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**Ben Marshall,** FCIA, FSA, CERA, MAAA, J.D., CLU, Ch.F.C., is chief financial officer at FaithLife Financial in Waterloo, ON. He can be reached at *bmarshall@faithlifefinancial.ca.*

# Chairperson's Corner

*By Ben Marshall*

My first significant exposure to international actuarial practice came in December 1993. I was the actuarial representative on a small investigative team from my company. We were examining a life insurance operation on-site in Caracas, Venezuela. Our sole purpose was to review and make recommendations on the merits of an acquisition. Though I didn't recognize it at the time, it was a turning point in my career. In the midst of overcoming the language barrier and a potent stomach virus (and thus earning the nickname "The Chinotto Kid"), I found myself—for the first time in my actuarial career—challenged at the very foundation of my assumptions.

As with many North American actuaries of that era (I had received my FSA designation the year before), my foundational perspective was that the letters of the acronym "MILE" represent the key assumptions in an actuarial analysis of life insurance profitability: mortality, interest, lapses and expenses. Though I was well aware of C3 risk and had even participated in my company's asset-liability management (ALM) function, until my Venezuelan expedition I still viewed interest as being akin to the other assumptions in an actuarial analysis.

The situation in Caracas opened my eyes to the radically unpredictable role that interest plays in an analysis. I was shocked to find that prevailing interest rates in Venezuela at that time were close to 40 percent. At first, I was mesmerized by the prospect of huge windfall profits. However, I soon discovered that inflation was rampant, registering around 45 percent on an annualized basis, resulting in a negative real return on savings. Not surprisingly, currency exchange rates mirrored the declining value of the Venezuelan bolivar. Over the 20 years prior to 1993 and the 20 years since, inflation has averaged over 26 percent in Venezuela, ranging anywhere from 3 percent to 115 percent each year. Interest and currency exchange rates have—not surprisingly—moved in tandem with inflation.

The key takeaway for me from my Venezuelan visit had little to do with the transaction at hand (we ultimately declined to pursue the purchase). It came in the form of a changed perspective. No longer did I see interest rates as occupying the same category as mortality, lapse and expense assumptions. If that categorization had ever been appropriate, it was as an accident of history rather than as a function of a fundamentally sound economic theory. For the first time, I realized the explicit difference between interest and those other assumptions: that the Law of Large Numbers creates no predictability for a variable for which homogeneity of exposures does not push aggregate outcomes toward the mean. The flat i in the aesthetically pleasing closed formulas from my Kellison textbook on The Theory of Interest was revealed as nothing more than a wholly unrealistic mathematical expediency. I began to understand how volatility must be recognized and outcomes expressed over ranges and in terms of probabilities.

In a similar fashion, my perspective on the role of the International Section of the SOA has changed over my three years of service on the International Section Council. Where its primary function was once to simply keep ex-pat actuaries from losing touch with North American developments, in recent years the landscape has changed. International actuarial practice has become the domain of the cutting edge. International standards such as IFRS, Solvency II and Basel III are merely regulatory symptoms of a greater reality: the emergence over the past decade—and particularly in the wake of the 2008-2009 U.S.-driven financial crisis—of international thought and practice as a driver of North American actuarial practice. The International Section has had a large role to play in connecting international thought leadership to the work of actuaries practicing in North America, while still maintaining its role of providing offshore continuing education and research to ex-pats. The benefits of membership are now driven along a two-way street.

So what's on the horizon for the International Section? It appears that actuarial thought and practice are not the only areas of gravitation toward an international focus. Actuarial jobs and membership are also moving beyond North American shores. Key growth areas for actuaries are outside the United States and Canada, and even jobs within North America are vulnerable to the outsourcing trend that has taken root in many functions within the financial services industry. The mandate of the International Section—as with that of the SOA itself —must expand. My challenge to the next generation of section and Society leaders is to position themselves—in conjunction with the IAA and other international partners—to help actuaries in North America and abroad to deal with the vast implications of the global convergence of actuarial roles, education, research, thought and practice. □