark and ideas to provide a better experience for our readership. Based on the survey results, we expect to roll out a series of actions to enhance the quality of our deliverables, such as the way of delivery, the publishing frequency and topic distributions. We will keep you informed.

This issue features several outstanding articles of industrial hot topics from Africa, New Zealand, the United Kingdom and other parts of the world. Our council chair and vice chair give us refreshing updates on recent developments of the council activities as well as the Ambassador Program. Also, greetings from sister actuarial organizations such as the International Association of Consulting Actuaries (IACA), the Actuarial Association of the Republic of Srpska, and the International Actuarial Association make you feel that you are not alone! Actuaries are playing an increasingly critical and active role on the global stage.

The editorial board continues to serve as the connection between you, the council and the Society of Actuaries. As always, we would like to hear from you on any feedback or suggestions. We hope to see a smile of satisfaction on your face, as that is the sole motivation for us to deliver a better newsletter in your hands. ■



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# Chairperson's Corner

By Wendy Liang

First things first—Happy New Year!

As I write this article, the leaves are turning orange and the weather is definitely cooling down. Sitting on my balcony in Zurich, I can see the snow starting to cover up the tips of the Alps. The weather is changing as we bid farewell to autumn and slowly move into the winter season, welcoming the start of 2016, Year of the Monkey!

As usual, the new “year” for the SOA kicked off back in October at the 2015 Annual Meeting & Exhibit taking place in Austin, Texas. As Craig Reynolds takes over the presidential gavel from Errol Cramer, the International Section Council also moves on to a new chapter. I would like to take this opportunity to say thanks to Carlos Arocha, past chairperson, for successfully leading the International Section Council for the past year. Carlos will remain with us as a Friend of the Council. I'd also like to thank Rong Rong and Warren Rodericks for their commitment to the council during the last three years. With that, it is my pleasure to welcome our newly elected council members: Kelvin Lam, Milanthy Sarukkali, Vincent Xuan and Wendy Kwan.

During the SOA Annual Meeting & Exhibit in Austin, the International Section welcomed our members with a Sunday evening reception filled with wine, cheese, food and live music. The evening provided great networking opportunities and a chance to catch up with old and new friends. If you missed it this past October, definitely come join us this coming October as we head to Las Vegas! With a theme of “Around the Globe,” four sessions covering a wide range of topics internationally were offered by the International Section. A summary of all the sessions as well as an overview of our initiatives were presented during the breakfast session on day three. Specifically, I'm very excited to announce that we have reached the very final stage of rolling out our brand new Mentorship Program. The program will be rolled out with a pilot in the Caribbean and Taiwan and we look forward to expanding it after a successful test run!

Going into the new year, the International Section will continue supporting the SOA's broader international initiatives and footprint through webinars, conferences and through effective use of our global network. We will also strengthen our liaison with Actuaries Without Borders (AWB) and continue expanding our offerings with the Ambassador Program for our internationally

based members. Recently, we have entered into a partnership with the Investment Section on newsletter articles, webinars, and potential boot-camp offerings in Asia. All of which can only be achieved with the help and support of our members. In addition to research proposals, we encourage you to reach out to the council for any other ideas that you may have. This could be a local event in your country, an international topic for those in the United States or anything else. Ideas as well as research proposals can be sent to myself ([wendy\\_liang@swissre.com](mailto:wendy_liang@swissre.com)), Graydon Bennett ([graydon.bennett@generali-worldwide.com](mailto:graydon.bennett@generali-worldwide.com)) or Breanna Rodriguez ([brodriguez@soa.org](mailto:brodriguez@soa.org)).

In closing, please allow me to introduce you to the 2015-2016 International Section Council:

- Wendy Liang — Chairperson
- Graydon Bennett — Vice Chairperson
- Kelvin Lam — Secretary
- Vincent Xuan — Treasurer
- Anna Dyck
- Lindsay Neu
- Athena Tsouderou
- Milanthy Sarukkali
- Wendy Kwan

Once again, Happy New Year and we look forward to hearing from you! ■



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# 2015 SOA Annual Meeting & Exhibit

By Milanthi Sarukkali

The 2015 SOA Annual Meeting & Exhibit was held in Austin, Texas, October 11–14, with participants from all over the world. In addition to educational sessions and exhibits, members and guests had the chance to participate in several social activities, including a reception with the SOA presidents and the presidential luncheon. The International Section played an active role in organizing some of the parallel sessions as well as several social events for its membership and other international guests.

## GENERAL SESSION AND PRESIDENTIAL LUNCHEON

The 2014–2015 SOA President Errol Cramer addressed the gathering at the general session on Monday, October 12 and welcomed the participants. The keynote address was delivered by Mr. Salim Ismail, executive director of Singularity University, best-selling author and former vice president of Yahoo!, highlighting the technological developments around the world and its implications on society.

The highlight of the presidential luncheon was the passing of the badge of office to the new SOA president, Craig Reynolds. The incoming president's address emphasized the importance of the SOA keeping up with globalizing businesses. He listed supporting our members in international markets and enhancing the global reputation of our organization as one of the five essential ideas the SOA will focus on in the coming year.

## INTERNATIONAL SECTION COUNCIL MEETING

A council meeting of the International Section was held concurrently with the SOA Annual Meeting & Exhibit on Sunday, October 11. The annual meeting was an opportunity for International Section Council members to meet in person and discuss future activities of the section.

## INTERNATIONAL SECTION SPONSORED SESSIONS

The International Section sponsored a series of sessions titled “Around the Globe,” addressing a wide array of topics that are globally important.

### AROUND THE GLOBE – LATIN AMERICA: MICROINSURANCE OPPORTUNITIES AND CHALLENGES

Josh Ling, a senior microinsurance specialist for Mercy Corps discussed key characteristics of microinsurance products and projects in Haiti and Central America. Next, Angelica Morales presented microinsurance implementation challenges in Latin America, followed by Jeff Blacker who discussed transitioning to a career in microinsurance. The session was coordinated by Lindsay Neu of the International Section.



2014–2015 President Errol Cramer addressing the gathering

### AROUND THE GLOBE – CHINA: CLOSING THE FINANCIAL GAP FOR CARDIOVASCULAR DISEASE

This session highlighted the existing protection gap for Cardiovascular Disease in China and discussed how to better fill this financial gap as well as the role of private insurance providers in addressing this challenge. Audrey Chervansky, Xiajie Wang and Daniel Garret Ryan were presenters at this session.



On the left: Carlos Arocha with key note speaker Salim Ismail at the wine and cheese Reception/On the right: International Section breakfast

AROUND THE GLOBE – TAMING YOUR DATA

International Section chairman, Carlos Arocha chaired this session, which addressed the importance of data quality in this era where companies increasingly rely on models and reports to make important financial decisions. Dr. Pedro Fonseca’s discussion emphasized that having trusted data is as, if not more, important as a good mathematical model. This was followed by a presentation of implications of data challenges on modeling discussed by Milanthi Sarukkali, using a few case studies drawn from South Asia. The session concluded with Petra Wildemann’s presentation on managing cyber risk exposures.

AROUND THE GLOBE – IAIGS: THE TENSION BETWEEN GLOBAL GOALS AND LOCAL BUSINESSES

This session was also chaired by Carlos Arocha, with Henry Essert, Takiko Uemoto and Prannoy Chaudhury as presenters. This session identified potential impacts to business models and product portfolios of large multinational companies when global capital standards are implemented for global systemically important insurers and for internationally active insurance groups.


INTERNATIONAL SECTION NETWORKING EVENTS

The International Section hosted a wine and cheese reception on Sunday, October 11 at the J.W. Marriott in Austin. Section members and guests had the opportunity to network with fellow actuaries from around the world while enjoying live music with a local band.

Section members and guests also had an opportunity to network and meet the section council members at the breakfast hosted by the International Section on Wednesday, October 14. Carlos Arocha, Wendy Liang and Lindsay Neu discussed activities of the section during the past year as well as the SOA ambassador program. ■



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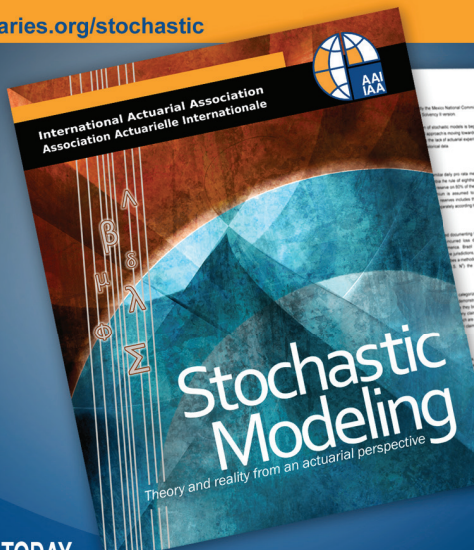


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## Call for Papers and Presentations

‘Our complex and inter-linked world’

Please do join your Actuarial and Legal colleagues at this international meeting in St. John's, Newfoundland and present a paper or give a presentation.

We will be most interested to receive your proposal for a paper or a presentation on topical, technical or professional issues that we, as actuaries and lawyers, are facing in our increasingly complex and inter-linked world. We will particularly welcome joint papers from actuaries and lawyers and from syndicates of actuaries or lawyers from around the world.

Whilst we are open to receiving papers on any subject, we will above all look forward to receiving papers around the theme for this colloquium of “Our complex and inter-linked world”. We have listed below some ideas to encourage you to submit a proposal.

### International Association of Consulting Actuaries - IACA

- Setting the scope and the effective management of cross-discipline projects
- Measuring and managing risk
- The complexities of advising global companies

### International Actuarial Association Health Section - IAAHS

- Trends and Opportunities of Healthcare and digital Innovations across the Globe
- Issues in Healthcare such as Smart Analytics, Big Data, Genomics, Telemedicine and other Disease Management intervention
- Managing costs, solvency and financial soundness of public and private healthcare systems

### Pension, Benefits and Social Security Section - PBSS

- Designing default funds for defined contribution plans
- The latest trends in de-accumulation strategies
- Managing state pension provision with an aging population

### International Pension & Employee Benefits Lawyers Association - IPEBLA

- Considerations in changing pension and benefit commitments
- Changes in the landscape of pension plan design
- Pension de-risking developments and strategies
- Hot pension litigation trends around the globe

### General Professional and Ethical Topics

- Conflicts of Interest
- Whistleblowing
- Cyber security

## Best Paper and Best Presentation Awards

Each IAA section may award a prize for the best paper or presentation.

Please visit St. John's Colloquium website for more details

[actuaries.org/stjohns2016](http://actuaries.org/stjohns2016)



# SOA International Section Ambassador Program Update

By Graydon Bennett

Since our last update in May, the International Section Council and the editorial board of this esteemed publication have been busy behind the scenes working on the SOA Ambassador Program. For those who don't know or would like a refresher, the SOA Ambassador Program is run by the International Section as a way to connect SOA members who reside or work outside of North America, and to promote the SOA's international objectives.

The mission of the Ambassador Program, from the SOA website, is: "to assist in carrying out the Society of Actuaries' international programs, identifying and developing subjects of international interest for communication to SOA members, identifying special needs of SOA members in different areas of the world, helping the actuarial profession to grow in underdeveloped areas, and functioning as a valuable resource and link between the SOA and national actuarial organizations and actuarial clubs."

The council, with invaluable support from SOA staff, has recently piloted a new online recruitment process to find new ambassadors for Singapore, Pakistan, and the United Kingdom.



We are pleased to be able to announce officially that the new ambassadors selected through this process are:

- Pritesh Modi, Singapore
- Muhammad Saeed Zafar, Pakistan
- Amanda McKinney-Hosken, United Kingdom

Congratulations to the new ambassadors and best of luck in your new roles.

With the success of the online recruitment process, we will begin recruiting new ambassadors in the following countries at the end of 2015: South Korea, Sri Lanka, and Bermuda. Keep a sharp eye on your inbox if you live in one of those countries. Equally, if your country does not have an SOA ambassador and you're interested in the job, please get in touch with me ([graydon.bennett@generali-worldwide.com](mailto:graydon.bennett@generali-worldwide.com)) or with Breanna Rodriguez of the SOA ([brodriguez@soa.org](mailto:brodriguez@soa.org)). And finally, if your country does have an SOA ambassador and you would like to get involved, send him or her an email to say hello!

As mentioned above, the editorial board has been busy contacting all current ambassadors to seek assistance in sourcing articles from around the world for future issues of International News. At the same time, we have asked ambassadors to take a moment to check the content on their country's page on the SOA website, as some information may be out of date. Please send all corrections to me and I will liaise with the SOA website team.

Lastly but by no means least, I would like to extend on behalf of the council my sincere gratitude for the service of those ambassadors who are stepping down. In the United Kingdom, both Anna Edwards and Nick Dexter have been involved for a number of years in promoting the SOA and ensuring that our members in that country feel connected with their peers around the world. ■



Graydon Bennett, FSA, FFA, is a reporting actuary with Generali Worldwide in Guernsey, Channel Islands. He can be reached at [Graydon.Bennett@generali-worldwide.com](mailto:Graydon.Bennett@generali-worldwide.com).





# LIVING to 100

SOCIETY OF ACTUARIES  
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Jan. 4–6, 2017  
Orlando, Florida

## Save the Date

Registration for the 2017 Living to 100 Symposium will open soon. This prestigious event on longevity brings together a diverse range of professionals, scientists and academics to discuss:

- How and why we age;
- Methodologies for estimating future rates of survival;
- Implications for society, institutions and individuals;
- Changes needed to support an aging population increasing in size;
- Applications of existing longevity theories and methods for actuarial practice.



# International Association of Consulting Actuaries



## ABOUT US

The International Association of Consulting Actuaries (IACA) was founded as an independent organization in 1968 and approved as a section of the International Actuarial Association (IAA) in 1999. IACA's objectives are to:

- facilitate an international exchange of views, advice, research and practical information among consulting actuaries on matters affecting their professional responsibilities and business interests; and
- encourage and assist in the development of consulting actuarial associations in locations where there is an identifiable need for actuarial skills.

To this end, IACA organizes seminars, colloquia and other meetings, and engages in other activities such as online exchanges, developing websites and publications, and establishing links to other organizations and IAA sections. IACA has members and offers programs for actuaries in all disciplines.

IACA holds biennial meetings all over the world. The last such meeting was in Hong Kong in May 2012, which had a record number of attendees for plenaries and up to four concurrent sessions at a time. The theme of this colloquium was The Actuarial Profession and Social and Economic Development. It was organized and hosted by the Actuarial Society of Hong Kong and was a joint collaboration of three IAA sections, IACA, the Pension Benefits and Social Security Section (PBSS), and the Health Section (IAAHS). For a small sample of the recorded sessions at the Hong Kong Colloquium, visit: [www.actuaries.org/IACA/Video/](http://www.actuaries.org/IACA/Video/).

Every four years IACA's biennial meetings are a part of the International Congress of Actuaries (ICA), where IACA runs a full track of concurrent sessions. The 2014 Congress was in Washington, DC. The next ICA will be in Berlin, Germany in June 2018.

In 2015, IACA ran sessions at the Joint Colloquium of the IAA Life Section (IAALS) and PBSS in Oslo, Norway in June and at the Joint Colloquium of the ASTIN (the IAA General Insurance section) and AFIR/ERM (the IAA financial risk and enterprise risk management section) in Sydney, Australia in August.

## JUNE 2016 MEETING – ST. JOHNS, NEWFOUNDLAND, CANADA

The next Joint Colloquium will be held in St. John's, Newfoundland, Canada, June 26–29, 2016. The theme is Our Complex and Inter-linked World. This is a joint meeting with PBSS and IAHS, as well as International Pension & Employee Benefits Lawyers Association (IPEBLA). It is being held in conjunction with the Canadian Institute of Actuaries Annual Meeting. Joint CIA-Colloquium activities are planned including joint plenary sessions and a joint pub crawl. CIA attendees are invited to attend the program meetings on Monday and the Monday night dinner. Colloquium attendees may attend CIA sessions.

## OTHER ACTIVITIES

IACA also presents international sessions at the meetings of national consulting actuarial organizations such as the Association of Consulting Actuaries in the United Kingdom.

IACA provides a regular newsletter to its members on its activities including details of IACA's research activities and publications that are of interest to IACA members. The latest issue can be found at [http://www.actuaries.org/IACA/Newsletter/August\\_2015.pdf](http://www.actuaries.org/IACA/Newsletter/August_2015.pdf)

## PLEASE JOIN

You may join IACA either through the SOA, where it is an option on the annual dues, or pay directly on the IAA website at [www.actuaries.org/Join\\_Section/](http://www.actuaries.org/Join_Section/). Dues are \$50 Canadian and may be paid by credit card on the website.

For more information, visit [www.IAA-IACA.org](http://www.IAA-IACA.org) or contact Margaret Tiller Sherwood, chair, through the IAA Secretariat. ■

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# The Alternative to the Medical Scheme Model for Africa

By Kudzai Chigiji

*Editor's note: Reprinted with permission from the August 2015 LACA Newsletter.*

In Africa, wage-based social insurance and private health insurance have had very limited impact because they failed to cover informal sector workers and the rural self-employed who constitute the majority of African populations.

In South Africa, there has recently been talk of 'low cost' health coverage. However, what is truly 'low cost' for the poorest? What does appropriate coverage look like in a completely different socio-economical (and maybe even geographical) environment?

The role of health care coverage in reducing poverty levels and boosting economic growth is clear. However, the spread of formal health care coverage has often been limited as a result of affordability.

South Africa has often considered itself the exception to the woes of Africa, and in many respects, it has managed to break the mold. However, the poverty we know of in Africa is in actual fact not too different from what South Africa experiences in its dark, less-spoken-of corners and where some find themselves heading as the financial tides in South Africa turn with rising costs of living and unemployment.

Health care coverage is on every nation's agenda. Next to education, it is the obligation of any democratically elected government to its people. A nation's economic progress is also inextricably linked to the health status of the population, which explains why the medical scheme industry has received ever increasing attention, and ever more so in South Africa with the delay of National Health Insurance.

The medical scheme model is based on health insurance which encompasses risk-sharing and is supposed to reduce unforeseeable or even unaffordable health care costs (in the case of illness) to calculable, regularly paid premiums. However, this mainly caters for those in the formal sector—leaving out those in the informal sector and rural areas.

The medical scheme model has been the preferred mode of providing health care coverage to South Africans. This serves as a more formal model than what is often witnessed in other African countries, where medical schemes are often found in the formal, private market or for government employees. However, less formal models are implemented in other sectors based on the needs of the communities.

Several nations across the continent saw the rise of user fees in the 1980s on the backbone of reduced funding for health care from some development organisations. However, these did not compensate for the rising bad debts experienced by health care providers. This remains a challenge even today for both patients and health care providers.

This leaves us with a multi-faceted health care coverage challenge: poor social security, negative side-effects of user fees, and persistent problems with health care financing. This has resulted in more innovative and custom-made solutions to the health care financing problem.

The challenges facing health care coverage have resulted in the emergence of health insurance schemes in Africa which have taken the form of local initiatives of rather small sizes that are community-based with voluntary membership. They are often initiated by health facilities, NGOs, local communities, or cooperatives. These are more common in West Africa than in Central, East and Southern Africa.

The geographical coverage varies considerably between and within countries. In Tanzania and Cote d'Ivoire, these are predominant in urban areas whereas in Uganda, Ghana and Benin they are more common in rural areas. The development of these schemes began in the 1980s. This model set off in the DRC in the 1980s as the government significantly reduced funding for health care opening a gap for alternatives. The same applies for Guinea-Bissau. The spread of CBHI schemes picked up in pace in the 1990s to Ghana, Benin, Mali, and Kenya.

The size of these schemes varies from less than 100 to a million participants. As with formal insurance schemes, the size has a contributing role to the sustainability of the schemes with some of the smaller schemes often closing down and others having been in operation for decades.

Given the slightly 'socialistic' mandate of health care financing for low income earners, mainly two questions reign supreme when it comes to assessing their efficacy:

1. Has the scheme improved access to health care and thereby contributed to better health outcomes?
2. Has the scheme stabilised incomes and helped to preserve assets?



This requires that the scheme is viable and sustainable in its given setting, both from an institutional and financial point of view.

The three key success factors are:

- Scheme design and management
- Behaviour of health care providers
- Household and community characteristics

The X-factor for health care financing for the low income earners and for less formal environment is the last success factor above—households and communities. Community participation is a concept which has not been largely witnessed in South Africa but has been instrumental in Community Based Healthcare Insurance (CBHI) schemes.

The degree of community participation in the design and running of the CBHI can vary widely and is usually greater if funds are owned and managed by the members themselves than if schemes are run by health facilities. If members can identify themselves with “their” schemes because they control the funds and have decision-making power, they are less likely to misuse health care services. Do ordinary members actually feel empowered to change the direction of decisions made by their medical aid schemes and do they have a sense of ownership? Or do they feel that they are part of a health system which is working collaboratively with a national health agenda in mind?

Furthermore, strong community participation can facilitate health education and sensitisation of members in order to promote healthy behaviour and the use of preventive services, as the members share a common interest in keeping the costs of health care low. For example, the members of a self-governed

CBHI comprising several villages in Benin realised that many cases of sickness and a considerable amount of health care costs reimbursed by the scheme originated from one distinct village. In consequence, CBHI members of that village and the local nurse organised sensitisation sessions on water hygiene and vaccination.

The demand for health insurance is a crucial factor if the benefits expected from CBHI are to be realised. The demand of households for health insurance depends not only on the quality of care offered by the health care provider, on the premium and benefit package, but also on socio-economic and cultural characteristics of households and communities.

Given the unique ethnic, lingual and cultural diversity within African nations, the CBHI approach may be particularly promising for this continent because it allows adaptation to local conditions. Management capacity seems to be the key lacking factor. The actual implementation of CBHI schemes has had mixed results so far, with success and viability largely depending on design and management of the scheme, community participation, regulations at the level of the health care provider, quality of services and on the socioeconomic and cultural context. ■



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# Global Variable Annuity Experience Reflected in New Zealand Product Design

By Murray Hilder and Ralph Stewart

New Zealand is about to launch its first variable annuity with guaranteed lifetime withdrawal benefits. The product design is mindful of the lessons from the financial crisis in the United States, Europe and Japan.

## NEW ZEALAND RETIREMENT SAVINGS BACKGROUND: KIWISAVER

New Zealand has a unique state funded pension scheme which commenced in 1898 and today guarantees all New Zealanders 66 percent of the average wage for life from age 65. The scheme is not asset tested and is funded from general taxation. The generous scheme has contributed to an environment where there has been little development of post retirement income products, as the state scheme has been perceived to be the primary provider of retirement income.

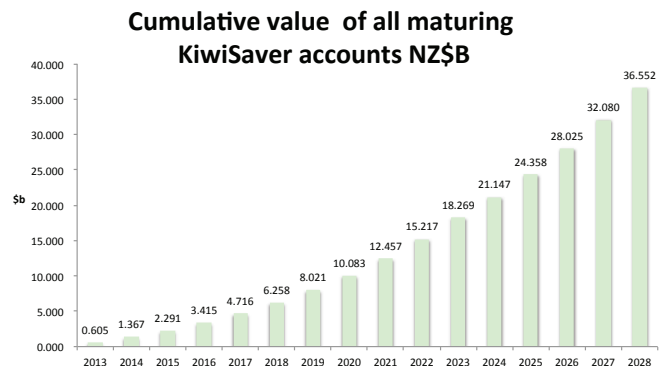
Raising awareness for the need for personal retirement savings in addition the state funded pension, lead the government to launch a new retirement income scheme in 2007 called KiwiSaver. KiwiSaver required all employers to enroll employees in a retirement savings scheme with co-contributions from their employer. Initially the rates were set at an equal contribution from employee and employer of 4 percent. The current default rate is 3 percent. Employees are automatically enrolled but do have the option to “opt” out if they wish. Up until May 2015 all new KiwiSaver enrolments qualified for a NZ \$1000 (US \$730) sign up bonus. Savers also receive a government contribution of NZ \$521 (US\$384) each year towards management costs if they save at least \$1,042 (US\$750) each year. No savings can be withdrawn until age 65 and there are currently no limitations on how the savings are used.

KiwiSaver has been extremely successful, from a population of 4.5m people, 2.5m are now KiwiSavers with NZ\$29b (US\$21b) saved to date. The scheme offers three savings profiles conservative, balanced and growth. Savings are collected through the state taxation system and then invested individually with 27 private sector investment management firms. The state monitors asset allocation, fees and disclosure.

Attention is now turning towards decumulation and future of the accumulated savings in KiwiSaver. In 2014/2015 savers aged

over 65 withdrew \$422 million from the scheme, an increase of 12.7 percent over 2012/13. Given the scheme was launched to help supplement the income from the state funded scheme, the issue of KiwiSaver and the future of retirement income is becoming a topical issue in New Zealand. In practice the management of KiwiSaver savings is the most significant investment in the New Zealand’s funds management sector dominating the local managed funds industry

FIGURE 1



## THE OPPORTUNITY: VARIABLE ANNUITIES FOR KIWISAVER DECUMMULATION

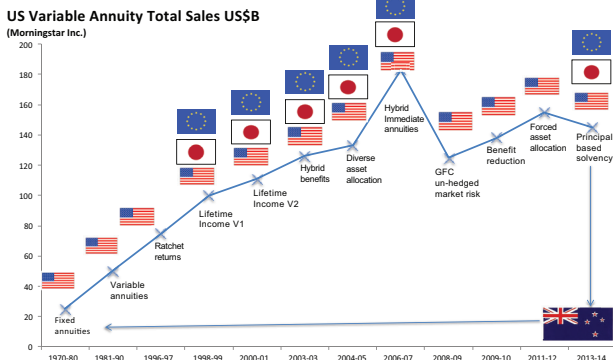
In 2013 an enterprising New Zealander, who had previously been the chief executive of AXA in New Zealand and one of the first to launch a KiwiSaver scheme in 2007, launched a research project to better understand how the rest of the world managed decumulation.

The research began in the United States with numerous company visits and solid support from the Insured Retirement Institute (IRI) in Washington and the retirement product division of the American Association of Retired People (AARP).

It was during this process that a connection was made with Tim Paris, CEO of Ruark Consulting, an annuity consulting and re-insurance specialist based in Connecticut (who has subsequently become a director of the New Zealand business) and Ken Mungana at Milliman, the variable annuity specialist firm based in Chicago.

The research focused on variable annuities with rider benefits and in particular the changes in liability management after the recent financial crisis. The research moved from the United States to Europe and Japan with Tokio Marine Group a variable annuity provider in Tokyo providing a significant contribution to the Japanese experience of guaranteed lifetime withdrawal benefits.

FIGURE 2



A return to New Zealand, and with the help of Ruark Consulting, a basic product was designed and New Zealand’s first work-bench variable annuity with lifetime withdrawal benefits was developed.

The design drew on a number of core principals, which featured throughout the research as learning’s post financial crisis:

- as there were no deferral tax benefits available in New Zealand the product would target retiring KiwiSavers aged 65 years+
- the maximum age would be 85 years
- there would be no choice over asset allocation
- asset allocation would be 50 percent growth and 50 percent income assets
- index tracking exchange traded funds would be used (Vanguard)
- both the balance sheet of the insurer and the underlying investment would be actively hedged (Milliman)
- the guaranteed minimum withdrawal benefit was set at 5 percent increasing with age
- there is no spouse benefit (remaining account balance to the estate)
- the insurer would have the freedom to increase the price for new business
- as a new business in NZ the insurer would have the right to cancel the guarantee and return premium at any time within the first two years of launch
- the price for the asset management 0.95 percent
- the price for the guarantee 1.35 percent

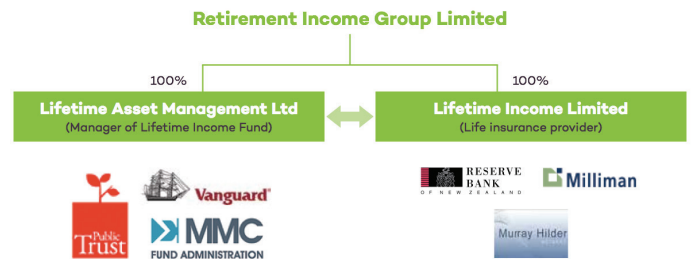
The concept was feasibility tested with Milliman’s Sydney’s office, who provided guidance and support in the product development process. After three rounds of testing, deferral features were added from 65, which set the annual Lifetime Withdrawal Benefit Rates at:

TABLE 1

Age 65-69	5.00 percent
Age 70-74	5.50 percent
Age 75-79	6.00 percent
Age 80 +	6.50 percent

## BUILDING THE OPERATING STRUCTURE

The next step was an operating structure that would maximize consumer protection, treat tax in retirement fairly and work within a regulatory framework that had never contemplated variable annuities in New Zealand. We took the lead from the New York example of Vanguard and Trans America and applied this in a New Zealand context.



As a single entity, the Retirement Income Group Limited was established which in turn owned 100 percent of an asset management company (Lifetime Asset Management Limited). This company outsourced investment management to Vanguard and used local trustee and administration services companies (Public Trust and MMC). The Retirement Income Group also established a 100 percent owned subsidiary, Lifetime Income Limited, to provide longevity insurance to the investors in Lifetime Asset Management.

The prudential supervisor of life insurance in New Zealand is the Reserve Bank of New Zealand who administers the Insurance (Prudential Supervision) Act 2010. The Act did not contemplate variable annuities and did not have a solvency determination for longevity insurance. The Reserve Bank considered the proposal and agreed to commit the resources to develop a new solvency standard for variable annuities in New Zealand, something they did not need to do, given their limited resource and a heavy regulatory agenda.

In April 2015, after several drafts and industry consultation, the Reserve Bank of New Zealand Solvency Standard for Variable Annuity Business 2015 was issued. It contained a number of elements which we had not anticipated. The first was a requirement for a triennial review of solvency estimates by an independent

actuary and the second was a phased introduction of solvency credits for dynamic hedging.

As there was no local experience, we appointed KPMG in Australia to complete the first review of our business plan and pro-forma financial condition report. This introduced concern over our mortality assumptions and resulted in us commissioning Milliman to complete a review of a “like for like” mortality treatment in Australia, the United States and the United Kingdom. This resulted in the application of new mortality assumptions to the product which were more conservative than those used in the wider life industry.

KPMG’s review was completed and an application made to the Reserve Bank of New Zealand to be New Zealand’s first variable annuity provider was submitted under the existing life insurance requirements and the new variable annuity standard.

At the same time, as the business spanned both life insurance and asset management, approval was required from the regulator for the asset management industry—the Financial Markets Authority.

The regulator was in transition moving from an old legislation—the Securities Act 1978—to the Financial Markets Conduct Act 2010. Our timing again was not helpful given we presented a “new” concept spanning two regulatory regimes. Nonetheless, we found a willingness to help and a sensible process was agreed to accommodate our application and the transition in regulation.

In a New Zealand context the notion that the regulator will not entertain innovation has not been our experience.

Both the Reserve Bank of New Zealand, the Financial Markets Authority and the New Zealand Inland Revenue Department have, within their given mandates, given us fair and reasonable support.

### CAPITALIZATION AND LAUNCH



Gareth Morgan

In concert with this process, there was the commercialization of the project and capital raising to support both regulatory and working capital. It’s fair to say this was hard work, but we just got on with it, and after nearly 12 months of capital raising, secured \$NZ6.5m (US\$4.75m) of

new capital. This would cover both our regulatory and working capital needs for the first two years. After two years we will need to raise an additional \$1.5m (US \$0.73m) in new capital. Retained earnings are expected to meet our capital needs there-

after (if sales were achieved and cost managed). The capital raising process brought a convertible facility from one of New Zealand’s best-known entrepreneur’s, Gareth Morgan (see photo).

With capital in hand, an application was made to the A.M Best in Singapore for a credit rating, to provide the Reserve Bank and consumers some comfort over the capital required to back the minimum lifetime withdrawal benefits. Given this was a new business, the process was fairly clinical and BB- was issued. We thought this was fair, as in practice we had minimum regulatory capital of \$NZ6.5m (\$US4.75) without any proven demand.

Some three years after research commenced, the business is expected to launch in 2015. A significant amount of work has been invested in pre-sales marketing support, with financial advisers, KiwiSaver fund managers (who are experiencing outflows at age 65) and New Zealand’s dwindling defined benefit superannuation industry (which badly needs an alternative to old defined benefit obligations).

The new business is called the Retirement Income Group Limited and the product is the Lifetime Income Fund which seeks to resolve the key retirement income questions:

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Ralph Stewart is previously chief executive of AXA New Zealand and the Accident Compensation Corporation of New Zealand. He can be reached at [Ralph@nzincome.co.nz](mailto:Ralph@nzincome.co.nz).



# IAA / ASHK Life Section Colloquium

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The International Actuarial Association (IAA) and the Actuarial Society of Hong Kong (ASHK) invite you to attend the IAA/ASHK Life Section Colloquium to be held on 25-27 April 2016 in Hong Kong at the Conrad Hotel.



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# Actuaries: Long-sighted or blinkered?

By Mohammad “Icki” Iqbal

Peter Drucker, the famous marketing guru, first said that the life insurance industry needed to adapt as people no longer worried about dying too soon; they worried about living too long.

Actuaries are in the business of assessing long-term risks and trends; we do not get swayed by short-term blips. There have been several structural changes in the economic environment in the last forty years; to what extent have actuaries led the way in anticipating them? Let us consider a few examples.

In the late seventies, swingeing inflation was playing havoc on defined benefit pension schemes in the United Kingdom with contribution rates going up alarmingly, sometimes to over 30 percent. JK Scholey, the senior partner of Watsons, asked whether it was reasonable to project the then high rates into the future. Something was bound to give. Indeed he was right. Over the next ten years there was massive restructuring of the U.K.’s manufacturing industry: jobs were shed, prices brought under control and by the late eighties pension funds were showing surpluses. Bless you, Ken Scholey, but what happened next?

The taxman decided to tax the surpluses so actuaries suggested ways of overcoming that. To the employer, they suggested contribution holidays and, to the trustees, using some of the surplus to enhance member benefits. No real attempt was made to explain the long-term consequences of either. The latter, in particular, ratcheted up the cost of the scheme. Not long afterwards, the rights of early leavers were inflation-proofed, substantially increasing scheme costs. Although it took another two decades for it to die, that marked the death-knell of defined benefit schemes. Actuaries sat on the sidelines and did nothing.

In 1988 Gordon Pepper, an actuary specialising in bonds predicted a collapse of the housing market. He said the rise in house prices over the past two years (1987–88) was comparable to that in the early seventies, with one key exception: inflation was lower. House prices were bound to fall as borrowers would be unable to service their debt. This turned out to be prescient and had dire consequences. Unfortunately, no one took any notice of Pepper.

In the early nineties, I read an article in a publication by Society of Actuaries, discussing ageing baby boomers. They had boosted



the equity market by saving for retirement, but soon they would be retiring, disinvesting, and going into bonds. So equity prices may fall and bond prices rise. It took some years to happen (as there were all sorts of local diversions) but this was again prescient.

Following the recent banking crisis, the U.K. government pursued Quantitative Easing, pumping in money to keep interest rates low. This has had a disastrous effect on annuity rates as government bond yields have plummeted. No one in their right mind would voluntarily buy an annuity today.

So what did the government do? It removed the requirement to buy an annuity, which has been very well received. But is it a step too far? Drucker says longevity protection is what people want. Should the government simply have said that the annuity need not be a guaranteed annuity; it could be an equity-linked one? In the past, equity-linked annuities have been unattractive as the initial starting amount was low compared to guaranteed annuity rates. But that was when bond yields were 8 to 9 percent and dividend running yield 4 percent. Today, bond yields are around 2.75 percent but dividend yields around 3.75 percent.

This presented a golden opportunity for actuaries to design longevity protection on an income generating vehicle. Instead of a guaranteed annuity of, say, 5.5 percent pa, the insurer could offer a similar starting level of annuity but rely on the running yield and use capital appreciation to increase the income. Of course you get no capital guarantee but you can't have everything.

A friend of mine was on holiday in the United States when she suspected she suffered a mild heart attack. She was taken to the hospital and asked if she had funds. She said she didn't but she had travel insurance.

They put her through various tests and declared that there was nothing wrong with her. She was given a \$122,000 bill and a demand for immediate payment. She said she couldn't believe

the bill, didn't have that kind of money and they'd better deal with her insurer. They then reduced it \$100,000 to \$22,000 but still demanded immediate payment; she gave the same answer. Finally they reduced it to another \$21,000 to \$1,000 but she still didn't pay.

The medical care was quality, but was all of it necessary? And why couldn't they bill the insurance company? She asked for an itemised bill and crossed out many of the items they charged her for.

There are plenty of people out there looking to make money out of the elderly: medical professionals, the drug industry, care home providers. The baby boomer himself might wish to avail himself to the latest remedy available. How much money should they set aside?

Retirement used to be a major milestone: you ceased to earn income and had to make do thereafter with what you had set aside, be it pension or savings. The presumption was that your income requirements would reduce greatly: mortgage paid, children out of the house, no more commuting to work. But baby boomers are finding that their expenditures are not necessarily lower; they need to consider provision for long-term care and all those luxurious cruises. And they may live for another 40 years.

Can society afford to offer forty years of retirement after 40 years of work?

Let's attach labels to the three stages of our life: Learner, Earner and Burner.

**Learners** are children or, to use an alternative phrase, "trainee adults." **Earners** are adults that contribute to the economy. **Burners** are people who society no longer continue economically beneficial activities, and society says it is okay.

Learners are unable to enter into a contractual relationship but receive food, shelter, role-modelling, love, guidance and entertainment from their parents. The country, through a democratic process, determines the minimum level of support a Learner should receive in terms of education, health care, food, and shelter. Health care and primary/secondary education are free. Taxation and social security policy redresses the balance.

Earners contribute to the society by growing GDP and paying taxes.

Burners, under my definition, consume resources without replacing them. Sometimes they consume all of their allocated resources, sometimes they accumulate surplus assets, which they pass to the next generation, and sometimes they run out of resources.

I can see social unrest developing as young adults resist bearing the cost of long term care of their elderly parents. They should have set sufficient assets aside instead of blowing it all on cruises. Basically it is a problem of resource allocation, across the population and across time.

There are two approaches we could take to address these problems:

We could adopt the principle that each cohort should be value-neutral over time—i.e., they should take out no more than they've put in; or, as a variation, we could say that each cohort should leave the country x percent better off than they found it. This is a **longitudinal** approach.

Alternatively, we could say that the total allocable resources in a given year is X (however defined) and should be allocated "in the following manner" (however defined). This is the **latitudinal** approach we usually see taken by governments and local authorities.

Both approaches can work on a cohort basis, where the cohort is homogeneous and sufficiently large to absorb random fluctuations but not so large as to conceal distinctive differences.

But the two approaches are fundamentally different:

- The longitudinal approach is of a capital nature. It determines the Burners' "moral right" and will have to be converted into income that may be drawn each year.
- The latitudinal approach is of an income nature. It determines the amount the nation can afford to give a Burner in a particular year.

There's potential to use the approaches together. For example, the latter approach may be used to scale back the former in times of hardship, carrying the balance forward.

Nevertheless, this is another challenge for long-term thinking actuaries. ■



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# Nigeria Calling

By Laura Llewellyn-Jones

*Editor's Note: This article was originally published in the July 2015 international issue of The Actuary magazine. It is reprinted here with permission from the Institute and Faculty of Actuaries.*

**N**igeria is the largest economy in Africa, since taking over from South Africa in 2014. It also has the largest population in the continent, of around 170 million inhabitants. Oil and gas are currently the major foreign exchange earners but the country has massive potential, not just for actuarial work, insurance and investment, but for a wide variety of different sectors.

There are about 60 insurance companies in Nigeria, regulated by the National Insurance Commission (NAICOM). The insurance sector is relatively underpenetrated. Regulation is improving, and growing foreign influence is providing more product innovation. However, there appears to be a fairly low market perception of insurance, due to legacy issues such as non-payment of claims and fake insurance firms.

The law around insurance provision is not well understood. For example, it is compulsory to have at least third-party motor insurance in Nigeria before using or keeping a vehicle on public roads. However, many drivers see the insurance documentation as proof of ownership or paperwork to show law enforcement agents, rather than for the cover it provides them in case of accident or loss.

## RAISING AWARENESS

Following an accident, drivers may well pay for the repairs themselves as they simply do not appreciate the insurance cover they already have in place. This highlights that more education is required about insurance so individuals can understand its value. It also underscores the importance of insurance companies building confidence with their client base that they will pay out if legitimate claims are made.

There are a small number of consulting firms based in Lagos who complete the actuarial reporting for the bulk of the insurance companies. There is significant growth potential in the consulting sector, for product development and innovation as well as within the regulatory framework.

The pension sector is regulated by the Pension Commission (PENCOM). The Pensions Act 2004 obliged firms with a certain number of employees to provide workers with a pension, and introduced individual retirement savings accounts. This has increased pension take-up, although in practice, individuals in the informal sector who make up the majority of the population (those who are not taxed or monitored by any form of government) do not have pension provision.

Take 'Grace' for example. She is 24 years old, and works as a housekeeper in Abuja. From her salary, she puts money each month into her mother's bank account in order for her to buy food. She has never considered paying for a private pension. If she does not have children herself who could support her in retirement, she intends to keep working in order to survive.

She would, however, like to have a pension, so that her savings are secure and they grow with interest. A growing and tailored pension industry could reach people like her, providing not just a safety net but also greater access to finance for businesses within Nigeria.

In the formal sector, individuals are empowered to select their own Pension Fund Administrator (PFA) who will then manage their individual defined contribution retirement savings account. The choice of administrator may depend on the investment choice it offers, its network of branches and the service and communication it provides. For example, as an employee changes job, they may keep their retirement savings account with the same PFA. Employers may therefore need to pay into a number of PFAs depending on where employees have their accounts, and have to pay at least a minimum percentage of salary as contribution.

Over recent years, there has been a deliberate move away from defined benefit provision, a push for greater coverage of the population, as well as a clampdown on fraud and mismanagement. There is still a long way to go, but the perception of the pension sector has improved. This has been helped by better communication. Recent political developments may also provide opportunities.

Entering into a new market requires fully understanding the politics and monitoring them carefully to try and anticipate any potential changes that could impact business. For example, if an economy is particularly reliant on one sector, should there be instability within that area this will have a greater impact on the whole country than if the economy is reliant on a larger number of sectors. In the case of Nigeria, oil and gas form the significant part of the economy and provide well over 70% of federal tax receipts.

The drop in oil price has therefore had a significant impact.



Fuel shortages, bad roads and crazy driving are some things people complain about and these are not going away in a hurry. But they are also not good reasons to quit and there is always a way around whatever shortage you are faced with. Nigerians are among the most entrepreneurial people in the world, and most impressive are those who sidestep, swerve and overcome obstacles with good grace and resilience. They show us how it can be done.

Finally, don't be put off by the concerns about insecurity. It is true Boko Haram in the north-east of Nigeria is still a cause for serious concern. Also that crime and kidnapping are a problem. But by being sensible, taking precautions

Nigeria held the most expensive election ever in the African continent on 28 March 2015. The opposition candidate, Muhammadu Buhari won by more than 2.5 million votes and the incumbent president Goodluck Jonathan conceded defeat. This is the first time an incumbent president has lost re-election in Nigeria. These events show a growing maturity and sense of expectation from the voting public: they wanted a peaceful election and change of government, and they got it.

President Muhammadu Buhari was sworn into office on 29 May 2015. The atmosphere in Abuja is still full of optimism and excitement. He has vowed to tackle corruption, insecurity and create jobs and is keen to bring in more international businesses – particularly when it comes to diversifying the Nigerian economy and bringing in new capital to invest in infrastructure.

## CONNECTING

So how should those who are interested begin thinking about Nigeria?

First, engage with its culture. Diverse and vast, the country can be overwhelming for some, however keen they are to do business. But there are some common traits that matter when engaging with Nigerians, wherever they are from. They are often more direct compared to people in the UK, less willing to talk around the point and more clear about what they want and need. That can be off-putting but it can also be quite refreshing. It makes conversations about business or anything more vibrant, fun and engaging.

and following good advice you can still come to Nigeria and do business safely. At any one time, there are between 10,000 and 20,000 British nationals living and working in Nigeria. The vast majority do so without security problems, and come to enjoy the cut and thrust of the business and social environment Nigeria offers.

Doing business in Nigeria is not easy, corruption is a challenge and there are many other issues that can make people stop and want to look for an easier market to enter. But there are significant opportunities for actuaries, risk consultants and others in the financial services industry looking for frontier markets to enter.

Now is the time to take advantage of political changes, demographics, economic growth and the keenness of the new government to bring in foreign businesses. It might not be easy but Nigeria will be rewarding, exciting and certainly never dull. ■



Laura Llewellyn-Jones is an independent actuarial consultant in Africa. She can be reached via her LinkedIn profile <https://www.linkedin.com/in/laura-llewellyn-jones-999a3a17>.

# Actuarial Association of the Republic of Srpska

By Predrag Kovacevic



**A**ctuarial Association of the Republic of Srpska is a small organization of actuaries from Bosnia and Herzegovina. We all gained our actuarial knowledge from local universities where actuarial science and practice does not have a long history. As actuaries we are employed by insurance companies in a market that is quite underdeveloped. Due to financial constraints we were not in position to pursue additional advanced education on actuarial topics.

We tried to find a way to continue to develop ourselves as professionals, so we applied for membership in the International Actuarial Association and became an associate member after the 2014 congress in Washington DC.. Soon after, we applied for an IAA section Actuaries Without Borders project on non-life premium calculation. This was approved and as a result we had

an excellent regional seminar on this topic in March 2015, with a guest lecturer from University of Wisconsin-Stout, USA, Prof. Nasser Hadidi, FCAS, FSOA, MAAA.

Our next intention is to start taking actuarial exams, for which we contacted Mr. Carlos Arocha, FSA, MAAA, chairperson of the International Section Council of the Society of Actuaries, who paid us a visit on September 24, 2015 to talk about SOA exams and enterprise risk management. Also we are striving to build an actuarial library, which will help us with exam preparation and also will be of great help in promoting the actuarial profession in this region. ■



Predrag Kovacevic a senior expert in financial controls at Sberbank Banjaluka and the appointed actuary at Mikrofin osiguranje in Srpska. He can be reached at [predrag.kovacevic@gmail.com](mailto:predrag.kovacevic@gmail.com).

## Discount Rates in Financial Reporting

### A Practical Guide

The time value of money is significant to economics and in turn to the current value of projected cash flows. Recent decades have seen a growth of knowledge and available information in the areas of finance and capital markets. There still remains a need for more widespread understanding of the important aspects, from a conceptual perspective and the practical techniques relating to the discounting process in actuarial practice. The primary areas of application include financial reporting for insurance contracts and the financial reporting of pension/employee benefit plans. The objective of this monograph is to help fill this void.

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There will be three parallel streams covering the seven subthemes of the congress. These will include a variety of technical presentations, sessions on soft skills and scientific papers. The congress offers an ideal environment to update on the latest developments in key areas, and is an excellent opportunity for networking with other professionals.

Plenary sessions and smaller discussion groups on current and emerging issues will include actuarial experts as well as officials from various EU and global institutions, with influential figures from the financial services industry and regulatory authorities among the speakers.

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# International Actuarial Association Meetings in Vancouver, Canada



The International Actuarial Association (IAA) held its council and committee meetings in Vancouver, Canada, from October 14–18 at the invitation of the Canadian Institute of Actuaries, one of its 67 Full Member associations.

An important aspect of these meetings included the keynote speeches by two distinguished leaders in the international financial community, Dr. Ira Kalish, chief global economist at Deloitte Touche Tohmatsu Ltd and Caterina Lindman, actuary at Manulife Financial.

During the general lunch on October 16, Dr. Kalish provided a comprehensive update and insights on the global economy, particularly in China and the United States, including the challenges of big emerging markets, rates of inflation, economic recovery of the Eurozone, and risks and opportunities in the global economy.

At council, Ms. Lindman discussed the development and rollout of the Actuaries Climate Index and the Actuaries Climate Risk Index whose goals are to create an objective index that measures changes in climate over recent decades in order to educate the insurance industry and the general public on the impact of climate change.

This collaboration supports several of the IAA's strategic objectives including expanding the scientific knowledge and skills of the actuarial profession beyond the traditional areas of actuarial practice, providing a forum for discussion of global issues among actuaries and actuarial associations throughout the world, and improving recognition of the actuarial profession among other professionals and academics.

The Population Issues Working Group (PIWG) of the IAA also hosted a retirement age seminar during the meetings in Vancouver.

Members of the PIWG opened the seminar by presenting its draft report on actuarial, social and economic impacts of the changes in the eligibility age for retirement. Subsequently, experts in this field followed with presentations on:

- Living to 100... would Canadian pensions be sustainable?—*Jean-Claude Ménard, chief actuary, Office of the Superintendent of Financial Institutions (Canada).*
- Changes to the UK Retirement System  
*Chris Daykin, former chief actuary, Government Actuary's Department (U.K.).*
- Some Downsides to Increasing Eligibility Ages  
*Bruce Kennedy, executive director, BC College Pension Plan, BC Teachers' Pension Plan, and BC Public Service Pension Plan (Canada).*
- The Impacts of Increasing the OAS/GIS Eligibility Age on the Public and Public Services in Canada  
*Brad Underwood, director, Intergovernmental Fiscal Relations, BC Ministry of Finance and Trustee, BC Teachers' Pension Board (Canada).*

The moderator of the seminar, IAA Immediate Past President Rob Brown, said, "I was pleased by the breadth of attendees. Not just IAA members, but practitioners and academics. This also added immensely to the quality of the discussion."

The seminar attracted over 40 participants and included a wide-ranging discussion of the issues raised.

Assia Billig, PIWG Chairperson, said "The PIWG is very pleased by the positive response to our report. We are also grateful to seminar participants for providing valuable comments from both actuarial and policy perspectives. The incorporation of these comments in the final version will greatly improve its quality."

This activity contributes towards achieving the IAA's strategic objective to facilitate the coordination, use and expansion of the scientific knowledge and skills of the actuarial profession, to help enhance the scope, availability, and quality of actuarial services offered by individual members of its member associations.

The next meetings of the IAA Council and Committees will take place in St. Petersburg, Russia from May 25–29, 2016.

To learn more about the work of the IAA, please contact the IAA Secretariat or visit [www.actuaries.org](http://www.actuaries.org). ■



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# Actuarial Association of Europe

The Actuarial Association of Europe (AAE) was established in 1978, originally as the Groupe Consultatif Actuariel Européen, to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union—the Commission, the Council of Ministers, the European Parliament, EIOPA and their various committees—on actuarial issues in European legislation. The AAE currently has 37 member associations in 35 European countries, representing over 21,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests.

## SHIFTING SCENERY

The year was 1978. The European continent was experiencing its first wave of Europeanisation. The European Parliament was becoming an established organisation, with its first direct elections coming up in 1979. The still largely trade-oriented European community was beginning to evolve into something more political. More and more matters, like legislation and regulations, were being dealt with at a European level.

It was then that a group of leading actuaries in Europe decided it was time to establish an umbrella organisation bringing together the actuarial associations across Europe.

An organisation that would ensure the voice of actuaries was heard in Brussels, where a new European legal framework was in the making. An organisation that would uphold professional standards and align training across the continent. They called it the Groupe Consultatif Actuariel Européen (European Actuarial Consultative Group). On January 1, 2014 the name was changed into Actuarial Association of Europe (AAE).

## INDEPENDENT, OBJECTIVE AND PROFESSIONAL

Quality is the *raison d'être* of the AAE. In our efforts to maintain the highest quality in actuarial practice, we focus on three core values: independence, objectivity and professionalism. It is hard to imagine another job where independence is of such vital importance as it is for people who calculate risks. Equally vital is their objectivity, as the slightest bias can have vast effects on the final calculations and the advice based on them. The AAE takes its role very seriously. So it is only natural that it has its own

Code of Professional Conduct, that affiliated associations and their individual members must comply with.

## COMMITTEE STRUCTURE

As from the start in 1978 the AAE has organised itself on the basis of an efficient committee structure. The AAE organisation consists of five committees:

- Insurance
- Pensions
- Standards, Freedoms and Professionalism
- Investment & Financial Risk
- Education

Depending on the demand, working groups and/or task forces are set up, in principle on a temporary basis, to deal with specific topics or developments. All these groups report to one of the five committees. The five chairpersons of the committees, together with the chairperson, vice chairperson, immediate past chairperson and honorary treasurer form the board of the AAE.

Apart from regular calls, the committees meet in person during the spring and autumn of each year. The latter meetings are in connection with the annual meeting of the General Assembly in which the formal decisions of the AAE are taken by the representatives of the member associations, although voting can also take place electronically.

## MUTUAL RECOGNITION

An important step in the development of the AAE was taken in 1991 with the signing of the Mutual Recognition Agreement. In this agreement all the AAE member associations agreed "... to be open to any such fully-qualified actuary of another qualifying association on application, without further requirements as to training, passing examinations or periods of experience ..." This agreement did not only encourage individual actuaries to start working abroad but also created the environment in which this was possible.

## STANDARDS

In 2010, the AAE decided to start working on European Actuarial Standards. The AAE will, in principle, accept the generic standards produced by the IAA and only develop specific standards relevant to Europe and Solvency II. The first standard (ESAP1) was issued October 3, 2014 and the second (ESAP2) is now in its final consultation period. ESAP1 deals with general actuarial practice and is similar to ISAP1, and ESAP2 will deal with the actuarial function reporting.

Potential next standards may include

- Actuarial practice in relation to the ORSA process under Solvency II,

- The role of the actuary contributing to the risk management system under Solvency II, and
- The independent review by actuaries in the context of Solvency II.

In relation to the topic of independent review of Solvency II reports, the AAE published a position paper in November 2014. In this publication the AAE emphasizes the necessity for an independent review of Solvency II reports, especially the Solvency and Financial Condition Report. The AAE thinks the expert judgment of an actuary in establishing technical provisions should be disclosed. This publication resulted in some mixed feedback from industry bodies in Europe, mainly because “independent review” was incorrectly read as “external review.”

### THE RIGHT OF BEING THERE

In the beginning the AAE was mainly occupied with following up on proposals for European legislation in the financial services

area. Now more and more the AAE takes the initiative and pro-actively advises the main stakeholders in Europe, being EIOPA, the European Commission and members of the European Parliament.

### EUROPEAN CONGRESS OF ACTUARIES

In April 2016, the AAE will organise the second European Congress of Actuaries in Brussels from April 21–22 April. It is the intention to hold such a congress every four years—in between the International Congresses of Actuaries. The first congress was sold out and received excellent feedback. More information can be found at [www.eca2016.org](http://www.eca2016.org).

Please visit our website at [www.actuary.eu](http://www.actuary.eu) where you can find more detailed information on the topics discussed in this article and our publications. ■

## ASTIN COLLOQUIUM Lisboa 2016

The Portuguese Institute of Actuaries (IAP), the ASTIN SECTION and the IAA proudly announce the 2016 ASTIN Colloquium which will be held in Lisbon, from 31st May to the 3rd of June 2016. This is the opportunity to gather actuaries from all over the world to discuss the recent developments in actuarial science and to promote a better knowledge of our profession. The key areas under the spotlight of this meeting will be:

- Loss reserving and capital adequacy;
- Insurance pricing and optimization;
- Reinsurance and risk transfer;
- Risk management;
- Natural hazards, disaster, catastrophe risks and pricing;
- Capital management, allocation and pricing;
- Dividend theory and practice;
- Longevity, health, critical illness and employment insurance;
- Risk theory;
- Copulas: theory and applications;
- Extreme value statistics;
- Life and pension insurance mathematics;
- Mathematical Finance with Applications in Insurance.

We warmly invite you to join us to make this a memorable event professionally and socially.



Astin Colloquium  
Lisboa 2016

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<http://www.actuaries.org/lisbon2016>

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*Colloquium and  
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the 3rd June 2016*





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