NUMBER 26 OCTOBER 2001

INTERNATIONAL SECTION NEWS

Chairperson's Corner

by Jim Toole

By the time this has been published, there is no telling what might have happened. This has, of course, always been the case, but the range of possibilities contained within one or two standard deviations from the mean has been broadened significantly, sickeningly.

I find myself in the incredible situation of being stranded in the United States, waiting to return home to my family in Mexico. In my previous column, I mentioned weathering international financial crises in Mexico and Asia; today we face a far greater crisis, and far

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Modeling Latin American Annuities

by Thomas E. Leonard

In the United States today, there is much talk about the effect of the "baby boomer" generation ranging from the effect on our Social Security system, the increased market for health-care products, as well as the effect that their withdrawals will have on the stock market. Yet overseas, there is a revolutionary change taking place that is much more fundamental than simply an aging population. As this article is being published, there are numerous countries that are seeing the first generation of their population retire with an explicitly described and funded social security benefit for each of those individuals.

In 1981, when Chile passed a radical social security pension reform, it was the beginning of a tidal wave of reform that has spread rapidly through the developing world in general and through Latin America in particular.

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In This Issue

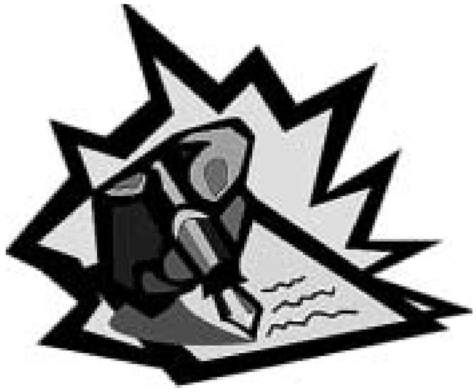
Editor's Note

by Randy Makin

There's a situation which comes up every year at this time, when so many of my relatives have birthdays-a matter of choosing an appropriate gift for the person that has everything. I once heard a man dryly quip, "I figured out the perfect gift for my brother—the man who has everything." He stared off into space, and then added, "Nothing!" One of our relatives, who is quite the global traveler in her own right, but knows nothing of children has a different answer: "Anything!" And she does indeed choose the most remarkable array of presents to send to our children on birthdays and at Christmas. I remember one occasion on which the boys' presents came later than my daughter's, and they opened them to find complete courses in the Russian language. They looked as though they would break into tears, until I reminded them, "Don't forget that we can exchange those!" The truly perfect gift lies in between those two answers.

In this issue, we say goodbye to some individuals on the section council, who could best be described as gifts to the International Section:

- Jim Toole, who has done so much work on the ambassador program, and has been such an encouragement to me in the newsletter work,
- Ronald Poon-Affat, who has succeeded in getting the newsletter published in our first foreign language (Portuguese) for our Brazilian friends, and
- Mike Gabon, who has put hours into arranging international programs at the regional and annual SOA meetings



Thanks for the privilege of working with each one of you! We also

INTERNATIONAL SECTION NEWS

Issue Number 26, October 2001

International Section of the Society of Actuaries
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This newsletter is free to Section members. A subscription is $10.00 for nonmembers. Current-year issues are available from the Books Department. Back issues of Section newsletters have been placed in the Society library and on the SOA Web site (*www. soa.org*). Photocopies of back issues may be requested for a nominal fee.

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welcome new members Rejean Besner of Transamerica, Mike Enright of AIG and Yiji Starr of John Hancock.

We would also like to present our readers with articles by a number of gifted writers. Tom Leonard examines the intricacies of modeling annuities in Chile, Columbia and Mexico, while Jorge Noronha describes Argentina's economics, recent government reforms and the current insurance environment.

Bruce Auchinleck and Hubert Mueller discuss the increasingly worldwide issue of declining worker-to-retiree ratios, and how that is being addressed in Germany. Dave Gulland gave a talk in Dallas on the need for private LTC insurance in the U.K., and has he been kind enough to share this with our readers. We tried to organize a country "report card" effort, in which individuals would give recent statistics and news from their country. The one volunteer we had was Alan Twigg, who updates us on the U.K. market. Wrapping up Europe, Andy Giffin has outlined a variety of topics that were covered at the IIS meeting in Vienna in July.

Moving to Asia, Ram Mulgund has written a follow-up article to one he wrote for us over a year ago. He describes the progress of the opening up of India to foreign insurers (with Indian partners). Asia also has a success story to tell in Pat Kum's write-up on the Professional Development seminars, which have made it more convenient for Asian students to obtain credit needed toward the FSA.

If you are new to working in a global economy, or are considered expanding into new locales around the world, you should not have missed the International Company Start-Up Seminar, which was held April 30th-May 1st. It provided an overview of what's involved in going global, complete with case studies. We also have included information about the Pacific Rim Actuaries Club in Toronto, our recent minutes, and an announcement for the International Health Seminar to be held during the first half of the ICA 2002 in Cancun.

Last but certainly not least, we include the survey results. Thanks to each of you for responding. I appreciate the suggestions about the newsletter. And I want to, again, thank the authors for all of their hard work to enable us to meet our readers' needs.

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Chairperson's Corner

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greater uncertainty in the months and years to come. After the rubble has been cleared away, bodies counted, other questions, trivial by comparison, but for me, just as unavoidable, spring to mind: What will be the impact on capital flows? Will capital be stranded as well? What about exchange rates? Discount rates? Insured losses? Risk transfer? Whither the "global economy," which takes for granted certain fundamental freedoms, called into question as surely and as effectively any protest in Seattle or Genoa?

It is in this maelstrom of uncertainty that three of us (Mike Gabon, Ronald Poon-Affat and myself) take our leave of the section council. We have worked closely with so many people in our three years, and it has enriched us beyond words; we are fortunate to have had this opportunity. Thanks to all who have worked so hard to shape the section into what it is today, taking ideas from so many sources and turning them into reality. We hope you continue to take advantage of some of our special offerings, in particular the jointly sponsored seminars. Without your participation we will be restricted in the kinds of educational opportunities we will be able to provide in the future.


Jim Toole

If you are interested in getting involved, or if you have suggestions or feedback, do not hesitate to call anyone on the Council. We leave the section in capable hands - yours.

Jim Toole, FSA, MAAA, is a consulting actuary at Milliman & Robertson Inc. in Denver, CO.

Modeling Latin American Annuities

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Tired of fighting the increasing indebtedness of a pay-as-you-go pension system funded from general revenues, countries from Southeast Asia to Eastern Europe to South America have fully or partially privatized their social security retirement systems. The privatization of these countries' social security systems and the simultaneous opening of their economies have had a profound and permanent effect on the countries' populations. This has in turn resulted in a continuing series of developments including increased foreign investments, longer-duration local-currency assets, and wider retirement benefit coverage in terms of both number of beneficiaries and covered events.

As more European and U.S.-based insurers invest in these markets, it is important to understand the risks and rewards of the life annuity products that have been established to deliver retirement benefits in lieu of a public Social Security system. Of particular concern is the proper projection of these complex liabilities that may include up to eight or more joint lives and possibly multiple decrements. Let's face it, the joint life annuities for which we U.S.-based actuaries spent long hours memorizing commutation functions on the life contingencies exam are no longer sufficient in this increasingly global insurance world. Due to the longer timeframe that the marketplace in Latin American has had to develop, we will focus on the Latin American market for social security annuity products. However, the need for appropriate modeling of these annuities is not limited to these countries.

Although we highly recommend understanding the market and regulatory context under which these Latin American retirement systems operate, the focus of this article is to discuss the key features of Latin American annuities that make their modeling a challenge. As with any product, it is important that we, as actuaries, create models that adequately and appropriately portray the key characteristics of the product.

Chilean Social Security Annuities

We will start with a description of the Chilean annuity product and the nuances that make modeling these products particularly challenging. To summarize, these annuities are part of the Chilean social security system and are paid out upon death or disability of an active worker, or at his/her retirement.

Premiums

Depending on the annuity type, the single premium for these annuities is funded from several sources. The main sources of proceeds are derived from the individual's retirement fund (cuenta individual), the funds from cashing in government issued zero-coupon bonds (bonos de reconocimento), insurance proceeds (aporte adicional) from the policy taken out by his/her pension fund administrator (or AFP), and additional government contributions in specific retirement cases only.

The individual's fund is accumulated throughout his/her working life via mandatory percentage of salary contributions. The zero-coupon bonds were issued in some countries, including Chile, to irrevocably close out the old pension schemes. It is through these bonds that the workers were given credit for their past service under the old public pension scheme. The maturity value of the bond is akin to the balance many of us have received as our companies moved from D.B. to D.C. plans here in the U.S., accrued with interest until retirement. Finally, the insurance proceeds represent the difference between the amount available to an individual at death or disability (from their fund and zero-coupon bonds) and the amount of money needed to pay for the minimum government-mandated benefit. The government requires every AFP to purchase this life and disability coverage for all affiliates (primary insureds) in their AFP to ensure that they receive a minimum benefit. This government payment may occur if a retiring worker doesn't have enough capital to fund the minimum benefit. The amount is similar to the insurance proceeds described above, although in this case, paid by the government.

As single premium products, modeling premiums is relevant only for new business and is a process that involves decisions regarding the size and growth of a number of macroeconomic assumptions such as working population, incidence rates for death/disability, elective incidence rates for retirements and early retirements, and the proportion of eligible workers/beneficiaries opting to purchase an annuity. In most countries, it is allowable to maintain your account balance and receive payments from the AFP in what is called a *retiro programado*. In this case there is little protection due to the lack of an interest rate guarantee and resulting risk that a beneficiary does not have a benefit that is guaranteed for life. The incidence of workers choosing these must also be considered.

Beneficiaries

The most striking characteristic of the Chilean annuity system is the fact that there can be up to eight eligible annuitants included in the annuity reserve calculation at any given time. This is consistent with one objective of privatization in ensuring a wide coverage of beneficiaries based on economic dependence. In short, the covered beneficiaries may include the spouse, the children, other natural children and their mother (if applicable), as well as parents as a last resort. Each beneficiary then receives a benefit that is defined as a percentage of the base insured's full benefit. Children are generally covered depending on their student status and disability status.

The large number of potential beneficiaries is one of the key characteristics that make these annuities notable as well as challenging to model. In general, the large number of potential beneficiaries acts to stabilize the required annuity payments and force continued payments long after the first beneficiary loses eligibility due to death, attainment of a limiting age, etc. With respect to students, the age at which they are no longer eligible for benefits is important. One often finds that children are on the policy just long enough to prolong or maintain higher annuity payments until the end of the first 10-15 years of a projection, which contributes the most value to an appraisal.

Benefits

To further complicate the matter, the benefit percentages vary based on the age, student status, disability status, and the status of the other beneficiaries. For example, the amount of benefit paid to a child is dependent on whether or not the surviving parent is alive. This makes it imperative to have a comprehensive list of all beneficiaries—both currently eligible as well as potentially eligible. "Potentially eligible" means that if someone else dies they could potentially move up into an "active beneficiary" slot. It is not unusual to see inforce files with ten beneficiaries and more saved for one annuity along with all of the relevant information to that person. There may also be additional benefit payments (14 payments per year) as required by the government. There is no maximum amount of benefits payable in Chile as a percentage of the base insured's death. Therefore, each change in status brings a change in the amount of benefit being paid.

For existing business projections, there is no problem in calculating the beneficiaries' benefits since the primary insured's full monthly benefit is available on the inforce file. However, for new business projections, it is necessary to estimate the future business from annuities held at AFPs and rolling over from the accumulation stage to insurance companies. The calculation of the primary insured's full benefit amount is also a complicated matter that is dependent on the demographics of his/her family, the recent salary history, and the current minimum wage that leads to a government-mandated minimum. Once you have the monthly pension amount, you then need to make further annuity assumptions as to sales rate spreads, whether the expenses are explicitly or implicitly covered, etc.

For modeling purposes, the structure of the annuity is such that if one person loses eligibility through death, attainment of a set age, etc.; benefits paid to other beneficiaries may increase. This also acts as a benefit stabilizer, maintaining higher benefits for longer periods of time. With annuity benefits whose levels are "insulated " from deaths, this has other implications for the relevant importance of mortality versus investments.

> *"The large number of potential beneficiaries is one of the key characteristics that make these annuities notable as well as challenging to model."*

Reserves

It is worth discussing the complex annuity reserves required for these products. In essence, there are two reserves that the Chilean government requires companies to hold. Both are based on a weighted average reserving rate. The two interest rates in the equation are an average government-defined bond rate based on recent issues and a minimum reserving rate of 3%. The weights applied to these two interest rates are based on the asset-liability matching of the company's retirement annuity liabilities and a certain set of the company's invested assets. One of the rates must be calculated and stored at issue, while the second rate must be constantly updated at each valuation. Any difference in these two reserves must then be held as allocated surplus on the company's balance sheet.

Pricing/Initial Loss

As stated above, the initial reserving rate is a weighted average between what can be viewed as a "new money rate" and 3%. Therefore, the initial reserving rate will generally be less than the sales rate used to calculate the net single premium. As a result, an initial loss will often occur.

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Modeling Latin American Annuities

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Conclusion

The complexity of these products makes their projection a delicate balance between the desire to model each and every aspect of these annuities and timing, budgetary, and modeling limitations. Due to their non-standard beneficiaries, amounts, and reserves, a significant amount of work is required to customize U.S. systems for use with these products. These complexities generally render the use of a standard U.S.-style, second-to-die annuity model distinctly inappropriate. The use of seriatim data is also often necessitated due to the unique benefit percentages and beneficiary counts for each annuity.

Columbian Social Security Annuities

To reference other annuity markets in Latin America, we have included a brief description of the annuity market in Columbia. This will give the reader a better idea how a "middle-age" privatized annuity market has developed over the last several years. We have only highlighted major differences with the Chilean model.

Premiums

There are generally explicit expense loads used in calculating the premiums. Price differentiation based on sales rates has not yet entered the market to the extent it has in Chile. The sales rate is generally set at or near the government mandated technical reserving rate.

Beneficiaries

The Columbian annuity product is a last-to-die, three-life annuity. Therefore, only three lives are used in the calculation of reserves. Consistent with Chile, additional eligible lives need to be carried on the inforce file in the event that one of the three current beneficiaries "leaves" the policy. Reasons for "leaving" the policy are generally death or reaching certain age limits in the case of children.

Benefits

A full benefit is paid until the last of the three beneficiaries dies. However, as is described above, newly ineligible beneficiaries may be replaced by others. Benefits are indexed annually for inflation.

Reserves

Reserves are based on a government-mandated technical reserving rate such that there isn't the complexity of using multiple reserve rates and weighted averages as in Chile. However, one must factor in prospective benefit increases due to inflation when calculating reserves in Columbia. This is not required in Chile due to their use of an inflation-adjusted currency (the *UF* or *Unidad de Fomento*) for financial transactions. Furthermore, there is a reserve for future maintenance expenses that must be modeled.

Profit-sharing

Columbia mandates the use of profit-sharing by companies, although the law does not specifically indicate how it must be done or mandate a methodology. As a result, this is defined on a company-specific basis. In our opinion, this is a policy characteristic that replaces the variable sales rate in terms of marketing and product profitability. However, due to the fact that it can take many shapes and forms, it is difficult for potential policyholders to distinguish which has the best benefit.

Conclusion

While theoretically simpler than Chile's complex reserving methods, the introduction of inflation into the model can quickly complicate any projection of Columbian annuities. Non-standard profit sharing also throws a wrinkle into the model depending on its level of complexity.

Mexican Social Security Annuities

The Mexican market is in its infancy and growing rapidly. Most of that growth is due to disability and retirement annuities as opposed to retirements or early retirements. We have only highlighted major differences with the Chilean and Columbian models.

Premiums

Premiums are calculated at the government defined technical reserving rate. To compensate for the fact that the companies can earn more money than this, a portion of this savings is "returned" to the policyholders in the form of additional benefits. This is a major competitive issue for Mexican annuity sellers.

Beneficiaries

The Mexican annuity is also a complex multi-life annuity similar to the Chilean annuity. There is no limit on the number of lives that can be used to calculate the reserves. However, since the benefit amount is capped at 100% of the primary insured's benefit, these additional beneficiaries can generally be treated like the additional, potentially eligible beneficiaries in Chile and Columbia.

Benefits

The Mexican annuity product has benefits defined separately for each beneficiary similar to the Chilean annuity. However, due to the maximum of 100% of the base insured's full benefit, the monthly amount paid is not equal to the sum of the benefit percentages for all of the beneficiaries. Benefits are indexed both annually as well as monthly.

As mentioned above, the inclusion and issuance of additional benefits for this product further complicates the annuity. Various types of additional benefits are seen in the market, including additional annuity payments, monthly indexing of inflation, additional paid-up life insurance policies, etc. The inclusion of additional benefits is the key competitive feature in Mexico, comparative to Chile's sales rate and Columbia's profit sharing.

Reserves

Reserves are based on a government mandated technical reserving rate, so that there isn't the complexity of using multiple reserve rates and weighted averages as in Chile. However, one must factor in retrospective inflation when calculating reserves in Mexico, something that is not done in Chile due to its use of an inflation-adjusted currency for financial transactions. The need to hold additional "contingency" reserves, some calculated in aggregate, further complicates the modeling of this product.

Conclusion

The complexity of this model is similar to Chile's, without the reserving issues of calculating the technical reserve rate, but with a few more issues of its own on other reserves and additional benefits.

Overall Conclusion

Modeling annuities emanating from the social security systems of Latin America and other parts of the world can be a challenging assignment for even the most seasoned actuary. Care needs to be taken in doing so, especially if a U.S. two-life annuity model is the starting basis as there are many reasons, highlighted above, that the cashflows for these US-style products will not be similar to these Social Security annuities. A thorough understanding of the products and their key characteristics is required. At the end of the day though, I have found very few products that are as stimulating and rewarding to model as these products. The fact that the products also are a key part of bolstering economic stability and comfort in old age for a multitude of people in overseas markets makes it all the more worthwhile too.

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International Country Start-Up Seminar/Case Study - Wrap-Up

The International Country Start-Up Seminar, held April 30 – May 1 at the Westin O'Hare in Rosemont, Illinois, was a unique learning experience as well as a great networking opportunity. This seminar, jointly sponsored by the International Section and Nontraditional Marketing, consisted of formal presentations and an interactive case study. Twenty participants attended, travelling from as far as France, South Africa, North Korea, and Hong Kong.

Jim Toole of Milliman & Robertson kicked off with his presentation on "Going Global." Jim explained why companies decide to expand internationally and provided a comprehensive overview of how to make it happen. Carl Khor of JC Penney Direct Marketing Service gave an overview of the regulatory approval process and gave the group many practical suggestions on how to deal with the regulatory process in various countries. Clifford Kunstler of Enterprise & Marketing in Europe shared his insights in launching insurance operations abroad, particularly with respect to marketing and the planning process. Theresa Resnick of Combined Insurance Company discussed the challenge of international business and related some of her experiences working with cultural differences. A lively discussion ensued at lunch, with participants sharing their own personal experiences. Steve Singer of MetLife closed the formal presentations with "Changing the Channels — MetLife's International Distribution Success Stories" and explained how bancassurance, direct auto and worksite marketing have played a role in his company's international strategy.

After the formal presentations, the case studies began. Lisa Kuklinski-Ramirez and Theresa Resnick, the seminar organizers, introduced the case studies. Participants had their choice of case studies involving expansion via nontraditional marketing in various regions — Latin American, Western Europe, Eastern Europe and Asia. Since many participants had expertise in international insurance markets, the case studies were a great learning experience for everyone. Some teams worked well into the night! The next morning, each team presented their case studies in the form of a capital request to their fellow seminar participants. The participants decided to allocate capital to the Eastern Europe team for their well-thought out presentation. In return for their efforts, each of the Eastern Europe team members received a prize package consisting of international goodies.

Thank you to all of the speakers and the participants for making this seminar a success!

Argentina—Is a turnaround around the corner?

by Jorge Noronha

Economic Overview

Argentina has been appearing very frequently in the headlines these days. It is not due to a new revival of the tango or to the high-hopes placed on its national team—a favorite to win next year's World Cup. Argentina has been relying heavily on the IMF, having borrowed nearly $22 billion since December. It is hoped that this money will restore confidence in their country's crippled economy and in their ability to service the $127 billion public debt. Argentina has been languishing in a three-year recession and the country risk is now the second highest in the world (Nigeria tops the list). Argentina is the 2nd largest economy in Latin America and retains an important part of emerging countries' debt.

As part of the IMF agreements, the government has passed a "zero deficit" law prohibiting the government from spending more than it raises in taxes. This would be mainly be derived from cuts of up to 13% in state pensions and salaries. The government would also have to reach fiscal balance in 2003.

The cuts in spending have left the provinces with little room to breed. To cover its expenses, for example the province of Buenos Aires had to issue a special type of bond, known as "patacones." Utility companies, supermarkets, the tax authorities and even McDonald's, which is offering a special "Patacombo" menu in return for a $5 bond, would be willing to accept the bonds.

The Argentine peso is currently pegged to the dollar. Under the currency board, Argentina's central bank allows interest rates to float according to the mood of investors. Since Brazil devalued its currency in January of 1999 by over 50%, Argentina has become an extremely expensive country in which to do business. While a devaluation may seem like the easy solution, such a move would be costly (around 70% of bank deposits and private-sector debt is denominated in foreign currency).

In light of the severe fiscal cuts, Argentina is expected to contract again in 2001 before recovering slowly in 2002 along with most of the world economies.

Privatized Social Security Market

With the thrust of the privatization of social security schemes in Latin America, Argentina created its own private pensions schemes in late 1994. They require workers to contribute 13% of their salaries to an individual account privately managed by an AFJP (Private administrator of Pension Funds). The funds under management have been growing steadily and currently total U.S. $17 billion. However, given that labor laws are too restrictive and that employers want to avoid paying social security taxes, 40% of all workers do not have legitimate employment contracts and thus do not make the required contributions. The government is trying to implement a variety of reforms in the National Social Security Commission (ANSES) to reduce its expenditures and increase the speed in which pensions are processed. In some cases can take years. The Government also passed a number of decrees to decrease the level of government funding for retirement benefits and to correct some of the flaws in the current system. These changes are a step in the right direction, but the government has refused to accept the privatization of ANSES, which many agree is what is needed if the system is to improve dramatically.

Banking Sector

The number of banks today is nearly half what it used to be five years ago. It is a tightly concentrated market with nine banks holding 70% of all deposits. However, the banking industry is highly inefficient, service is poor and the branches are overstaffed. On top of this, the level of assets per branch is very low, making service fees a natural source of revenues. While by law, all employers are legally bound to deposit the paychecks into a bank account, fewer than 30% of Argentines possess one. This is making competition stiff and driving returns on some banks down significantly. Banks have tried to supplement their income by becoming distributors of financial services, for example:

- Galicia bank has a joint venture with ITT Hartford
- HSBC owns an insurance bank, pension administrator and health company all of which distribute through the bank
- Banco Rio formed its own insurance company to sell credit life and supplementary life coverages

Health Care Reforms

The deregulation of the health market was due to start on 1 January of 2001. This would allow private health companies "Prepagas" to compete against the existing providers "Obras Sociales" by collecting the mandatory contributions and offering health coverage. However, a variety of rules have remained undefined which has prompted all of the Prepagas to withdraw from participating in the deregulated market. Topping the list of concerns of the Prepagas are the inability to decline coverage to any insured, and the obligation to provide a minimum level of services for a fixed premium.

Individual Life Market

Overview

The early '90s brought a number of foreign players into the Argentinean insurance market. They invested highly in creating agency forces, but with only 1 in 10 agents surviving to the 4th year, it became an expensive proposition. In light of this, a number of companies started turning their agency forces into independent sales agents (NYL and Principal are just two examples). At the end of 2000, the individual life production stood at US$460 million having grown from negligible amounts in early 1994.

New Investment Regulations

Starting this August, life insurers will be permitted to invest up to 50% of the reserves of all new policies in foreign investments (previously the limit was the lesser of 10% of reserves or 30% of the minimum capital). This new regulation allows insurers a wider breadth of instruments in which to invest and minimizes the risk in the portfolios. It is expected that this new regulation will spur the growth of unit-linked products, which up to now have been mainly distributed through a few providers. Currently the individual life market is highly concentrated with Zurich-Eagle Star possessing 30% of the life market and the top seven insurers selling 75% of the business.

What lies ahead ?

Argentina has gone through periods of uncertainty in the past. In fact most of the '80s are considered to be the lost decade when the economy hardly grew, followed by a period of aggressive growth in the '90s. The insurance market grew significantly between 1991 and 1994 (average of 15%), then retroceding in 1995 and 1996, increasing again in 1997 and 1998 and growing slightly in 1999 and 2000 when the economy took a downturn.

The light at the end of tunnel is bright. Many expect that the individual life and provisional market will grow at an average rate of 20% for the next five years. The superintendency of insurance has become more aggressive in shutting down insurance companies that are insolvent (having closed nearly 20 companies in the past year alone). The government has also been left with no choice but to continue to pushahead with its reforms on the health-care and provisional sectors, as part of the IMF agreements.

> *"Argentina has gone through period of uncertainty in the past. In fact, most of the 80's are considered to be the lost decade when the economy hardly grew, followed by a period of aggressive growth in the 90's."*

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German Pension Reform — A New Beginning

by Bruce Auchinleck and Hubert Mueller

Author's Note: This article summarizes the main points of German Pension Reform that will be effective from 1 January 2002, and the reasons for its introduction.

Why the Pension Reform?

Reasons for the introduction of German Pension Reform include demographic problems, and a desire to encourage private retirement provision.

Demographic problems

Introduced in the later part of the 19th century by then Chancellor Bismarck, Germany has traditionally relied on a pay-as-you-go-system to fund generous state pensions. However, as in many other nations, pension financing in a pay-as-you-go system gets more difficult, the more unfavorable the ratio of contributors to retirees (contributor ratio). At present, this ratio is about 3:1 in Germany.

As a result of falling birth rates, rising life expectancy and changing employment patterns, it is estimated that the contributor ratio will fall to 3:2 by 2030, i.e., three workers will need to support pensions for two retirees by then.

Objectives of the Reform

There are two central objectives of the pension reform. First, the German government is planning to reduce the reliance on the existing system and supplement it with a fully funded private retirement provision. To that extent, the average state pension level will be lowered from the current maximum of 70% to 67% of pre-retirement income in the long term. Second, the German government wants to retain the total contribution rate* to the state pension system at less than 20% of social security earnings until 2020, and prevent it from rising above 22% by 2030.

** Payable 50% each by employer and employee*

Expectations

German pension reform is generally seen as a first step in the right direction. However, long-term contribution projections are based on highly optimistic assumptions and do not cover the two decades after 2030, when the demographic problems in Germany are expected to become most pressing. As a result, experts are warning that it will be impossible to stop the pension level from falling below 67% of pre-retirement earnings in the long run without exceeding the set maximum contribution rate of 22%.

Pension Reform Law

State sponsored private retirement provision

As with IRAs in the United States, people participating in the mandatory state pension system (civil servants and the self-employed are excluded) and unemployed persons are eligible to deduct voluntary contributions to an additional retirement plan from their taxable income, up to specified limits.

People with lower incomes will receive an annual state bonus, instead of the deduction of contributions from their income. State bonuses are the sum of basic bonus (per employee) and child bonus (per child).

Annual deductible contributions and state bonuses are defined in Table 1 below.

TABLE 1: ANNUAL TAX-DEDUCTIBLE CONTRIBUTIONS AND STATE BONUSES

Year	Tax-deductible	Basic Bonus	Child Bonus
2002	525 Euro	38 Euro	46 Euro
2003	525 Euro	38 Euro	46 Euro
2004	1,050 Euro	76 Euro	92 Euro
2005	1,050 Euro	76 Euro	92 Euro
2006	1,575 Euro	114 Euro	138 Euro
2007	1,575 Euro	114 Euro	138 Euro
2008+	2,100 Euro	154 Euro	185 Euro

Deductible contributions are defined to be the sum of voluntary contributions paid in the calendar year without allowance for any state bonuses. The maximum deductible contribution rises every second year from 1% of social security income in 2002 to 4% in 2008 and later years.

State bonuses will be reduced proportionally if the taxpayer doesn't pay the minimum voluntary personal contribution. These are defined as a percentage of taxable income in the previous tax year, subject to a prescribed minimum contribution.

The prescribed minimum annual contribution varies by marital status as follows:

- *No child:* 45 Euro in years 2002 to 2004 and 90 Euro from 2005
- *One child:* 38 Euro in years 2002 to 2004 and 75 Euro from 2005
- *More than one child:* 30 Euro in years 2002 to 2004 and 60 Euro from 2005

Qualifying Retirement Contracts

Qualifying retirement contracts need to fulfill the conditions listed in the "law on certification of retirement contracts." The most important requirements are:

- Benefits may not be paid prior to the earlier of attained age 60, the start of a disability pension payment or the start of the statutory retirement pension payment.
- Accumulated capital at the retirement start date must at least equal the total contributions paid during the term of the contract.
- A guarantee is included at outset that the payout mode after retirement is either a lifetime monthly annuity (level or increasing), or a payout plan up to age 85 (providing level or increasing monthly payouts), followed by a deferred payout annuity purchased by part of the capital available at the vesting date.
- Disclosure requirements regarding commissions paid, expenses charged and policy values illustrated (at point of sale and annually).

Expected impact on life insurance industry

In recent months, several organizations have made predictions on the future market potential generated by the German Pension Reform. These include:

- 35 million private pension accounts by 2008.
- An estimated premium volume of DM 86 billion (Euro 44 billion) by 2008 (see Exhibit 1).

Banks, mutual funds and insurance companies are all competing for a share of the private retirement contributions. Life insurers have somewhat of an edge over their competitors, given that they are used to providing life-contingent payout annuities. Optimistic predictions have life insurers' market share at around 60% of total contributions. Products are feverishly being developed right now, and some companies have started selling private pension plans already, even though they will not be effective until January of 2002.

Impact on product design

German Pension Reform is expected to have significant implications on life insurance product design such as:

- A movement towards products allowing flexible contributions;
- A movement towards simpler products with more transparent charging structures; and
- An introduction of products allowing flexible commission structures, including level commission products.

These implications suggest a contingent shift of life insurance sales towards unit linked annuity products. Currently, unit linked products already account for almost 30% of new life and annuity premiums (see Exhibit 2). However, most of the premiums to date have been unit linked life premiums. The expected increase in popularity of unit linked annuity premiums is also expected to attract a growing number of foreign players into the German life insurance market. The race for private retirement contributions has only just begun.

(Author's Note: Please refer to exhibits 1 and 2 on page 12.)

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(see table on page 12)

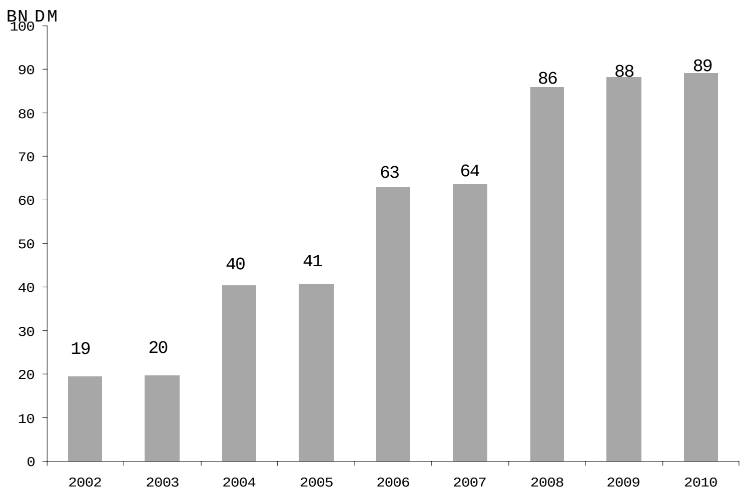
German Pension Reform— A New Beginning

continued from page 11

Exhibit 1

(DM - billions)

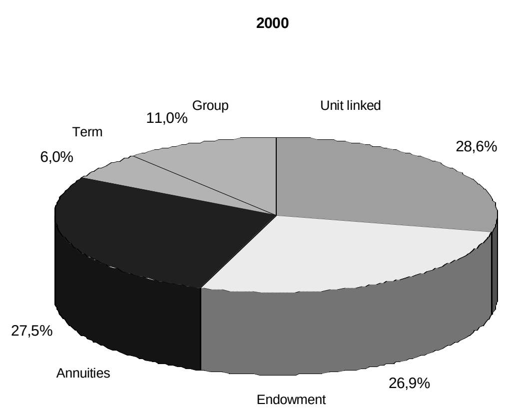
Estimated market potential



Source: Tillinghast Estimate

Exhibit 2

Market Share for Life /Annuity Products



* Based on new annualized premiums
Source: GDV; Tillinghast estimates

Successful Asian Seminars, June 4-12, 2001

by Patricia Kum

The idea to hold an SOA-sponsored regional seminar in Asia was suggested last year by August Chow, International Section Council member and Professional Development (PD) Committee member. The SOA wanted to provide seminars that could, in particular, help candidates in Asia earn PD credit. After months of planning and hard work, the SOA-sponsored regional seminar was successfully held in Asia from June 4-12, 2001. With the SOA's sponsorship of the travel expenses of the speakers from overseas, seminar fees were kept to a minimum. This was a great opportunity to serve our members in Asia again. If you recall, the first and very successful SOA seminar road show was brought to Asia by Shirley Shao in 1997. Since then, SOA has organized several more seminars overseas.

The China Region Committee (CRC) identified Hong Kong, Taipei, Tokyo and Kuala Lumpur as suitable locations for the regional seminar. The locations selected were based on the potential number of SOA candidates requiring PD credit. Local actuarial bodies were instrumental in helping to co-organize the seminars with the SOA. The joint efforts paid off judging by the overwhelming attendance at the seminars - 132 in Hong Kong, 108 in Taipei, 164 in Tokyo and 115 in Kuala Lumpur.

The topics covered at the seminar were interesting and relevant to the region:

- Financial reporting: embedded value, appraisal value, U.S. GAAP
- Product: design and pricing
- Investment: asset/ liability management
- Implications of low rate environment for insurance industry — Lessons learned from Japan
- Private and public health-care and health-care financing scheme

With a low interest rate climate affecting the majority of the countries in Asia, the panel discussion was naturally focused on this topic using the experience of Japan to illustrate the problems of the low interest rate environment.

The International Section Council helped to recruit speakers from overseas for the seminar. Faculty members included Kenneth Mungan (Milliman USA, Chicago), Shu-Yen Liu, Chairperson of the CRC (Ernst & Young, Hong Kong), Jeffrey Dukes (Milliman Japn, Tokyo), David Atkinson (Reinsurance Group of America), Sonny Tan Siew Hock (D Avenue Consulting, Kuala Lumpur), and Paul Lewis (GeneralCologne Re, Cape Town).

Jeff Dukes spoke on Actuarial Appraisals and Embedded Values, covering the basics and also a comparison of the two. He highlighted many important points to note on the theoretical and practical aspects. Shu-Yen Liu followed with a very informative session on U.S. GAAP, giving many examples of FASB.

Ken Mungan (Mungan-san) delivered an easy to follow presentation on Asset Liability Management using many numerical examples and even suggested some very useful strategies for enhancing investment performance in a low interest rate environment.

Speaking on Product Design and Pricing, David Atkinson gave a most detailed presentation covering product design and pricing considerations, design and management choices and pricing techniques. The topics on the Future of Life Insurance in Taiwan and the Insurance Market in China presented respectively by David and Shu-Yen in Taipei stimulated intensive group discussions among the participants. I have never seen such great enthusiasm in a group before.

The healthcare topic was covered on the last day of the regional seminar in Kuala Lumpur. Paul Lewis provided the participants with an overview of the private and public healthcare system in South Africa and the way legislation affected private healthcare. Sonny Tan looked at the healthcare financing scheme in Malaysia, covering the role of private health insurance and the impact of the proposed national health financing scheme on insurers.

The success of this regional seminar is attribute to the efforts, enthusiasm and cooperation of many parties—the attendees, the speakers, the SOA International Section Council, the SOA China Region Committee, the Insurance Institute of the Republic of China, the Institute of Actuaries of Japan, the Actuarial Society of Malaysia, the Malaysian Insurance Institute, and Joe Hasman who conducted an anti-trust review of all the seminar materials. A big thank you to all.

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Caring for the Frail Elderly: A U.K. Perspective

by David Gulland

Author's Note: (this article summarises a talk given at the SOA meeting in Dallas. Please contact the author at dgulland@bw-deloitte.com *if you would like to receive a full copy of the slides used at the meeting)*

This article intends to give a short overview of the situation in the United Kingdom ("U.K.") highlighting those areas that should be of particular interest to readers in the USA. There are three parts to this article:

1. An overview of the demographics and method of supply of LTC

2. A review of the ongoing debate on the role of public funding, and

3. A summary of the insurance industry's response

In brief, the latter makes depressing reading since insurers have failed to turn a clear consumer "need" into a "want," with sales of business being significantly below what could be achieved. This may provide an opportunity for U.S. companies with successful marketing, distribution, underwriting and claims management skills to export successfully to the U.K. market.

Demographics and Supply of LTC services

The U.K. population is expected to age in line with many similar Western economies, as summarized in the following table. (Slide 1 of attached Powerpoint). The key figures here are the growth in the over 85s, expected to treble over the next fifty years. The effect of this is exacerbated by the falling birth-rate and reduction in size of the working population. Unlike the USA, immigration does not materially effect these demographic projections.

There are various studies into the prevalence of the need for LTC amongst the elderly, but no single source can truly be regarded as reliable. Various studies are discussed and quoted in the Report of the Royal Commission into Long Term Care set up in 1997 and which reported in early 1999. A "benchmark" set of data is as follows: (Table 2).

To address this paucity of reliable data a new body was set up during 2001 called the English Longitudinal Study into Aging. This has some similarities to the National Long Term Care Survey in the USA.

As is common across most countries there is an increased effort to use home care rather than moving individuals into institutional care. Nonetheless institutional care is still the most significant part of the LTC market (as measured by costs) as indicated by the following table (Table 3). What has changed over recent years is the nature of the ownership of the LTC providers. For example public-sector institutional beds have fallen from approximately 40% in 1990 to approximately 17% by 2000. Similarly the supply of home health from the public sector has fallen from almost 100% of hours provided to approximately 50% over the same period.

The debate over Public Funding

In July 2000 the government published its Plan for the National Health Service ("NHS"). Before considering this Plan, and its possible effects, we must put it into context. I will therefore first outline the situation as it stood prior to July 2000 and then list the changes that the Royal Commission wanted to make.

The situation prior to July 2000: The most important feature of the UK system is the split between medical care (including nursing) and other aspects of LTC such as bathing, dressing etc—which we call "personal care."

Medical care is provided by the NHS and is free at the point of service, being funded from general taxation. Personal care has always been the responsibility of the Social Services departments of local governments. Eligibility for these services depends on a "wealth test." Such a system leads to many problems.

The first problem is one of *consistency* in interpretation. Not surprisingly the financial constraints on the NHS can lead many health authorities to adopt different interpretations of their duties. In addition, different local governments apply the "wealth test" in different ways, depending on their own financial situation and on the demand for services.

The second major difficulty is *public confusion* over what the state is providing. Many people, particularly the current retired generation, believe that the NHS was created in 1947 to provide a "cradle to grave" system and do not understand (or accept) this split between medical and personal care. The confusion was made worse because eligibility to free nursing care actually depended on where you are—rather strangely only if you were living in a nursing home did you no longer become the responsibility of the NHS and instead get passed to local government.

A final major difficulty is the *gaps in the services* being provided. The lack of funds means that there is significant unmet need for LTC. Approximately 5.7 million people in the UK give informal, or unpaid, care to relatives, friends or neighbors—with 1.7 million giving over 20 hours of care a week. Even with this level of informal care there is evidence that there is still a large amount of care that is needed and is simply not being provided either by the public sector or through these informal routes.

The Royal Commission's Report:
As a consequence of this unsatisfactory situation the Labor government set up a Royal Commission in December 1997 to investigate the funding and delivery of LTC. The Commission presented its Report in March 1999.

Its most controversial recommendation was to split the costs of LTC between living costs, housing costs and what they called the costs of "personal care". Only the first two should be subject to an "ability to pay" test, with all "personal care" being free at the point of need and funded from general taxation. The definition of "personal care" was wide, including not only nursing care but also all services which involves physical contact between the carer and the cared for.

This proposal would have radically changed the nature of LTC funding in the U.K., and not surprisingly it generated much controversy. There was also much debate over the accuracy of the financial projections used by the Royal Commission to cost their proposal.

The Government's Response and its Plan for the NHS:
The government rejected the Royal Commission's proposal to extend free services to all "personal care". Instead it confirmed that only "Nursing Care"—defined as services carried out by, or under the direct supervision of, a registered nurse would be funded from the NHS. All other aspects of personal care would continue to be subject to the "wealth test", with some small alterations. This introduction of free Nursing Care will be effective from October 2001.

> *"Many people, particularly the current retired generation, believe that the NHS was created in 1947 to provide a 'cradle to grave' system and do not understand (or accept) this split between medical and personal care."*

Many of the less controversial recommendations of the Royal Commission are being acted upon. For example there is a new National Care Standards Commission which will be responsible for monitoring the quality of care being provided. In addition, in May 2001 a "National Service Framework for Older People" was published which sets out detailed targets for the amount and quality of care. For example there are requirements for the local NHS bodies to carry out regular screening and to maintain registers of those individuals deemed to be "at risk".

Although the government has rejected the idea of extending the scope of "free" services, it does recognize the primary importance of health care in LTC. In particular the NHS Plan includes significant funding, approximately £900 million, for intermediate care. This will include additional beds and other facilities to act as "step-down" care between the acute care being received in the NHS hospital, and the care available in a Nursing Home or other locality.

Other important developments that the government is carrying out include :

- The use of a single assessment tool for use by both the NHS and the local government agencies
- The use of "sticks and carrots" to ensure local NHS bodies and local governments cooperate in the management of care for the elderly
- The increased emphasis on prevention and rehabilitation which is a recurrent theme in the National Service Framework
- Increased financial and training support for the vital body of informal care givers.

Has this ended the debate ?

In short, No! The first difficulty is that the government in Scotland, exercising its new powers under Devolution, has adopted the Royal

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Caring for the Frail Elderly: A U.K. Perspective

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Commission's proposals of free personal care. This raises interesting problems about two different levels of public sector care existing within the U.K. It is very unclear how this will play out in practice. Further the actual costs of the Scottish solution will be viewed with great interest. Will it really be unaffordable, and if not, will England then be forced to follow Scotland?

The second difficulty is that many pressure groups and political "think-tanks" do not appear to have accepted the solution in England. However the issue failed to damage the Labor Party in the elections this summer and so they will have no political need to amend their approach over the next five years.

The Role of Insurance and Financial Services

Despite the clear need for LTC insurance there are at present only approximately 35,000 insurance policies in force in the U.K. The following tables (Tables 4-6) show the "growth" of sales subdivided by the three categories of policies sold in the United Kingdom:

- Pre-funded regular premium
- Pre-funded single premium
- "Immediate needs" policies.

The first two are similar to products sold in the USA, with benefit eligibility determined with reference to failure of a certain number of ADLs. What is slightly different from the "typical" U.S. policy is a tiered benefit structure. Typically 50% of the maximum benefit is paid on failure of two out of six ADLs, with 100% payable on failure of three. A second difference is the emphasis on cash benefits rather than reimbursement of actual expenses incurred. Finally, the range of options seen in the U.S. as regards elimination period and maximum benefit amount is not seen in the U.K. Nearly all policies have an unlimited maximum overall benefit.

Immediate needs policies are sold to individuals moving into a nursing home and wanting to pay a single premium to an insurer to meet all future fees. This business is extremely competitive because of the ease of price comparisons.

Why have insurers not been able to translate the need for LTC insurance into a want ? Some of the reasons for this include:

- Lack of consumer knowledge on need
- Poor perceived value for money
- Marketing efforts concentrated at wealthy retirees
- General reluctance to insure
- Difficulties of a stand-alone sale
- The general uncertainty over the government's response to the Royal Commission
- Other more urgent problems facing the insurers (and their distributors)

The key question for the U.K. market is whether these difficulties are short-term and capable of being removed, or whether they are systemic to the U.K. My personal opinion is that the next three years will see the problems dissolve and sales of LTC insurance (using more innovative approaches) start to grow rapidly.

There is also much interest in designing various "equity release" products that allow elderly people with high value houses but inadequate income to release some of the value of the property for various purposes such as the purchase of LTC insurance, or care costs. Volumes of business are however still small. The government has launched a small scale pilot into public sector equity release. This allows local governments to make loans to individuals needing personal care but failing the wealth tests, secured on the individual's home.

Summary and Conclusions

This article has only been able to scratch the surface of this topic. Nonetheless I trust it has shown that there is a clear need for private LTCI solutions in the U.K. Actuaries should be able to play a leading role in helping to design and price products that meet this need.

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(Please refer to the supporting tables on the next few pages.)

Table 1

The demographics – UK population, m's

Year	Under 65	65-74	75-84	85+	65+ as % total	75+ as % total
1995	49.4	5.1	3.1	1.0	15.7	7.0
2011	50.9	5.5	3.3	1.3	16.5	7.5
2031	48.4	7.7	4.8	1.9	22.9	10.7
2051	46.3	6.5	5.3	2.9	24.1	13.4

Table 2

Number of people receiving LTC

Care at Home: (Population 65+ =9.1m)

- Community Nursing 530,000
- Day Care 260,000
- Meals 240,000

Institutional Care:

- Residential homes 288,750
- Nursing Homes 157,500
- Hospital 34,000

Source – Royal Commission ("RC") Report

(continued on page 18)

Caring for the Frail Elderly: A U.K. Perspective
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Table 3

The costs of LTC – formal payments

Type	National Health Service (“NHS”)	Social Services	Private to Social Services	Private Direct Pay	Total
Home Health	**945**	**1,300**	**165**	**315**	**2,725**
Residential Homes	**-**	**1,910**	**1,030**	**1,200**	**4,140**
Nursing Homes	**195**	**1,300**	**530**	**750**	**2,775**
Long-stay Hospital	**1,425**	**-**	**-**		**1.425**
	2,565	***4,510***	***1,725***	***2,265***	***11,065***

Table 4

Statistics – Pre Funded Regular Premium

	New Policies	New Premium £000
1995	**2,942**	**2,333**
1996	**3,575**	**2,937**
1997	**2,841**	**2,552**
1998	**3,040**	**2,786**
1999	**2,055**	**2,050**
2000	**1,899**	**2,114**

Table 5

Statistics – Pre Funded Single Premium

	New Policies	New Premium £000
1995	1,963	30,401
1996	4,505	69,178
1997	3,740	62,455
1998	3,672	63,701
1999	2,959	59,889
2000	2,053	45,837

Table 6

Statistics – Immediate needs

Point of Need	New Policies	New Premium £000
1995	135	6,145
1996	127	5,308
1997	180	7,439
1998	280	11,585
1999	534	18,763
2000	743	27,655

- **NB: (excludes PAFS data and other Impaired Life Annuities – source is ABI)**

India's Insurance Industry Marches Toward Liberalism (Part 2)

by Shriram P. Mulgund

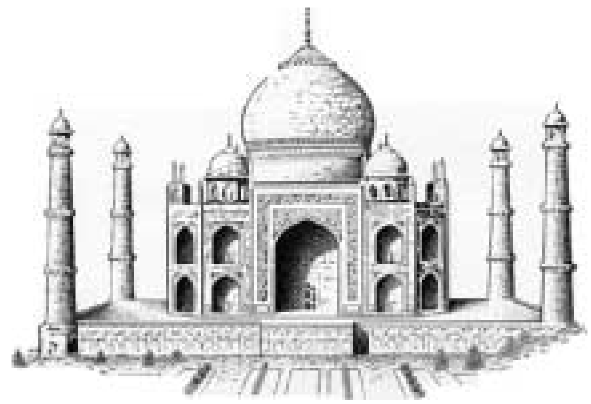
Rapid changes have been taking place in the insurance scene in India. An article describing these changes had appeared in the May 2000 issue of the International Section News. This article provides an update.

Quick Background

India's life insurance industry, which is more than 100 years old, was nationalized in 1956. The business of about 250 life insurers was acquired by the newly set up nationalized insurer Life Insurance Corporation of India (LIC), which then was given the monopoly for life insurance business. General insurance was nationalized in 1972.

The LIC witnessed significant growth in business (particularly in the rural sector—nearly 70% of India's population of one billion lives in villages). It transacts business through 2,050 branches with an agency force of 715,000 and a staff of 123,000. It has over 100 million policies on its books. All benefits are guaranteed by the government of India.

With a view to reviewing the status of the insurance industry in the changing economic conditions, the government of India appointed a high-powered committee in 1992. In its report submitted in 1994, the committee made wide-ranging recommendations that included a recommendation that private players be permitted to compete in the marketplace. Acting upon these recommendations, an interim Insurance Regulatory Authority was set up in 1996 to deal with changes in legislation, etc. Due to political opposition for such liberalization, it took the government until 1999 to get all the necessary legislation passed. An Act passed in 1999 set up the Insurance Regulatory and Development Authority (IRDA), which was formally constituted in April 2000, with Mr. N. Rangachary as its Chairman.



Taj Mahal, India

Set-up of the IRDA

The IRDA consists of the Chairman, five full-time and four part-time members. One of the full-time members has to be an actuary. The tenure of any member is five years.

There is an Insurance Advisory Committee consisting of 25 members, excluding the members of the IRDA, representing the interests of commerce, industry, transportation, agriculture, consumer forums, surveyors, agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees' association in the insurance sector. In making any regulations, the IRDA will consult the Insurance Advisory Committee.

The Authority is an active member of the International Association of Insurance Supervisors.

Current Legislative Framework

The current legislative framework consists of three tiers. All of these can be found on the IRDA's web site (shown at the end of this article).

The first tier consists of the primary legislation governing the insurance industry, which is the Insurance Act, 1938 (with amendments to-date) and the Insurance Regulatory and Development Authority Act, 1999.

The second tier consists of the various regulations formed by the IRDA and the rules notified by the Government of India.

The third tier consists of the directives and circulars issued by the IRDA.

IRDA Aims and Objectives

The IRDA Act set out the duties, powers and functions of the Authority. The IRDA is driven by the objectives of protecting the policyholders' interests and of creating an environment that will encourage a healthy growth of the insurance industry.

The requirements for licensing of new insurers, actuarial valuations, solvency margins, investment limitations, etc. are designed with the objective of policyholder protection in mind.

In the new environment, the nationalized insurer, which will continue to enjoy the benefit guarantees provided by the Government of India, will compete with the private players. The IRDA will create a playing field that will be as level as possible within the current framework.

The IRDA intends to maintain transparency in all its operations. It has done so in granting licenses to new insurers. It is contemplating holding regular meetings with industry officials to discuss and resolve industry issues.

> *"During the nationalization era, the employment market for the actuarial profession had become stagnant and had lost its appeal. As a result, the supply of actuaries has almost dried up. With the opening of the industry, the profession has regained its luster."*

Key Characteristics of the New Regime

The following could be considered to be the key characteristics of the new regime:

- High capital requirements for new insurers to ensure that only strong companies enter the marketplace.
- Adoption of the Appointed Actuary system to the fullest extent.
- Requiring the intermediaries to satisfy high educational and training requirements (including CPD).
- Use of current actuarial thinking in setting up the valuation and solvency requirements.
- Liberalization of the restrictions on permissible investments.
- Special requirements to deal with the population living in rural areas and belonging to the socially weak sector.
- Adoption of "file and use" approach for new product introductions.

Registration Requirements for Insurers

An applicant seeking license to transact insurance business, must be an Indian Insurance Company. Even though at the time of start-up, one or more companies or individuals may promote the new company, the new insurer has to go public within 10 years of its registration.

Foreign companies interested to do business in India must do so through a joint venture with an Indian company. The foreign equity participation in the joint venture is limited to 26%.

The minimum paid up equity capital is one billion Rupees (approximately, US $22 million). For insurers who wish to do reinsurance business exclusively, this is two billion Rupees. A Company cannot transact both life and general insurance business - it will need to set up separate companies.

The promoters of the new company must have a good track record. It is necessary to satisfy the IRDA that the promoters have every intention to stay in the insurance business for the long haul.

Applications for licensing are to be accompanied by very detailed business plans for five years. The business plan has to describe, among other things, the products that are to be introduced, their profitability, distribution channels to be employed, anticipated sales, etc. The business plan should also indicate how the future needs for additional capital will be met.

Appointed Actuaries

Each insurer has to have an Appointed Actuary. In the case of a life insurer, the Appointed Actuary has to be an employee. In the case of a general insurer, he/she could be a consultant.

The appointment of AAs is governed by a separate set of regulations. He/she should be a resident of India. He/she has to be a Fellow of the Actuarial Society of India holding a Certificate of Practice issued by the Actuarial Society. While seeking the Certificate of Practice, the individual should possess experience in the relevant field for a minimum period of two or three years and should satisfy the CPD requirements.

The Appointed Actuary should not be over the age of 70 years.

The insurers are required to seek prior approval from the IRDA before any individual is appointed as the Appointed Actuary.

The new regime places very heavy responsibilities on the shoulders of Appointed Actuary. He/she is expected to be the eyes and ears of the IRDA and be a "whistle blower." He is a person who is expected to bridge the gap between the insurer and the regulator.

As a member of the Actuarial Society of India, the Appointed Actuary will of course be expected to comply with all the Standards of Practice set out by the Actuarial Society.

During the nationalization era, the employment market for the actuarial profession had become stagnant and had lost its appeal. As a result, the supply of actuaries has

(continued on page 22)

India's Insurance Industry Marches Toward Liberalism

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almost dried up. With the opening up of the industry, the profession has regained its luster. But, it will be at least five to ten years, before the supply will be able meet the demand. The IRDA has recognized that in the interim, the insurers may experience some difficulty in seeking suitable individuals for the position of Appointed Actuary. In special situations, the IRDA will be willing to give a special consideration.

Distribution System

The thrust of the legislation is to build an agency system where only professional agents are engaged in the distribution activity. In addition, other distribution channels will also be developed.

The agents will be licensed by the IRDA. These licenses will be renewable every three years. The agents can be either individuals or corporations, which will usually be registered companies or firms.

In order to ensure professionalism, the licensing requirements stipulate a minimum academic qualification level along with a minimum of 100-hour practical training from an approved institution and a pass in the qualifying examination. For renewal of licenses, a CPD requirement of 25 hours of practical training is also stipulated.

The legislation requires that an agent represent only one company. Multiple company representations are not permitted.

The IRDA is planning to permit multiple distribution channels. Legislation pertaining to brokers is being worked upon. With regard to qualifications and professional training, this is expected to be similar to agents. In addition, they are expected to have some capital requirements.

Valuation of Policy Liabilities

The IRDA has tried to adopt modern thinking on this question. In valuing the policy liabilities, the actuary should recognize all contingencies under the policy, such as mortality, termination, conversion, maturity, etc. The future liability cash flows should include all premiums and benefits payable under the policy. These could be guaranteed or non-guaranteed. Full allowances should be made for expenses, including a suitable allowance for inflation. The liability cash flows should include all the bonuses (viz. dividends), including terminal bonuses. The policy liability will then be computed by discounting the future cash flows.

In determining the liability cash flows, all necessary parameters have to be taken into account—such as mortality, terminations, expenses, interest, etc. As new products are introduced, new parameters may have to be considered. The value of each such parameter should consist of two tiers—the first representing the expected level and the second representing a Margin for Adverse Deviations (MAD). The expected level should be based on the insurer's own experience, to the extent possible. If no reliable experience was available, it could be based on the industry level. The level of MAD would depend on the degree of confidence the Appointed Actuary had in the expected level.

In establishing the valuation interest rate, the extent of the asset-liability mismatch, the interdepen- dence between the fund earnings and the benefits payable and the effect of adverse changes in the future interest rates should be taken into account. This would require different considerations to be employed for non-par business, par business and single premium business.

The computed reserve is subject to a minimum of the guaranteed cash value; thus requiring elimination of negative reserves. This seems to go against the concept of "realistic" reserves. This minimum had to be used to meet the discomfort of the Indian actuarial community in accepting the concept of negative reserves. This method will be called "Gross Premium Method."

Required Solvency Margins

The concept of Required Solvency Margins (RSM) has been used. It was thought that the industry was not yet ready for the use of Risk Based Capital approach. A simplified basis has been adopted.

The Insurance Act specifies that the RSM be based on three components. The first component will be expressed as a percentage of the asset value, the percentage being dependent on the risk classification of the asset. The second component will be expressed as a percentage of reserves. The third component will be expressed as a percentage of the net sum at risk. For the time being, the percentage for the first component has been set to zero.

The factor based on reserve for the second component ranges from 1% to 4%. For most individual insurance and annuity business, it is 4%.

The factor based on net sum at risk for the third component ranges from 0.2% to 0.3%. For most individual insurance business, it is 0.3%.

Appointed Actuary's Report

The legislation provides for standard financial statements required for insurance companies. In addition, the IRDA will be asking for a separate report from the Appointed Actuaries giving detailed background to the valuation assumptions, various indices, etc. Since this report will be confidential, the IRDA will be able to seek information that may be considered sensitive for public disclosure. This will also provide flexibility to the IRDA to change the contents of this report as need for additional information becomes apparent

Investments

For life insurance business, at least 25% of the funds have to be invested in government securities. A further 25% has to be invested in government securities or certain "approved" securities. At least 15% have to be invested in social sector and infrastructure investments. Up to 20% can be invested in investments that meet the exposure and prudential norms set out in the legislation. For the remaining 15%, the insurer has full freedom.

For pension and annuity business, at least 20% has to be invested in government securities. A further 20% has to be invested in government securities or "approved" securities. The remaining 60% can be invested in the "approved" securities and other investments governed by exposure and prudential norms.

Approved Investments

The legislation sets out the nature of "approved" investments other than the government securities. These include securities that have a government backing, instruments that have been issued by very strong companies with good track record, well-secured mortgages, bank deposits, policy loans and so on.

Exposure and Prudential Norms for Investments

The legislation sets out the exposure and prudential norms to be considered by the insurers. The exposure norms are designed to limit the insurer's exposure in a single investment. The limitations relate to factors such as the maximum percentage of assets that can be invested in a single company or a group of companies. The prudential norms are designed to assess the quality of the investment. These are based on factors such as company rating, asset cover, debt-equity ratio, dividend cover, etc.

Rural and Social Sectors

The IRDA's objectives of ensuring that the rural and socially weak sectors benefit from liberalization have been met through imposing certain requirements on the insurers in respect of these sectors.

A rural area is defined as a town with a population of less than 5000. The percentage of business from the rural area should be at least 5% in the first year of operation of the insurer, increasing to 15% in five years.

With regards to the socially weak sectors (viz. the economically vulnerable workforce), the number of lives from this segment has to be at least 5,000 in the first year of operation of the insurer, increasing to 20,000 in five years.

New Product Introductions

The new regime did not wish to impose any impediments in the development of new products. At the same time, they wanted to ensure that any new products would serve the needs of the general public. This was achieved through the adoption of "file and use" approach. While no prior approval of new products is needed, the Appointed Actuary has to provide the IRDA a detailed report setting out the benefits (including restrictions, if any), profitability levels, scenario testing, etc. If the IRDA is concerned about any aspect of the product, they will contact the insurer within one month. One month after the filing, the insurer can introduce the product if no communication had been received from the IRDA.

Taxation of Life Insurance and Shareholder Transfers

Life insurance premiums paid by individuals attract tax benefits. For this purpose, the savings made in other vehicles (such as contributions to the defined contribution plans called Provident Funds and a few other investment vehicles) also attract the same benefits.

Life insurers are taxed on valuation surplus, which is the excess of the assets over the policy liabilities in the policyholders' fund (these liabilities exclude the current year bonus). The tax rate is 12.5%. There is also a surcharge at 10% of the tax rate. The tax rates have remained unchanged for three decades. At present, there is no differentiation made between the surplus emerging from the par business and the non-par businesses. A proposal has been made to distinguish between par and non-par businesses.

The shareholders' share of surplus is limited to 7.5% of the valuation surplus. There is a proposal to increase this share to 10% in case of par business and 100% in case of non-par business.

The Government of India has appointed a committee to look into taxation of life insurers and to recommend changes. The committee has submitted its report to the government. The recommendations seem to indicate that the policyholders' share of surplus be taxed at lower rates, maybe at 5% to 7%, and the shareholders' share of surplus be taxed at the prevailing corporate rate—currently 35%.

Actuarial Profession in India

The present actuarial community in India consists of members of the Institute of Actuaries, London. They are also members of the profes-

(continued on page 24)

India's Insurance Industry Marches Toward Liberalism

continued from page 23

sional actuarial body in India, called Actuarial Society of India. It was formed in 1944. Initially, the Society was only a forum to discuss actuarial issues. In 1984, it became a registered society with specified objectives to promote and develop the profession in India. In 1987, it commenced its own examinations at the Associateship level. In 1991, this was extended to the Fellowship level. The pattern of examinations is similar to that used by the Institute of Actuaries, London.

During the period of nationalization, the actuarial profession had lost its appeal. As a result, very few individuals commenced writing the actuarial examinations. With the opening of the insurance sector and the adoption of the Appointed Actuary system, there is a severe shortage of actuaries.

As of December 31, 2000, there were 213 Fellows, 119 Associates and 473 students. Out of the 213 Fellows, only 11 were below the age of 30, another 45 between the ages 31 and 40, about 100 lived outside India and about 90 were over age 60.

In the years to come, there will be a lot of demand for actuaries in India.

As the new environment places very heavy responsibility on Appointed Actuaries, there is a need to develop the profession very quickly. The Actuarial Society of India has undertaken this challenge. It may take another five to ten years to fully meet the demand for actuaries—not only for the position of Appointed Actuaries, but also to work in different areas of the company. In the meantime, the IRDA expects that the insurers will have to rely on the support from the overseas actuarial profession—primarily from the home countries of the foreign partners of the joint-venture companies.

Challenges in the Years to Come

India is a country with a population of over 1 billion. The middle-income group constitutes 50% of this total. There is a tremendous potential for channeling the country's savings through the life insurance companies. Currently, this is about 1.5% of GDP. Awareness and successful penetration will be the key for increasing the share of the insurance industry. This can be achieved if financially and professionally strong companies enter the market, introduce innovative products, increase the penetration of insurance to the masses and provide efficient service to the consumers.

As the savings channeled through life insurance are increased, these have to be invested on a long-term basis. The existing capital markets may not be adequate to do this. This will require developing the long-term markets. Such increased long-term investments will go a long way in meeting India's requirements for long term investments to meet its infrastructure needs.

Opening up the industry has put new pressures on the IRDA. It has to ensure that the policyholders' interests are well protected. Monitoring the industry without stifling its growth, will be a big challenge.

As indicated above, the benefits payable under the policies issued by the LIC will continue to be guaranteed by the Government of India. This may be construed to be a disadvantage to the new players. A Policyholder Protection Fund can provide guarantees to the policyholders of these players. This fund can be set up from contributions made by the insurance industry.

As the industry grows, it will need to deal with a variety of issues and discuss these with different agencies (including the IRDA). This will require that the industry be able to speak with one voice. This will require the industry to create and develop an industry body to represent its interests. Such a body can also set out a code of ethics to be followed by the member companies and monitor the same.

The actuarial profession in India is relatively young and small in number. Many of the actuaries have a very limited exposure to the current actuarial thinking. Developing this profession will be a big challenge.

Fortunately, there appears to be a friendly and transparent insurance supervisor. The IRDA is committed to make every effort and provide any support to develop the industry and the professions. With strong and innovative players in the marketplace, the future of the insurance industry looks very bright indeed!

Contact Information

Any additional information can be sought from the following addresses:

- IRDA — *www.irdaindia.org* or *www.irdaonline.org*
- Actuarial Society of India - *www.actuariesindia.org*

Shriram P. Mulgund, ASA, MAAA, FIA, FCIA, is a consulting actuary in Toronto, Canada. He can be reached at mulgund@sympatico.ca

U.K. Life Assurance Market

by Alan V. Twigg

Over the last twelve months, three topics have dominated the thoughts of most U.K. life insurance executives; the continuing activity in the mergers and acquisitions area, including demutualizations, the Equitable case and the introduction of so-called 'stakeholder' pensions. The common theme of these topics is the growing pressure on free capital of companies.

M&A/Demutualizations

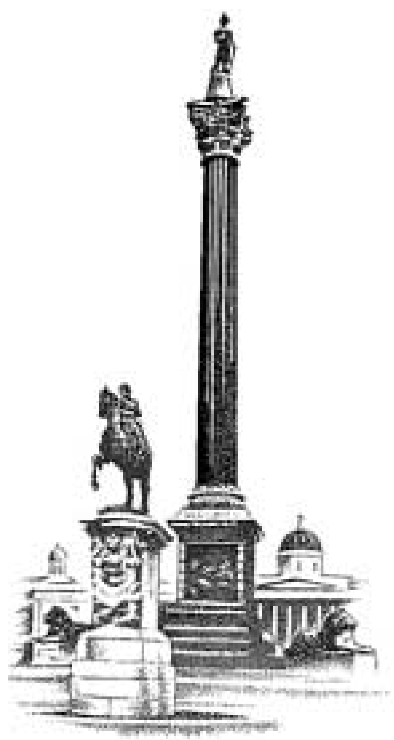
The past few months have seen an acceleration of the trend for mutual insurers to give up their current status. Friends Provident are following the earlier example of Norwich Union by demutualizing and raising fresh capital in the process. Others which consider themselves too small to seek a stock market listing, Scottish Provident, Scottish Life and National Mutual, are giving up their independence and being acquired by larger organizations. In nearly all cases, the relatively weak capital position, which threatens to prevent the organization attracting sufficient volumes of new business, is the prime motivation for the change of status.

Following the demise of Equitable (see below), the only significant remaining mutuals are the United Kingdom's largest, Standard Life, who won a vote from their policyholders last year to retain their mutual status, and Royal London.

'Big is beautiful' seems to be the trend in the U.K. life market so far in the 21st century.

The Equitable case

The Equitable, the oldest life insurer in the world and one of the largest U.K. companies, closed to new business in December 2000. This unhappy outcome was a direct result of the company's losing its legal battle with a group of its policyholders. The issue which was decided by the House of Lords, centered on whether the company has the right to grant differential dividend levels between those policyholders who hold a guaranteed annuity option at retirement and the majority who do not. While the company still considers itself solvent, the cost of recompensing those policyholders who hold the option is such that the company felt it had no choice but to close. Since closure, the company has sold some of its subsidiary undertakings with a view to improving its capital position.



Trafalgar Square, London

This case has aroused enormous interest not the least from the U.K. regulator. There are also professional issues arising and at the time of writing, the results of an inquiry by the Institute and Faculty of Actuaries are awaited.

Stakeholder pensions

From April 2001, a new type of defined contribution pension provision is being introduced by the British government, known as stakeholder. A key feature of this product is the control of charges, which are limited to a management charge on the accumulating fund of 1% p.a. with no other permitted entry or exit charges.

The government expects that a significant proportion of the business will be written without involvement of either a tied or independent agent with consequent saving in commission. Nevertheless, it is estimated the product will be highly capital intensive, with little or no profit expected until the second decade on a policy.

A knock-on effect is also developing in the pricing of other pension provisions. It is expected these capital effects will continue the consolidation of the U.K. life assurance market.

Alan V. Twigg, ASA, is a consulting actuary with KPMG Actuarial Services in London, England. He can be reached at alan.twigg@kpmg.co.uk.

New Frontiers in the Convergence of Financial Services

by Andrew F. Giffin

Convergence, consolidation and globalization continue to be hot topics at international insurance gatherings. But, in Vienna this July, at the International Insurance Society's 37th Annual Seminar, much of the attention was on more basic business issues—response to changing customer demands, organic growth and improving company value.

Headlined by Kees Storm, Chairman of the Executive Board of AEGON, and Chairman of the Society, Henri de Castries, President of the AXA Group, Henning Schulte-Noelle, Chairman of the Management Board of Allianz and Takeo Inokuchi, Chairman of Mitsui Marine and Fire, the three day program covered a range of current insurance industry issues from E-business to measuring shareholder and customer value to managing human resources.

A survey, including responses from 115 of the 534 insurance CEOs and senior executives participating in the seminar, asked for the "three most pressing challenges" facing the insurance industry today. Most often mentioned among the top three were:

- Managing capital and risk (49)
- Keeping talent suitable for today's markets (41)
- Competing amid consolidation and concentration (40)
- Meeting changing customer demands (35)

Of these, "meeting changing customer demands" led #1 choices with 22. When broken down by region, the same four top choices emerged with slight variations in order. In Europe, keeping talent led the list. In the U.S. and Canada, competing amid consolidation and concentration came out on top. In Asia, managing capital and risk got the most responses.

The survey responses were well represented in the plenary speakers' comments. Henri de Castries, representing AXA, a company well known for its building of a major global insurance power by acquisition, concentrated on organic growth issues. He spoke of response to growing competition and deregulation and meeting the needs of an aging customer base, with increasing wealth and demands for good advice. He noted the need for developing new, multichannel approaches to distribution, exploitation of brand power and motivation of employees. Thus, it is not enough to piece together a global empire. You must also establish the global and local structures to make it efficient. Growth by acquisition must be followed by organic growth of revenue.

Doug Leatherdale, Chairman of the St. Paul Companies, spoke of work his company is doing to better understand risk in the insurance business. He pointed out that insurance risk is an obvious consideration, but risk also includes investments, operations and other business concerns. With the difficulties in anticipating the path of underwriting cycles, risk diversification—allocating capital to the right lines of business—becomes the key focus of activity. Leatherdale warned that the risks of insured losses, catastrophes, changing legal definitions of liability, asset values and competitor behavior must be understood in combination to play this game.

But, risk analysis is not only for the preservation and efficient use of capital. It offers an opportunity to provide new forms of risk management and protection through new product and service offerings. These can be used to recapture ground lost to alternative risk finance, captives, self-insurance and other new competing risk management tools.

Takeo Inokuchi, Chairman of Mitsui Marine and Fire, described the revolutionary changes going on in Japan as fundamental deregulation has opened markets to new competition, from foreign entrants and from within the country. Life insurers have entered non-life markets and vice versa.

Restrictions on foreign company participation have been relaxed. More deregulation is coming. Consolidation, diversification, introduction of new technology, new products and new forms of distribution have changed the requirements for success in Japan. Mr. Inokuchi reiterated themes introduced by Mr. Castries and Mr. Leatherdale—rethinking many of the fundamentals of insurance in a new market context.

When IIS conducted its annual survey of key issues at its last Annual Seminar in Vancouver in July 2000, the big issue was the impact of the Internet and e-commerce. With the collapse of much of the dot com fever in the intervening year, Jack Fulda, Vice President of Marketing at Channelpoint, an internet company engaged in assisting existing distributors use the internet in their continuing activities, emphasized that investments in internet use must be made very carefully. He noted that the Internet remains a powerful tool for finding, selling and servicing customers. But, moving from simple applications in "e-commerce" to more effective, but complex, applications in "e-markets" requires careful integration of the new technologies with the best of insurance fundamentals.

The survey's emphasis on human resources in 2001 was also present in the 2000 survey. Insurance companies have not tended to place great emphasis in this area historically. However, threats to existing talent pools, demands for new skills, and some prominent examples of new approaches to attracting and retaining talent, have awakened interest. Dr. Claus-Michael Dill, CEO of the AXA Group in Germany, described the development of the AXA culture. From early in its development, AXA began to develop a global culture, seeking the best combination of global synergy and local market sensitivity and response. Global activities are concentrated in areas where global synergies are most likely to be gained, e.g., IT services, asset management. AXA culture is reinforced through "AXAgrams," visual drawings used to convey multicultural norms, and other means of communicating the common elements of corporate culture.

Lars-Eric Petersson, CEO of Skandia, described the latest from the front lines of the "war for talent." He counseled a clear strategy to attract and retain the knowledge-based talent pool needed to carry the business into the new market environment. "Strategic focus, employment brand-building, recruiting to fit and aid retention, meeting emerging employee preferences through cultural development and leadership, and creating an internal market for talent through continuous investment in people" were cited as keys to success.

"Insurance companies have not tended to place great emphasis in this area historically. However, threats to existing talent pools, demands for new skills, and some prominent examples of new approaches to attracting and retaining talent, have awakened interest."

In addition to the main plenary sessions, the participants heard a panel on the breaking down of regulatory barriers and opening of markets, including regulators from India, China and the European Union. Each addressed progress toward establishing efficient markets and opportunities for foreign entrants, subject to the realities of local infrastructure needs and conflicting opinions on the proper role of foreign entrants.

An unusual feature of the IIS Annual Seminar is the discussion groups. Following plenary sessions, participants meet in small groups to discuss the key points of the sessions. They also share their own experiences in these areas. It is a rare opportunity for senior executives from many countries to gain new insights by comparing national and global experience. Plenary speakers spend a few minutes with the discussion groups to answer questions.

The program concluded with a series of papers presented in the annual Research Round Table, where these subjects were addressed in more detail. The Research Round Table allows combinations of academic, professional and business perspectives to enrich plenary programs.

The IIS Annual Seminar is also the site of the annual awards of the Society and induction into the Insurance Hall of Fame. This year's Hall of Fame inductees were James C. H. Anderson (1931-1993), former President of Tillinghast-Towers Perrin, Josei Itoh, Chairman of Nippon Life in Japan, and Leo Goodwin, Sr. (1886-1971), founder of GEICO.

Further information about the program, the International Insurance Society and the 38th Annual Seminar scheduled for Singapore, July 14-17, 2002, can be obtained at the IIS Web site, *www.IISonline.org* or through its offices at 101 Murray Street, New York, New York 10007, telephone: 1-212-815-9291, facsimile: 1-212-815-9297.

Andrew F. Giffin is a principal at Tillinghast-Towers Perrin in Framingham, MA.

Section Membership *Survey Says...*

The International Section recently surveyed its membership to better understand its current and future needs, and thereby provide input on prospective Section initiatives.

The survey was comprised of 12 questions through the collective efforts of the Council and was made available on the Society Web site for a three-week period. Section members were e-mailed at the outset and with one week remaining with a link to the questionnaire for ease of accessing and responding, and to facilitate more timely collection of data.

There were 198 (11% of Section membership) questionnaires submitted. The predominant observations and qualitative comments are summarized below, followed by details for each of the questions. The findings will definitely generate discussion and guide the Section forward. As always, feedback is welcome, so if you were unable to complete the survey or have additional comments, please send to Mike Gabon at *mike.gabon@scottishannuity.com*.

Observations Summary

1. Programs and services of importance to members.

The gamut appears to have been covered by those listed in the question.

An overwhelming majority ranked the Section Newsletter as the most important service, likely as "being based in ... I only really come in contact with the newsletter."

One respondent suggested having meetings brought to member locales. This is one facet of the International Seminars initiative.

2. Interest in attending an international valuation seminar.

Only 44% expressed interest. However, the level of interest rises to 58% amongst those whose function is likely to include valuation (any of Chief Actuary, CFO, or Financial Reporting) and to 79% for non-North American valuation persons. Note, however, there are only 30 respondents in non-North American valuation related roles.

3. Topics of interest for an international seminar.

The responses showed a clear cut interest in working effectively with international affiliates and the financial reporting challenge (local Statutory vs U.S. or International GAAP). Of least interest are purchase GAAP and taxes.

Topic suggestions included social security systems, employee benefits (private pensions and health care), managing people across borders, and pricing challenges in foreign countries.

4. Services / programs that can be provided in addition to those most important.

This question elicited several wide-ranging, suggestions for projects which the council will discuss and evaluate. A follow up survey, on this item alone, to obtain your input on priority for the Section's mission for the next year or two, will likely take place in the fall.

Ideas proffered were:

- Guidance in pricing, developing assumptions from limited public information
- Compiling and maintaining databases of market statistics, reference sources (publication, Web sites) for actuarial data, insured lives mortality tables by country, foreign pension reporting rules (equivalent of FAS 87 and 106) The Section Council will work with Ambassadors and others to provide web-links to the information on the country-specific web pages.
- More emphasis on social security, private pension, employee health benefits versus insurer based topics
- Qualification standards for signing foreign statements, and U.S. domestic statements of foreign operations or retirement plans
- Providing a description of areas of expertise of each International Section member
- Exam support / teaching assistance for international students
- Provide a venue to meet other members of the Section
- Provide more information on international opportunities in actuarial science including the kinds of jobs that international actuaries do
- Inform members of actuarial publications in languages other than English

5. Section Newsletter — future topic suggestions.
The relative interest of the potential topics was clearly

obvious as it was in question 3.

Newsletter topics of greatest interest to you are financial reporting and product development oriented.

Other topics of interest are:

- Foreign local industry developments working toward actuarial standards, including techniques and education
- Social Security and pension issues
- Public health systems
- Relocation issues
- How actuaries in developed countries can help those in developing countries
- Relationship of insurance segment to other financial service industry segments in foreign countries

6. Section Newsletter — features of importance.
Far and away, the feature of greatest appeal is articles of actuarial practices outside of the USA and Canada.

The next most important feature was information about seminars and meetings.

The third and fourth most significant features, close in importance, are country updates from the Ambassadors and Section Council news. The least significant features, per member responses, are the Chairperson corner and student examination information.

7. Respondent information — living location
Almost 75% of the respondents live in North America, followed by 10% from Asia, 8% from Europe, with a few percent from each of Africa/ Middle East, Latin America, and Australia/New Zealand.

[The respondent profile differs from that of the Section membership.]

8. Respondent information — regions of practice / interest.
This question allowed members to select any or all of the listed regions. It actually asked two questions, both the regions of practice and the regions of interest. Although two questions were asked, the response is quite useful.

The major regions, almost equal in magnitude, of practice/greatest interest are Asia, North America, and Europe. Latin America is not too far away. Africa, the Middle East, Australia, and New Zealand are of least interest.

There is unambiguous interest in Asia and Europe by those living outside those regions.

9. Actuarial Practice Area
The majority (65%) of the respondents practice in the Life area.

An interesting result was that of the remaining choices provided, almost an equal number of the respondents practice in these areas.

10. Functions
This question brought out several types of functions that were not provided as the anticipated responses.

The top function is Corporate/ Financial reporting at 46%, followed by Pricing and ALM/Risk Management at 38% and 26%, respectively. Regarding specific roles, 16% are functioning as Chief Actuary, with 6%, 3%, and 2% functioning as CFO, CIO, and CEO, respectively.

One respondent is retired and we are glad to see that interest continues to exist beyond normal employment and are appreciative of hearing of this interest.

11. Type of Employer
Most respondents (43%) work for an insurance company private sector owned.

Consulting firms are the next highest employer at 36%, followed by reinsurers at 17%.

12. Volunteer Capacity
We are quite pleased to see that slightly more than 1/3 of the respondents would be willing to help out in some capacity, with half of them willing to help in more than one section activity.

Conclusion

Your input is valued and will assist the Section in planning for future endeavors. Stay tuned.

We wish to thank the Section members who took the time to complete the survey. Many thanks also to the thoughtfulness and efficiency of Lois Chinnock of the SOA and Debbie Jay of the SOA for developing and coordinating the survey on-line.

The Pacific Rim Actuaries' Club of Toronto

The Pacific Rim Actuaries' Club of Toronto was originally created to provide a forum for actuaries in Toronto to meet and discuss topics that were current and relevant to the Pacific Rim. It has, over the years, grown to include other professionals from the insurance industry, as well as the rest of the financial services industry. In addition, our definition of the "Pacific Rim" has expanded to other countries and now includes Australia.

We currently have about 150 members, including the current President-Elect of the CIA. The composition is approximately 60% "Asian," including sizable representations from major insurance and reinsurance companies and consulting firms.

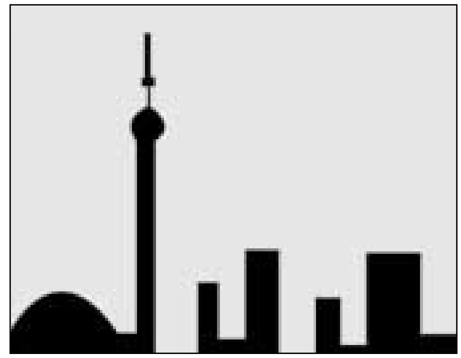
We hold dinner meetings twice a year (fall and winter) and a social function in the summer, where non-members are also welcomed. There is a theme for each meeting with a featured guest speaker. Some examples from the past years include:

- Raymond Chan, the then junior Foreign Affairs Minister spoke on his trade mission with China,
- John Lyon, VP of Business Development, Manulife spoke about Manulife's joint venture with Daihyaku in Japan,
- Jim Senn, Deputy GM, Manulife Reinsurance, spoke on the company's decision to withdraw from Singapore,
- Rob Smithen, EVP & CFO of Canada Life, spoke on their entry into India,
- Mike Stephen, Chairman, Aetna International spoke twice on their entry into China, before and after,
- Eduard Merette, Managing Director for Mercer (Asia) spoke on "Pension Opportunities in Asia."
- Dikran Ohanessian, VP of Sun Life's China Operations spoke on their joint venture in China.

Our most recent dinner meeting was held on February 1, 2001 at the Metropolitan Hotel in Toronto. Mr. Trevor Matthews, our keynote speaker, who at the time was Executive Vice President, Canadian Operations of Manulife Financial, is currently President and CEO of Manulife Century, Manulife's subsidiary in Japan. Prior to joining Manulife in Waterloo, Trevor held senior positions at both a major life insurance company and a major bank in Australia. He is also a Past President of the Institute of Actuaries of Australia. With this experience, he was a perfect choice to present "Some Top Ideas from Down Under."

The top ideas included Manulife One, which incorporates the feature of a mortgage, checking account, line of credit, credit cards, loans and investments into a single product!

To improve our communications and network with our members



overseas, the Executives set up a Web site for our club this summer. Soon, the club's newsletter will change to a Web-page format with an e-mail link. Our Web site address is *www.pacificrimactuaries.com* and features the red and gold tones to symbolize the Pacific Rim.

For our recent social function, we held a barbecue at the President's home. About thirty members attended, including CIA President-Elect, Dave Pelletier and his wife. It was a very enjoyable and fun outing for all.

The fall dinner meeting will feature David Congram, Senior Partner at Ernst and Young, as our keynote speaker. David's topic will be "Free Trade in South East Asia." At the 2002 Winter Dinner Meeting, Dave Pelletier has agreed to talk about "Reinsurance in Japan."

Detailed information about the two events will be posted on our new Web site!

Mercy Yan, FCIA, FSA, is assistant vice president at Corporate Actuarial at Manulife Financial in Toronto, Ontario. She can be reached at mercyyan@yahoo.com.

International Health Seminar to be Held during the International Congress of Actuaries in Cancun, Mexico

March 17-22, 2002

The Committee for Services to Individual Members of the International Actuarial Association and Mexican Organizing Committee for ICA 2002 are collaborating to organize a health seminar to be held during the first half of ICA 2002. The International Health Seminar Organizing Committee is jointly chaired by Howard Bolnick (Society of Actuaries), Ibrahim Muhanna (Cyprus Actuarial Association) and Edward Levay (ASTIN). The Organizing Committee is composed of twenty-five actuaries representing twenty different countries.

The Organizing Committee's goal is to provide practicing health actuaries with an opportunity to learn from the practical experiences of their colleagues in a variety of countries and to give actuaries in countries developing new health insurance products access to important information needed to advance their health product management skills. During the two-day seminar there will be sessions on Public Health and Policy topics and Health Insurance Practices topics.

"The Organizing Committee's goal is to provide practicing health actuaries with an opportunity to learn from practical experiences of their colleagues in a variety of countries and to give actuaries in countries developing new health insurance products access to important information needed to advance their health product management skills."

Current plans being developed by a Health Insurance Practices Subcommittee, chaired by Bernie Rabinowitz (Institute of Actuaries, Society of Actuaries) are to cover practical issues for the following health insurance product lines:

- Long term care insurance,
- Income replacement insurance,
- Critical illness insurance,
- Supplemental private medical indemnity insurance,
- Full coverage medical indemnity and managed care.

The Public Health and Policy Subcommittee, chaired by Ibrahim Muhanna, is developing sessions featuring lectures on key topics presented by various health experts. In addition, this subcommittee is planning sessions on international issues in private sector health insurance supervision and on practical state-of-the-art modeling techniques. A separate ASTIN Colloquium will be held during the last half of ICA 2002. Plans are being made to include topics of interest to health actuaries in the ASTIN program.

We invite you to attend ICA 2002 and this important International Health Seminar. In addition, your questions, comments and suggestions are welcome.

Information about ICA 2002 and instructions about how to register can be found on the IAA Web site (*www.actuaries.org*). Further information about the health seminar can be obtained by contacting any of the Organizing Committee co-chairs and Subcommittee chairs at their e-mail addresses below.

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Ibrahim Muhanna
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Minutes of the International Section Council Conference Call

July 23, 2001, 5:00 p.m. CDT

1. Roll Call

August Chow, Shumei Kuo, Hubert Mueller, Michael Gabon, Randy Makin, and Jim Toole

And from the Society: Lois Chinnock and Martha Sikaras. Mike and August stayed for the first part of the call.

2. Membership Survey

Close to 200 members responded-the response rate is about 10%. Mike Gabon has summarized the survey results and forwarded to Lois Chinnock. Lois would e-mail the summary to Council members for comments (and she did soon after the call).

3. Exams & Education

August Chow reported that the Asia Regional Seminars were very successful in all four locations-Hong Kong, Taipei, Tokyo and Kuala Lumpur. There were more than 100 participants in each location.

Regarding the PD program: Previously, the Committee reviewed every report submitted by a candidate. Starting in July, the Committee may sample approximately 1 out of every 5 reports for a full review. Additional reporting guidelines and a candidate's checklist will be posted on the Web. The Committee is pleased with the quality of the reports they have reviewed.

Other news: The next Course 7 seminar will be held from August 20th to 23rd in Singapore. An Associateship Professionalism Course will be held in Hong Kong.

August has drafted a letter to send to the Ambassadors regarding PD credits, including a list of PD programs currently offered outside of the U.S. (about 26 of them). Jim Toole asked Martha Sikaras to coordinate with SOA for a review of the letter before sending it out. This letter was distributed on August 9, 2001.

4. April Meeting Minutes

Approved by Council.

5. International Financial Reporting Seminar

Jim Toole reported that the seminar is currently recruiting speakers. The responsibilities will be shared with the Financial Reporting Section. This seminar is scheduled to be after this year's annual meeting in New Orleans.

6. Other Seminars and Meetings

Jim Toole advised that going forward the Council have one person to be the coordinator for meetings and another person for seminars, as there are now a large number of seminars in a year. In the future spring and fall SOA meetings, Jim would like to see sessions on international topics such as international valuation, international investments, etc. in the meetings.

7. Table Manager Update

Jim reported that this project is currently scheduled to be finished in September for an October release.

8. Newsletter Update

Randy Makin reported that he did not have enough articles for the next newsletter. Many contributed ideas for articles and volunteered to recruit writers. Randy was pleased with the potential additions for his next publication.

9. Practice Area and Section Committee Liaison

The Strategic Planning Group of SOA feels that the relationship between the practice areas and sections needs to be strengthened, and has formed a task force to review how sections and practice areas function. The task force asked for section liaisons. Tom Leonard has offered to serve as International Section liaison.

10. Web Liaison

There is only one volunteer so far and the selection is postponed to the next meeting to poll incoming Council members.

11. Brazilian Newsletter

Lois Chinnock reported that Ronald Poon-Affat's proposal has been approved by SOA under the new Web policy.

12. Section Meeting in New Orleans

Lois will arrange a room from 3 to 6pm on location. The group plans to have dinner together after the meeting.

13. Treasurer's Report

Shumei Kuo reported based on the information from Lois: The actual ending balance of year 2000 was higher than the plan by about $5,000. The ending balance of the first quarter of this year is $66,209, higher than the ending balance a year ago by about $6,600. Does that mean that we'd have a good year financially? More details are in the report (produced after the call) for discussion during the next Council meeting.

Highlights of the financial report:

- The $5,000 higher than plan balance from last year is a result of a higher than plan income of about $4,000 (mainly from seminars) and lower than plan expenses of approximately $1,000.
- Current membership is at the expected level and 86% of planned dues came in the first quarter of this year, compared to 84% from the first quarter of prior year. So the revenue is on track to meet plan.
- The first quarter expenses are 33% of plan, compared to 36% from last year. So the expenses are also on track so far as well.

14. Next Meeting

It will be held on September 24, Monday at 5pm CDT and the newly elected Section members will be invited to join.