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contents

A Day in the Life of an Actuary

by Michael Sze

I always believe that life is made up of dots. November 28, 2001 was certainly a dot in my life. I am grateful for the experience and hope to share it with all the people who helped to make it happen. Since this was written immediately after all the toasts and drinks, when all those surrounding me were in a state of semi-euphoria, you must forgive the over-enthusiasm in the tone of the following passage.

The day started quietly at 7 a.m. with my morning swim in the hotel pool of the Hyatt Almaty in Kazakhstan. The pool was clean and empty, the water was warm, and the robot pool cleaner was slowly patrolling the floor of the swimming pool as usual. I had often fancied a Stephen-King-type of story with a killing swimming pool robot. But this morning there was no time to indulge. I finished my swim and sauna quickly and went back to my room for the complimentary breakfast the hotel provided for Gold-Pass holders. As usual, there were two portions of breakfast, one for me and one for my wife, Elsie, who had actually left a week ago. I was not honest enough to notify the hotel about it. I loved those croissants.

Over breakfast, I organized my thoughts on what I would deliver in the Ethics Seminar in the next few hours. Mo Chambers, the President of the International Actuarial Association, had sent me some teaching material, from which I picked out three practical cases for discussion at the seminar. I would moderate the first case study. Zhanat Kurmanov, the Deputy Director of the National Bank of Kazakhstan and Head of the Insurance Supervisory Division, would moderate the second case study. Richard Webb, a lawyer and former insurance regulator in Canada, would moderate the third case study. I had divided the students into three groups of five. They would discuss the case studies and present their opinions on: (1) the issues involved, (2) the possible alternatives, and (3) the action they would take if they were the character in the case study. I reviewed in my mind all the leading questions I would ask to stimulate discussions, if there would be dull moments, and the critical ethical decision that needed to be made.

As always, I lost track of time. I ran to the National Bank, which was just across the street, but the street and pavement were icy from the snowfall overnight. The students were waiting already. There was some confusion with the seminar room and a small crisis with the Russian translation file being accidentally wiped out. The seminar was delayed for half an hour.

Case 1 concerned a marketing actuary whose former responsibility was pricing. In his opinion, a new product was under-priced. The current pricing actuary and the manager of the marketing department both thought that the pricing of the product was adequate. What should the marketing actuary do? The students had a lively debate. I did not need to use my prepared questions. The common consensus of the candidates was: the marketing actuary should perform a detailed analysis and discuss fully the results with the pricing actuary to see whose calculation was right. Thereafter, if there was concrete proof of under-pricing, remedial action should be taken.

Case 2 was on an actuary serving on an advisory committee of the regulators, who were in the process of introducing regulations which were appropriate for the industry, but might be damaging to the actuary's company. Again, heated debates ensued. The conclusion was that the actuary should vote in favor of the proposed regulations, but suggest a phase-in period for compliance.

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Case 3 was on wrong assumptions used in a projection done by an actuary. Upon bad experience after one year, the actuary tried to cover up with even more liberal assumptions. After lively discussions, the consensus was that the actuary should report the case to both the management and the Society of Actuaries. This was clearly a disciplinary case involving a compromising and negligent management. Professional action was called for.

The seminar clearly demonstrated that this group of students was capable of making proper decisions on professional ethical issues. The advice to the students was that, in case of doubt, consult other actuaries,

The seminar ended at 2:30 p.m. with half an hour left before the Licensing Ceremony, not enough time for lunch. Nonetheless, the three instructors ran and skidded all the way to a nearby Korean restaurant along icy pavements, gulped down half the meal ordered, and tumbled back to find all the guests and students already waiting in the assembly hall.

Mary Norris of the United States Agency for International Development (USAID) gave the keynote address, emphasizing the importance of the actuarial profession, the fine result of the team effort of the National Bank of Kazakhstan, the USAID, and the Pragma Corporation, and the success of the students. The Deputy Governor of the National Bank congratulated the students in Russian. Judging from the reaction of the students, the speech was well received. When she invited me to speak, for which I was totally unprepared. After a couple of refusals, I thought: why not, somebody should tell the world how hard these students had worked. So I spoke, first thanking the Chairperson and the special guests, then I said to the students:

"You all know how proud I am of each and every one of you. I have seen you work so hard, studying ten to twelve hours each day, and then going back to your office to take care of your full-time job. I saw the fatigue in your eyes and paleness in your faces towards the end of each course. Where others would fail, you prevailed. Here you are, the success is well earned and I salute you…"

The licenses were presented, and lots of photographs were taken. Dina Urzhumova gave a speech on behalf of the new actuaries. The ceremony was short and dignified. It was over before 4 p.m. This was a defining moment in the actuarial history of Kazakhstan.

The new actuaries invited me to their celebration party, where there were toasts and drinks. More toasts and drinks. Everybody was euphoric.

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475 N. Martingale Road • Suite 800
Schaumburg, IL 60173

Phone: (847) 706-3500 • Fax: (847) 706-3599 •
Web site: www.soa.org

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"This is like a revolution. In the past, the insurance rules were so loose, and we did not know much about what we did. Now the rules are much tighter, and we are equipped to do what is required of us. Let us toast to celebrate this new era…"

Their outlook was so enthusiastic, their compliments were so generous, and the toasts so warm. We were all slightly tipsy, from the alcohol that we consumed, but more from the success that we all treasured so much. Nobody mentioned the fact that I had just failed more than half the class for Course 3 the week before.

As the party went on, and more drinks were passed around, I began to get more and more worried. I promised my wife Elsie that I would e-mail her at 6:20 p.m. (We had this cyberspace chat every day.) 6:30 p.m., 7:00 p.m., 7:30 p.m., and the party was still going strong. I informed my host of my need to e-mail my wife.

"No problem! My office is only ten minutes away. We can go there to do e-mail. But you must come back." Victor suggested.

Four other actuaries went with me. In the car, Saure asked me for advice. She had a 5-year-old son and a 10-year-old daughter. They just could not understand why their mom had to work so hard, hurrying them to bed every night so that she could open her computer to do some studies. What do you tell a lady who is torn between her family and her studies, who tries so hard, and yet failed Course 3 a week ago?

Victor has a nice office with about eight desks. I got on the Internet, and saw Elsie's e-mail messages:

"I am at the computer…"

"I am still waiting… I know you must be going out with your students. This is the reward for all your hard work. Enjoy! I will wait…."

Elsie and I exchanged about 10 email messages in 20 minutes. Between messages, Saure told me a story of her daughter. Last Saturday, after the examination, the whole family felt so relaxed. They sat around to watch TV. The daughter asked Saure what she was studying. By way of giving an example, Saure asked her a question:

"Suppose there are two balls in a bag: one white and one black. You reach in to get a ball. What is the chance that you'll get a white ball?"

Unexpectedly came the answer: "Fifty percent". The girl had never learned probability before. Somehow this makes actuarial science more bearable.

We got back to the restaurant. Every actuary was still there. More toasts and drinks.

"I want to thank Mike for the time that he has shared with us. We all know that this is the time when he should be having fun. But he chooses to be here with us…"

"How do you know that I am not having fun? I was having fun, even when I was miserable grading your examination papers. Last weekend was very tough for me, having to fail so many of you one after another. But there is no way that I would pass you before you have gained adequate knowledge. It will be far worse to pass now and fail later in actual work…"

It was very gracious and brave of the students to bear their failures silently, expressing no complaint, just simple acceptance of the verdict.

More toasts and drinks. It was almost 11:00 p.m. Obviously, the party needed to end, no matter how much we all wanted it to continue. My plane would be leaving in three hours. I still had not packed. We kept taking more photos for memory, until all the cameras ran out of film.

Victor drove me back to the hotel. The way he drank and drove, he would be in jail in Canada. After his car turned the corner, I skidded to the nearby Internet Café to see if Elsie would by chance still be at the other end. No such luck.

I went back to the hotel, dumped everything into my suitcases, smelly and all. I checked out just before the driver arrived to pick me up for the airport. I was so exhausted that I dozed off on the way to the airport, slept all the time while waiting to board, and continued my slumber on the plane all the way to Schiphol Airport in Amsterdam. I was fully refreshed at Schiphol, and the result was this account of a day in the life of an actuary. □

The seminar clearly demonstrated that this group of students was capable of making proper decisions on professional ethical issues.

Michael Sze, FSA, FCIA, EA, is president of Sze Associates Ltd in Willowdale, Ontario. He can be reached at msze@rogers.com.

Mind The GAAP: U.S. GAAP for Asian Products and Insurance Companies

by Donovan North

I. Introduction

Increasingly U.S. GAAP is becoming more important to insurance companies in Asia. This is mainly due to:

- The quest for external finance. The largest markets for capital in the world are in the United States. Non-U.S. companies that register with the Securities and Exchange Commission (SEC) must file either full U.S. GAAP statements, or their annual local accounts together with a reconciliation to U.S. GAAP. In either case, a full U.S. GAAP conversion is usually needed in order to carry out this reconciliation.

- The use of U.S. GAAP financial statements by multi-nationals. The U.S. parent companies of foreign subsidiaries may have to prepare U.S. GAAP financial statements for those subsidiaries and include the results in the consolidated returns.

- The current de-facto International Accounting Standard being U.S. GAAP. The International Accounting Standards Committee is preparing an international approach to accounting for life insurance contracts, but this will take some time. It is also uncertain until the completion of the international standards whether the SEC will approve of the international standard for listing in the United States. In the mean time, U.S. GAAP will remain not only the required basis for financial statements in the United States, but also the basis on which a company looking to raise external finance from an international source would consider producing its financials.

II. U.S. GAAP—Brief Background

This paper will not attempt to go into any great detail concerning the intricacies of U.S. GAAP, rather the intent is to examine the broader issues facing a company that is new to these concepts.

In the past, Asian companies have been exposed to local reporting requirements, emphasizing solvency and balance sheet results. The asset and reserve valuation methodology, basis and formulae may have been defined for the industry. A conservative reserving basis is commonly used. Acquisition expenses may be charged to earnings as incurred. A traditional actuary's role would involve calculating and checking reserve factors and then applying those factors to the inforce block to produce that year's financial statements.

U.S. GAAP reporting introduces many new concepts and disciplines. For example:

- U.S. GAAP emphasizes income recognition through the matching of costs and revenues in each accounting period. To achieve this, certain expenses related to the acquisition of new business (mainly commissions and issue costs) are capitalized and written off against future revenue, through the use of a deferred acquisition cost (DAC) asset. Additionally contract loads in the early policy years that exceed the ultimate load for the servicing of contracts such as variable life, must also be deferred and recognized into U.S. GAAP income in proportion to revenue.

- U.S. GAAP reporting results in more realistic reserves and profit reporting than statutory. Realistic reporting can be extremely valuable to the management of an insurance company that is new to this concept.

- Asset valuation concepts are likely to be more elaborate. Asset write-offs are generally required sooner under U.S. GAAP than with local regulatory requirements in Asia.

- The actual basis for U.S. GAAP is not precisely defined. It requires significant judgement by management and its advisers with regard to accounting and reporting. A considerable amount of communication and training of staff is required to ensure an effective implementation of U.S. GAAP.

It is this last point that this paper hopes to expand upon in terms of an Asian perspective.

III. Product Classification

The accounting rules and actuarial models for life insurance products are presented in Statements of Financial Accounting Standards (SFAS). Due to the specialized nature of the life insurance industry, a series of life insurance related SFASs have been produced over the last 30 years. One of the issues faced by Asian companies (and other non-U.S. companies) is in the interpretation of the SFASs for products for which the rules may not have been specifically designed. Additionally regulations and practices in other markets differ from those in the United States.

Various U.S. GAAP accounting standards exist for different types of insurance products. Therefore, when restating a company's financial statements on a U.S. GAAP basis it is necessary to determine which standard applies. This will affect the calculation methodology used to calculate revenues and costs, leading to potentially material differences in the timing of U.S. GAAP income under different standards.

The four main standards that apply to life insurance are:

- SFAS 60 *Accounting and Reporting by Insurance Enterprises*

- SFAS 91 *Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

- SFAS 97 *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realised Gains and Losses from the Sale of Investments*

- SFAS 120 *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts. SFAS 120 is supported by AICPA Statement of Position (SOP) 95-1 Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises.* This SOP defines an accounting standard that applies only to long duration participating life insurance contracts that are expected to provide dividends in accordance with the contribution principle.

Broadly speaking, SFAS 60 applies to traditional life, annuity and health contracts and also defines which acquisition costs qualify for deferral. SFAS 97 is applicable to universal life type products and investment type products. SFAS 97 also applies to limited payment traditional contracts where the accounting for these plans diverts back to SFAS 60. SFAS 120 applies to traditional contracts, but is concerned with mutual life company participating contracts. SFAS 91 applies to investment contracts that have no significant revenue sources apart from investment return. The optimal choice between each of the accounting standards can be one of the most difficult and contentious decisions to be made in a U.S. GAAP conversion and will require careful consideration by management and its advisers at the outset of the project.

Notwithstanding the above, other rules relating to the valuation of assets, timing differences (that lead to a deferred tax liability or asset), and life company purchase situations (Purchase GAAP or PGAAP) result in further complexity. Therefore, a project of this nature involves a significant amount of interaction between a company's actuaries and accountants, and further with its advisers such as external auditors and actuarial consultants.

The recently published book "U.S. GAAP for Life Insurers" contains an excellent chapter on non-U.S. products, however most of the specific detail concerns European products. The reader is especially directed to the flowchart showing the decision-making process in determining which accounting standard will apply.

Predominantly, products sold in Asia are traditional whole life, endowment, term assurance and health-type contracts. Therefore, SFAS 60 or SFAS 120 is likely to be the main accounting standard used, with SFAS 97 applying to limited payment products (SFAS 97 LP).

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Therefore, when restating a company's financial statements on a U.S. GAAP basis it is necessary to determine which standard applies.

However, where product design features, local regulations and/or industry practice differ greatly from the United States, the classification issues become more complex. Generally product classification should be performed on a case-by-case basis to ensure that a company's specific experience has been allowed for. The following section looks at some examples from Asian markets where the products can be considered to differ most from those products available in the Unites States. Many of the issues considered here are not country specific and will arise in other Asian countries.

Japan

While many new types of products have been introduced in Japan in recent years, most of the products in force and currently being sold are traditional products such as whole life, endowment and term. A common combination is to sell a whole life base product with a large amount of term rider. Riders that cover accidental death and disability, hospital and surgical benefits and various other health coverages are also offered. Riders in Japan often have substantial profit margins and so greater attention should be paid to riders in Japan than is often given to them in the United States.

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Life annuities are also commonly sold in Japan. These products may be sold as single premiums or regular premium products. Typically annuities are very long term with an accumulation period and then a payout phase. The payout phase may be as a life annuity or as an annuity certain.

Another feature common in the Japanese life insurance market is the pre-payment of premiums. For example, a policyholder can put down a lump sum that will then be used to pay premiums in the future.

The original 20 domestic companies were predominantly mutual companies, so participating (par) products are very common in Japan. There are two general types of par products offered. The first is the usual par product, which pays dividends based on a three-factor formula reflecting gains on mortality, interest and expenses. Semi-par products are the second type, which pay dividends based on gains from interest only.

One of the first decisions to be made in implementing U.S. GAAP is whether the par products offered and the dividend practices followed by the company qualify the products for SFAS 120 treatment or should be treated as SFAS 60 products (or SFAS 97 LP). The key requirements for SFAS 120 classification are whether:

- The products are long-term products with dividends based on the actual experience of the company.
- Divisible surplus is identified and paid in proportion to the contribution of each policy, the contribution principle as defined by SFAS 120 in paragraph 5(b).

Generally par products in Japan are of a long-term nature in accordance with the definition of SFAS 60. Whether in fact the company pays dividends based on the actual experience and contribution of each policy will depend on the practices at the given company. It would seem less likely that a semi-par product would qualify for SFAS 120 treatment given the contribution to divisible surplus from mortality and expense gains is not reflected. Even for the regular par products, it is fair to say that some companies may conclude the business qualifies for SFAS 120 treatment, while others will reflect SFAS 60 treatment.

Stock companies have a choice as to whether to apply SFAS 120 or SFAS 60/97 LP. In general stock companies in Japan have found SFAS 60/97 LP easier to implement and have gone this down route, although some have selected SFAS 120 due to the added flexibility for DAC amortization under this standard.

An additional liability is required for terminal dividends under SFAS 120. Whereas one might expect the U.S. GAAP reserve to be less than the statutory reserve, the inclusion of a terminal dividend reserve may result in a higher U.S. GAAP reserve.

The other classification issue to consider is whether any products should be treated as investment products rather than insurance products. This is primarily an issue for annuities where the mortality component can be a relatively small portion of the total premium. This will require the testing of the products in question to determine the extent of the mortality benefits reflected in the premium. Below is a test used in one specific situation in Japan that was accepted by the accounting firm involved:

PV of incremental death benefits < 5% of PV of total benefits

Note that "incremental" is important because the return of cash values as a part of a death benefit paid, should not be counted in this part of the calculation.

A related issue is how the pre-paid premiums should be treated. If they are not considered to be part of the base contract, they are likely to be considered an investment contract.

Furthermore, some companies view the accumulation period for annuities separate from the payout period while others view it as one contract. Where the accountants have preferred to split the contract into the accumulation and payout pieces, it is much more likely that the accumulation piece will be treated as an investment contract. On the other hand, if the payout benefit is a life annuity and the accumulation phase and payout phase are treated together, it is almost certain to be classified as an insurance contract. Clearly these are issues that need to be discussed with the auditors involved and will impact the classification of the products and the reserves to be held by the company.

Korea

Korean Traditional Business

Korean products can be broadly grouped into two categories—traditional and interest sensitive, the latter including the variable life products available in Korea as of July 2001. These products are generally long-duration, and can be either participating or non-participating. The traditional products include significant amounts of mortality and/or morbidity risk, such that classification as investment contracts is not applicable. Therefore, traditional products generally fall either into the SFAS 60 classification (where the premium and the benefit periods are equal), SFAS 97 LP or SFAS 120.

An interesting debate arises when deciding on which accounting standard to apply to Korean participating business—SFAS 60 or SFAS 120. The question of SFAS 120 classification relates to:

- Does the dividend scale follow the contribution principle?

- If so, could a stock company elect to follow SFAS 60 anyway?

Current regulatory guidelines specify that a minimum of 90% of all pre-dividend profits on participating policies must be returned to policyholders. In total the dividends clearly reflect the contribution principle. However, on an individual basis it is questionable as to whether the dividend practices strictly follow the contribution principle and this could be argued either way. Even though Korean participating business meets the criteria to apply SFAS 120 (paragraph 5), it also seems possible to account for these contracts using SFAS 60, given the wording of SFAS 120.

This demonstrates that product classification is not a trivial exercise. A substantial amount of work performed to calculate benefit reserves and DAC under the rules of SFAS 60 could potentially be wasted if the product classification proved to be incorrect in the eyes of the SEC. Therefore, some initial clearance on the accounting standard to be implemented should be performed in such circumstances.

Of course, in countries where U.S. GAAP financials have been performed previously, these decisions are easier to make given the experience in the market place and the availability of public information. However, in the case of Korea where there are currently no domestic listings, let alone U.S. listings, these decisions will initially require careful thought and advice.

Other more practical considerations may influence the use of SFAS 120 over SFAS 60. For example:

- SFAS 120 policyholder benefit liabilities are based on the net level premium method. In Korea the statutory reserve is also based on the net level premium method, therefore this should be easier to calculate and analyse than SFAS 60 reserves that can allow for future dividends and withdrawals.

- The data requirements necessary to calculate historical gross margins for SFAS 120 may not be readily available if the company did not keep these records.

- Similarly assumptions required for SFAS 60 should be those appropriate at

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the time of policy issuance. This data may also not be readily available. Note that this is not a problem with PGAAP accounting, which only requires assumptions from the date of purchase.

Korean Interest Sensitive Business

Interest sensitive products (ISP) typically are based on a general investment account that produces a fund value as the roll up of the premium received less contractual loads. Credited interest is usually tied to an index such as the company's policy loan rate or the one-year term deposit interest rate of the major banks in Korea.

The product is clearly an investment contract and therefore the question arises as to

whether SFAS 97 or SFAS 91 applies. Practice Bulletin No. 8, an interpretive document issued by the American Institute of Certified Public Accountants, provides guidance in this area. For classification as an investment contract under SFAS 97, there must be significant revenue sources other than investment return. For the majority of Korean ISPs, there are significant revenue sources other than investment return. For example, contracts may include a premium load for expenses, risk charges and/or a surrender charge.

Within the SFAS 97 classification there is the choice between SFAS 97 Investment Contract (SFAS 97 IC) and SFAS 97 Universal Life Contract (SFAS 97 UL) classification. Treatment as universal life-type business under SFAS 97 may be considered. The criteria for SFAS 97 UL classification (paragraph 10(b)) seems to be satisfied due to the mechanism whereby interest is usually credited to the business through an index rather than being fixed by contract. For the majority of the ISPs that do not contain significant insurance risks as required for SFAS 97 UL, treatment as investment contracts would be appropriate. For ISPs with significant mortality or morbidity risks, treatment as universal life contracts is possible.

A suggested test to assess the significance of mortality and morbidity risks is to see what percentage of the total present value of future revenue sources at policy issuance was due to mortality and morbidity revenues. In practice the level of significance can vary between 5% and 20%, depending on circumstances. This is guidance and is not actually prescribed.

Singapore and Malaysia

Participating business sold in Singapore has an earnings distribution system whereby most companies return at least 90% of distributable profits to policyholders. Malaysia has a similar structure whereby most companies return at least 80% of distributable profits to policyholders. This is similar to the system in the United Kingdom, and therefore some of the U.S. GAAP conversion issues will be more familiar as they are likely to have already been dealt with in the U.K.

The distribution of profits takes the form of:

a) an annual reversionary bonus, allocated to policyholders in the year in which the profits emerge
b) a terminal bonus, which is allocated only at maturity, death or surrender. This portion of benefits is usually highly significant, especially at maturity.

This distribution has been commonly viewed as not following the contribution principle. For example it is recognized that there may be cross subsidies across generations of participating policyholders. Therefore, SFAS 60 should apply.

If participating profits are not restricted by law or company charter, policyholder dividends or bonuses are assumed to be policyholder benefits and included in the calculation of U.S. GAAP benefit reserves. Where there is a restriction on policyholder dividend payments, as in this and the Korean example, SFAS 60 indicates that future bonuses be excluded from the benefit reserve calculations. An insurer in this situation would be required to hold an additional liability to take into account 90% of the valuation differences between the U.S.

GAAP and the local statutory basis. This is commonly known as the undistributed participating policyholders earnings account (UPPEA). The UPPEA can be thought of as a roll up of the undistributed policyholders' share of surplus each year, less the dividends or bonuses awarded in the year.

Taiwan

Currently products sold in Taiwan are traditional in nature, mainly savings-type products and long-term health. It is expected that unit-linked or variable life products will be sold in the near future.

The Taiwanese Ministry of Finance (MoF) prescribes a dividend formula that applies to life insurance policies issued in Taiwan. The dividend is made up of an interest and mortality component. The interest component is based on a specified interest rate less the assumed pricing interest rate, if positive. (Currently for most inforce business this is likely to be negative.) The specified interest rate is the average of the maximum two-year term deposit rate of four specified financial institutions in Taiwan. The mortality dividend is based on the standard pricing mortality table less the life industry experience rates as declared by the MoF.

This form of profit distribution clearly does not follow the scope of SOP 95-1. For example the profit distribution does not take into account the actual experience of the company and it would be difficult to argue that it follows the contribution principle. Therefore, SFAS 60 should apply.

Taiwan applies various other taxes in addition to its corporate tax on profits such as a "Gross Business Receipts Tax" (or premium tax), stamp duty and a contribution to a "Stabilization Fund." These taxes, which do not depend on profits, are generally treated as variable maintenance expenses under U.S. GAAP and are usually not considered in the calculation of US GAAP deferred taxes.

In addition to the statutory liabilities required in Taiwan, a "Special Claims Reserve" is required to be set up for rider and group business. This reserve increases and decreases depending on the actual claims experience of the company. For U.S. GAAP purposes, the increase in this reserve will be reversed out of statutory earnings to derive U.S. GAAP earnings, in the same manner as changes in statutory reserves are reversed, since the associated benefits are already reflected in the U.S. GAAP reserve.

China

The majority of the business sold in recent years contains an endowment savings element. Personal accident and medical riders have also been popular. Pure life insurance or protection coverage has proved to be less popular. These products are traditional in nature and SFAS 60 or SFAS 97 LP would be deemed appropriate.

From 2000 most companies began to sell participating contracts, with a requirement that at least 70% of the mortality and interest surpluses are distributed to par policyholders. Generally the domestic companies have not distributed any expense surplus and therefore would find it difficult to classify their par products under SFAS 120. In order to demonstrate SFAS 120 classification, it would be necessary to show that the two-factor dividend approach reflects surpluses from all sources, either due to the immateriality of other sources or their offsetting of each other. Those companies that do intend to distribute expense surplus would find it easier to argue that their products satisfy the SFAS 120 requirements.

Unit-linked products were first launched in China in 1999. These products are investment products with a small mortality component. They would be expected to satisfy the classification requirements of SFAS 97, with significant revenue sources other than investment return, for example from premium loads for expenses and risk charges. Due to the early stage of the development of investment-linked products in China, it is difficult to generalize and it is important to check the product classification criteria on a case-by-case basis.

Hong Kong

A variety of products are sold in Hong Kong. The products sold are mainly traditional par whole life or anticipated endowments. Most par products have the U.S.-style cash dividend, although some have the U.K.-style reversionary bonus system. Historically dividend scales have been set relatively passively, not following the contribution approach, and therefore implying SFAS 60 classification. Unit-linked products are becoming increasingly popular, often with a simple front-end load or reduced allocation charging structure but there are also some more complex designs sold by offshore companies. Many of the products sold in Hong Kong are based on U.S. product designs, therefore making product classification issues relatively simple.

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It should be noted that the U.S. GAAP definition of acquisition expenses versus maintenance expenses might be different than the definition used for regulatory reporting.

Assumption Setting

Assumption setting for U.S. GAAP is a similar process to that used in setting assumptions for pricing or embedded value work. However, in the past, Asian companies have had prescribed pricing bases and perhaps are new to embedded value techniques. For example, Japanese companies have used either a net level premium or the Zillmer method to calculate reserves. Premiums are then set as the valuation net premiums plus expense loads. The process of setting best estimate assumptions (including lapse rates) may thus not be familiar to some Asian companies.

U.S. GAAP assumptions vary by accounting model. SFAS 60 uses best estimate assumptions as at the time of policy issue together with provisions for adverse deviation (PADs). These assumptions are then locked for the life of the contract unless a loss recognition scenario occurs. SFAS 97 and SFAS 120 use best estimate assumptions with no margin for adverse deviation. SFAS 97 reserves are usually the policyholder's account value before surrender charges and SFAS 120 reserves are net level reserves based on the assumptions that underlie the participating dividend structure.

Best estimate assumptions require significant actuarial judgement and should reflect the actuaries' most likely outcome of events. The actuaries' task is made easier if sufficient experience data and studies are available. PADs require actuarial judgement and no detailed guidance has been given. Broadly speaking, the assumptions that the actuary expects are most likely to differ from the assumed best estimate would require PADs. The introduction of PADs should not increase the U.S. GAAP net premium above the gross premium. The provision for adverse deviations may appear small when compared to the margins typical in statutory reserves.

The choice of the best estimate investment assumption is an interesting issue in Japan. The interest rates have been at historical lows with 10-year government bond rates in the 1.0% to 1.5% range in recent years. Some companies have assumed that interest rates will remain at this low level indefinitely into the future while others have a perspective that interest rates will rise slowly over time. Again, this is an important but subjective decision to be made by the actuaries and accountants involved in the specific situation.

Data availability and quality will affect the ability to derive suitable assumptions. The next section deals with this issue.

Data Capture

Under U.S. GAAP, companies need to establish a view on their best estimate for each relevant assumption. This will require regular mortality, morbidity, lapse, and expense analyses on the part of the company implementing U.S. GAAP. Many Asian companies will not have sufficient experience studies and analyses in these areas and will need to expand their analyses to implement U.S. GAAP.

SFAS 60 requires assumptions to be set based on information as at policy issuance. For an inforce block of business this may require data from over 30 years ago. The availability of historical information is likely to be a problem for most companies worldwide, not just Asia. Approximations would therefore be widely used and any relevant data such as historic financial statements and pricing bases should be used to attempt to validate the approximations.

This is not an issue for PGAAP, which requires best estimate assumptions only as of the purchase date. However, recent experience data and studies are needed to derive these assumptions. One issue for Asian companies is that not only are these studies currently unavailable, but also the current systems are not capable of producing the data required. For example, a company may be required to produce quarterly U.S. GAAP financials, but its systems may only show interest credited on SFAS 97 investment type contracts at the end of the year. This data is required to produce estimated gross profits (EGPs). Approximations at each intermediate quarter may be required.

Even though SFAS 97 and SFAS 120 require current best estimate assumptions, historical data is required to derive outstanding DAC and unreleased profit reserve balances. The data required includes original acquisition costs, product loads and historical EGPs and/or estimated gross margins (EGMs)

U.S. GAAP requires the classification of expenses into four categories:

- Deferrable acquisition
- Non-deferrable acquisition
- Maintenance
- Overhead

This type of expense analysis is likely to be new to many Asian companies. Not only will an initial expense analysis be required for the initial U.S. GAAP financials, but annual expense studies thereafter will likely be required as well.

Companies will need to do additional analyses of their expenses to split them between acquisition and maintenance and deferrable versus non-deferrable acquisition expenses. SFAS 60 gives guidance as to the classification of deferrable acquisition expenses—"costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts." It should be noted that the U.S. GAAP definition of acquisition expenses versus maintenance expenses might be different than the definition used for regulatory reporting. For example, in Japan the head office expenses that support the acquisition of new business (such as underwriting) need to be reclassified from maintenance under the statutory guidelines to acquisition under U.S. GAAP. Similarly, there may be branch office expenses relating to the servicing of policies that need to be reclassified from acquisition expenses to maintenance expenses.

A particular challenge for Korean and Japanese insurance companies with the traditional "sales lady" distribution is the split between deferrable and non-deferrable remuneration and expenses. The system of compensating sales ladies is complex and it is difficult to determine which portions directly vary with production and which do not. This area will require significant analysis and judgment on the part of the actuaries and accountants implementing U.S. GAAP.

Asset Valuation

Traditionally Asian asset valuations have been book valuations. U.S. GAAP also requires a book value basis, but with some adjustments as required by SFAS 115—*Accounting for Certain Investments in Debt and Equity Securities*. Under U.S. GAAP, assets are to be classified as "available for sale," "trading" or "held to maturity." For assets classified in the former two categories, the adjustments relate to marketable securities (such as bonds, mortgage-backed securities and equities) that are to be reported on a fair value (market value) basis.

Under PGAAP all assets must be restated at fair value as of the purchase date. Certainly in some countries in Asia, the need to restate all assets at fair value will bring into question the asset quality of certain companies. Therefore, in preparation for a U.S. GAAP conversion, companies should pay particular attention to their asset portfolios.

However, there does seem to be a trend in Asia to a more market-based approach to asset valuation; for example in Korea in order to improve the transparency of financial statements in the light of the 1998 financial crisis, life insurers are now required to mark assets to market under an approach similar to U.S. GAAP. This will clearly help smooth the transition of Korean asset valuation techniques to those required for U.S. GAAP.

Other issues

Systems Requirements

U.S. GAAP requires software systems capable of complex calculations in order to determine items such as the U.S. GAAP benefit reserves, DAC, EGPs, etc. and also to project these items into the future. It may be possible to modify current internal systems and to perhaps use a spreadsheet package for those calculations not easily performed on the internal systems.

Where this is not possible or too costly or time-consuming, external software systems are available with full U.S. GAAP capabilities. The advantage of using these systems is that they are likely to have been fully developed and thoroughly tested.

Rating Agencies and Stock Analysts

Organizations that rate life insurance companies analyze numerous sources of data. A company with U.S. GAAP financial statements with a clean audit opinion may be viewed positively relative to its competitors by ratings agencies. For listed companies, stock analysts often have greater comfort with U.S. GAAP and enjoy the ability to compare results with companies in other markets and sectors.

continued on page 12

It should be noted that the U.S. GAAP definition of acquisition expenses versus maintenance expenses might be different than the definition used for regulatory reporting.

Materiality

The purpose of the U.S. GAAP conversion will dictate the materiality of the issues covered above. For example a simple U.S. GAAP approximation may be all that is required so as to supplement information used for raising external capital. At the other extreme, great attention to detail would be required for an SEC listing. However, if the Asian company is a subsidiary of a company seeking an SEC listing, if small enough, the materiality of the subsidiary may allow the use of broad approximations at the subsidiary level.

For a company embarking on a U.S. GAAP conversion with concepts that may be very new to some staff, it is important to set clear materiality criteria at the start of the project. This is not an easy task and no well-defined guidelines exist. Assistance should be sought from auditors to assess the materiality of an item. Part of an actuary's role may be to assess the materiality of an omission or misstatement. The actuary is expected to select and obtain appropriate data and information for the purposes of the analysis and to make appropriate reliance on data supplied by others.

Demutualization

As insurance companies begin to demutualize (for example in Japan) and consider a U.S. GAAP conversion, the data-gathering process becomes particularly important. A well-planned and documented effort during the demutualization process may save a significant amount of effort if the company later pursues a U.S. GAAP conversion. This is similarly true for a company that is about to produce embedded value information for the first time. However, this exercise will concentrate on assumptions in respect of the future and therefore further work will be required for historic-based accounting (HGAAP).

Reinsurance

SFAS 113—*Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, covers the treatment of reinsurance relating to the economic transfer of risk for U.S. GAAP purposes. Reinsurance contracts that do not transfer risk, such as those used for financing arrangements have separate guidance. In practice it may be difficult to identify the nature and/or purpose of a reinsurance contract. Generally speaking, reinsurance in Asia is used most extensively by subsidiaries of larger multinationals. For other companies, where reinsurance is immaterial, this may be ignored for U.S. GAAP purposes. When reinsurance is material, it can have the effect of changing the pattern of gross and net U.S. GAAP profits.

Conclusion

U.S. GAAP is becoming more important in Asia. Full U.S. GAAP reporting is a major undertaking for any company that has only reported on a statutory basis in the past. Implementation on a smaller scale (for example for use as a management reporting tool), which although maybe simpler to prepare and produce, will require training in order to facilitate a change in the management's understanding of life insurance financials.

In summary, for a company starting out on a U.S. GAAP project, aside from general project management issues, some of the key issues are:

- Product classification
- Investigations and analyses concerning assumptions and data capture
- Asset valuation
- Training

Acknowledgements

The author would like to acknowledge the assistance of Kevin Keith, Milliman Japan, who co-authored the section on Japan.

Donovan North, FIA, is a consulting actuary at Milliman Asia in Hong Kong. He can be reached at donovan.north@ milliman.com.

Chairperson's Corner

by Lisa S. Kuklinski-Ramirez

For this newsletter, I'll keep it short and just give everyone the scoop on what's new with the International Section.

First of all, I would like to extend my thanks to all of the speakers who presented at sessions at the Spring Meetings in Colorado Springs and San Francisco—as well as to Mike Gabon for planning the sessions and recruiting the speakers. One of the Section's major value propositions to members is providing information on current topics of interest to globally focused actuaries, and these sessions play a big role in this effort.

Next up is the Annual Meeting, where the Section has a couple of special events planned in addition to the great sessions.

First of all, we hope that everyone will join us at the reception at the Boson Old South Meeting House, birthplace of the Boston Tea Party and the American Revolution. In addition to a rare opportunity to network with fellow Section members from all over the globe, the evening will feature a 20-minute reenactment of the tea tax debates. I look forward to meeting many of you there. For those of you who are unable to come to Boston in October (we are aware that many companies are cutting back on travel), we will be presenting a web seminar on Fair Value. This webcast will originate right from Boston, since we'll already have the experts (i.e., the speakers from the Annual Meeting sessions on Fair Value) on hand. This web seminar will be co-sponsored with the Financial Reporting Section. I am excited about our foray into "webcasting" and hopeful that this first web seminar proves successful, because this is a great way to provide actuaries worldwide with educational content (as well as PD credit and continuing education hours)—on a very cost-effective and convenient basis.

As always, please feel free to contact me with any questions, ideas, comments, etc. on International Section activities. I would love to hear from you. ☐

Lisa S. Kuklinski-Ramirez, FSA, MAAA, is vice president and actuary at Metropolitan Life Insurance Company in Jersey City, NJ. She can be reached at lkuklinski@metlife.com.

Editor's Note

by Randy Makin

I have to pre-empt Rejean Besner, who has written an article on the International Congress of Actuaries meeting in Cancun this spring. For my first ICA meeting ever, I had the joy of meeting actuaries from around the world, and gaining some understanding of the breadth of work and research that is being done globally. At SOA meetings I often content myself with sessions that relate more to my field of work, which is life reinsurance, but at this meeting I took in such topics as catastrophe models (property/casualty), global education, critical illness, long-term care, founding of the actuarial profession in developing countries and genetics. It was in a wonderful location, too, set up for all you can eat or drink (a bit dangerous for some of us.) Humorously, I found that while I could follow the two talks given in Spanish, when I actually went to order a glass of wine at night, it came out, "Del vino rosso" (Italian, and likely with a slight German accent). Somehow they always gave me what I ordered.

In addition to Rejean's article, we have two very different articles on work abroad. Michael Sze tells about his experiences in Kazakhstan in "A Day in the Life of an Actuary," while Dan Spafford has surveyed a number of international actuaries about the positives and negatives of working globally in "The Life and Times of the International Actuary." Yiji Starr has provided us with an excellent overview of product regulation across Asia, and Donovan North has prepared an article on U.S. GAAP for that continent. Further, Anthony Willemin helps us to understand the developing international accounting standards, which could soon affect all of us.

For specific markets, Jorge Noronha was kind enough to write an update on the economic situation in Argentina, which has changed considerably since his last article. Also, Milliman Global has kindly allowed us to reprint "An Introduction to the Polish Market." Lisa Kuklinski-Ramirez has some updates on coming section events in her chairperson's corner, and other notes have been put down in the section council minutes.

It is not too soon to start thinking about ICA 2006, in Paris, France. I have memories of a doctoral preparation course in reading French, and my teacher holding her ears, saying that I spoke French with a Russian accent. In Paris they may pour the red wine down my front. ☐

Randy Makin, FSA, MAAA, is vice president, at Business Men's Assurance Company in Kansas City, MO. He can be reached at rmakin@bma.com.

Argentina—An Update on the Economic Situation

by Jorge Noronha

Introduction

The last article that I wrote on Argentina entitled "Argentina—Is a turnaround around the corner?" was published in the October 2001 issue. A number of events have happened since that have prompted me to write an update.

The country is now facing the worst crisis in its near 200-year history. Spontaneous movements all over the country brought down two presidents in December. The crisis has generated a whole new vocabulary—"cacerolazo" (pan-bashing protest), "escrache" (to publicly identify and protest against someone). There is widespread disdain for all politicians and there do not appear to be any leaders that have the necessary political leadership to pull the country out of its current mess.

The current economic chaos is only really a symptom of a deeper malaise—corruption, lack of judicial certainty—although nearly four years of recession brought on the problems. The end of the convertibility law (see below) has caused widespread chaos. Argentina has never been a popular country amongst its neighbors who are looking on with something approaching glee at their arrogant neighbor having a difficult time.

Chain of Events

The last few months have seen Argentina default on its $155-million public debt. Five presidents have been in power, although in effect only three are material as the other two were appointed for 48 hours, as required by the constitution to allow the congress to meet, debate and appoint a president. The convertibility law (mechanism that allowed the Argentine peso to be fixed at parity to the dollar) was abandoned. Since December 1st, savings accounts have been frozen. Dollar savings accounts have been turned into devalued pesos (at a rate of 1.4 pesos to 1 dollar) and depositors now face restrictions on how much they can withdraw from current accounts (generally known as "corralito"). All these changes caused a near banking collapse in January which limited the bank's ability to operate. In late February the Government proceeded to free float the currency which caused the currency to go from the official rate of 1.4 to trade as high as 3.4 (as this article was going to press).

The IMF has insisted on very tough measures to repeal the bankruptcy law, ensure greater judicial certainty and require greater fiscal discipline. However the IMF itself is also to blame for having ignored, or permitted, structural fiscal imbalances and dubious governmental practices over the past decade.

Let us look at the impact of each of the changes on the financial environment.

Macro-economy

The economy has ground almost to a halt. What was a recession is now a full-scale slump. Deflation turned overnight into rampant inflation. The chain of payments between consumers and supplier has broken down. There are now wide shortages in anything from imported wines to emergency medical supplies. While last year the prediction was that the economy was due to expand in 2002, the current prediction is of contraction in the range of 10 to 15 percent.

The Big Mac index which stood at 2.5 dollars in December of 2001 is now worth 0.78 dollars (May 2002) which would make it one of the cheapest countries in the world. This shows that at the current level, the Argentine peso is significantly undervalued.

Privatized Social Security Pensions Market (AFJP)

AFJPs have traditionally invested 50% of their assets in public debt which was previously dollarized. These instruments have recently been expressed in peso terms showing an apparent appreciation (as they were converted at 1.4 to 1). However in dollar terms, these investments are now worth one-third of their previous value. Proposals are still being studied to maintain the assets in the currency they were invested in, although I am skeptical that anything will come of it. Retirement annuities have been suspended since January to prevent a loss for the member due to the inability to obtain the true value of the retirement account. Disability and death annuities continue to be processed.

A recent proposal is being put forward allowing contributors to the private pensions to switch back to the government-run pensions scheme. This is a surprising event given the lack of distrust of government institutions. Other proposals such as suspension of AFJP contributions are also being studied to allow reforms to the current provisional system to take place and provide some needed relief to individuals. It is important to note that only 30% of AFJP affiliates currently contribute to the private system.

Banks

The loan portfolios of banks have been converted at 1 to 1 while their dollar-based liabilities have been pesified at 1.4 to 1. The government is supposed to compensate banks for the loss but no formal proposal is in place. Few banks have the liquidity to sustain continued bank runs, and some banks have announced their intention to exit the market (e.g., Scotia Bank).

The current control on bank deposits is the only thing sustaining the solvency of the banks. Once controls are lifted, depositors will rush to get their savings back and convert them back to dollars. This will undoubtedly lead to the crash of the peso de-facto adoption of the dollar.

The control on bank deposits has been declared unconstitutional, and thousands of depositors have gone to court to try to recover their deposits. Some have been successful while others await their turn in court.

Insurance Companies

Insurance contracts were previously expressed in dollar terms, although they were paid and cancelled in pesos at one to one. Insurers, assets were largely invested in government bonds which now have gone into default. A new law decree has been issued requiring insurers to submit a "restoration of financial health" plan to the Superintendent of Insurance within the next 180 days.

In the meantime, insurers have applied different practices. Some have converted the contract to pesos at 1 to 1, consistent with current legislation. Others have converted dollar contracts at 1.4 to 1, based on the previous official dollar exchange rate. A third group (small number) has chosen to express the contracts in dollars with both benefits and premiums being paid in pesos but at the equivalent floating exchange rate.

The Superintendency is still studying how to convert and return dollar based investments in dollars provided they are kept with the insurer for a number of years and subject to decreasing surrender charges.

Conclusion

Events are moving so quickly that by the time this article is published, it will already look like an amusing historical footnote. It is unclear whether the current President Duhalde has the necessary political support to continue in office until September 2003 when elections are scheduled to be held. It is also unclear whether he has enough political power to comply with IMF requirements which are a necessary evil if Argentina is to get additional financial assistance.

Given all these changes, it is difficult to remain positive, but we have to look at the fundamentals—countries do not disappear. When Argentina recovers from the mess it is currently in, it could conceivably have the most transparent and renovated political system in the whole region with very little tolerance for corruption. There are certain parallels with the Tequila and Samba effect that impacted Mexico and Brazil. Both countries have been able to recover from it and so will Argentina.

For those who are interested in finding more details about the situation in Argentina, a case study on Argentina will be presented at the fall meeting in Boston. □

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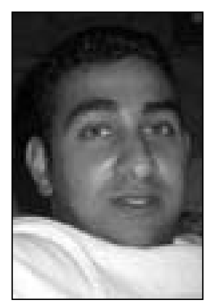


Jorge Noronha is a Fellow of the Society of Actuaries and senior consultant for NMG Financial Services Consulting in Latin America. He can be reached at Jorge.Noronha@NMG-Group.com or by phone at (54 11) 4776 5022.

ICA 2002

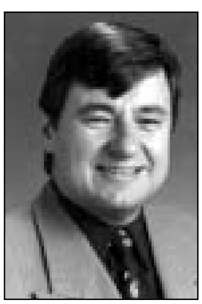
by Rejean Besner

Cancún, México was a majestic setting for the first actuarial conference of the new millennium. Apart from the cultural aspect of the Mayan heritage in the region, one of the biggest attractions for the 1,300 actuaries and 600 companions visiting from 62 countries was the endless stretch of white sand beaches, the turquoise waters and the bright blue sky. To this we can add Cancún's fine assortment of restaurants, hotels, trendy clubs and excellent shopping.

And to combine with the great historical aspects of the region surrounding this setting for the 27th International Congress of Actuaries, this year and for the first time, three additional events were integrated into the program: the 1st International Health Seminar, the 12th AFIR Colloquium, and the 33rd ASTIN Colloquium, all under the coordination of the Mexican Actuarial Association.

The setting was selected because it also represents an important landmark for our industry. This was a region where the Mayan civilization flourished.

The setting was selected because it also represents an important landmark for our industry. This was a region where the Mayan civilization flourished. The Maya are attributed with several events that have impacted our time even today: creating a hieroglyphic writing system, producing an accurate calendar system, building massive stone temples and pyramids, developing astrology, and mastering mathematics upon creating a base 20 numbering system after discovering the concept of zero. But in addition to their intellectual findings, one can still admire the splendor of the Mayan civilization in the various archeological sites in the area. The presence of the Mayan culture is still evident in the indigenous communities that have preserved much of their traditions and social culture. However, what still remains a mystery of the great civilization is their collapse. The geographical boundaries that comprise the Mayan Empire include Mexico, Belize, Guatemala, Honduras and El Salvador, encompassing approximately 400,000 square kilometers.



Rejean Besner, FSA, MAAA, FCIA, is chief actuary at Transamerica Reinsurance in Charlotte, NC, and a member of the International Section Council. He can be reached at rejean.besner @transamerica.com.

The congress itself included four full days of sessions with 62 parallel sessions, where presenters from 30 countries discussed papers on Social Security, General Insurance, Health, Life, Pensions and Financial Risk. The cultural aspect of the congress offered participants an opportunity to visit important centers of attraction in the surrounding areas. The first excursion included *Tulum* and *Xel-Há*. Tulum is a small and beautiful Mayan site built on a cliff that offers an impressive view with the Caribbean Sea as a backdrop. *Tulum*—from the Yucatec word for fence, trench or wall—is the name it has been given in recent times because of the wall that surrounds it. It happens to be the most famous site in the state of Quintana Roo and the only Mayan city built on the coast.

Xel-Há was considered a sacred city, where rituals and dances were performed honoring the different gods of Mayan mythology. Participants had the chance to enjoy the 22 acres of lagoons, coves and inlets. It is one of the largest natural aquariums in México and a haven for snorkeling. Its name means "place where the water is born".

At *Xcaret*, or "little cove" in Mayan, the action began at the Mayan Ball Game court. A game dating back 2,000 years, Ulama, was played according to the tradition with a nine-pound ball and players making use of their hips only. After the game, one was led on a mystical journey to the past through a Mayan Village, where one enjoyed an enactment of a Mayan ceremony in the village. The evening at *Xcaret* came to a closing at the open-air theater, where a magnificent night show highlighted music and dance from each of México's states.

Participants also enjoyed an all-day excursion to *Chichen Itza* on March 20, the spring equinox—where day and night last exactly twelve hours—and, despite the clouds present on that day, one was able to view the descent of the serpent on the north stairway of the *Castillo* pyramid. The serpent is said to represent Kukulkán, the Serpent god, who descends to fertilize the earth and ensure plentiful harvests. *Chichen Itza*, which translates into "the mouth of the well" was settled near two wells at around 550 A.D. Like most of the Mayan sites, it was used primarily for spiritual and ceremonial purposes.

During the celebration of this event one could not help but admire the contrast between Mayan past and modern México. During the inaugural and closing ceremonies, we also experienced the *trios*, *marimbas* and Mexican arts and crafts as well as a spectacular display of fireworks over the water. The Danza del Fuego was also performed during the inaugural and closing ceremonies. This is an aspect that can be closely associated to the experience lived by the participants to the congress. The fire created at the beginning of the event can be compared to the renaissance of the findings and achievements to be shared and examined by actuaries from around the world, while the culmination of this memorable event coincided with the fire being extinguished at the end.

The next Congress will take place in Paris in 2006. There is no doubt that this will bring another set of memorable experiences (professional and cultural) to the participants as well as an opportunity to renew many friendships from the Cancun meeting. □

ISN Minutes

April 23, 2002 • 8:00 a.m. EST

1. Roll Call

Lisa Kuklinski-Ramirez, Rejean Besner, August Chow, Shumei Kuo, Randy Makin, Jorge Noronha, Marc Slutzky, Yiji Starr, Hans Wagner, and Lois Chinnock and Martha Sikaras of SOA

2. January Meeting Minutes

Approved.

3. Treasurer's Report

Fund balance at the end of 2001 was $60,726. This is about $18,000 more than planned. The council should investigate ways to spend this surplus effectively.

4. Upcoming International Council Election

Lisa Kuklinski-Ramirez, Hubert Mueller and Hans Wagner will retire after this term.

Several candidates were nominated by the council members. Council members will approach these individuals to see whether they are willing to run.

5. Spring Meetings/ Annual Meeting

Colorado meetings are fully recruited. Two sessions in San Francisco are still not fully recruited.

6. October Reception

A field trip reception has been arranged to the Boston Old South Meeting House. A bus would transport the attendees from the hotel to the Meeting House. A 20-minute reenactment would be performed. Hearty appetizers will be served.

Section members will be charged $25 and non-section members will be charged $30 per person. The section will subsidize the rest for approximately $3000-4000.

Details would be included in the next newsletter.

7. October Webcast

A webcast on Fair Value is proposed in lieu of seminars in response to cutbacks in travel by attendees, especially from abroad.

The cost would be about $150 per dial-in regardless the number of attendees from that site.

Shumei will investigate the feasibility of an International M&A WebCast, possibly co-sponsored with the Financial Reporting Section.

8. Section Web site Discussion

Marc reported a joint-effort with the Financial Reporting Section to co-sponsor a listserve related to International Accounting Standards. Meeting minutes, information about the sessions at meetings and other interesting information will also appear on the Web site.

9. Ambassador Program

Sami Sharif was approved as the Ambassador for United Arab Emirates.

Nariankadu Shyamalkumar was approved as the Ambassador for Mexico.

10. Newsletter

Randy reported that he has a number of articles lined up so far, including a survey of international actuaries, an embedded value article, a "day in the life of an actuary in Kazakstan," an article on U.S. GAAP for Asia, and a Poland article. Other possibilities include articles on the Annual Meeting (Mike G.), the EAAC (August), ICA in Cancun (Rejean), and an Argentina update (Jorge).

Randy is targeting a mid-May deadline for articles.

11. Education & Exams

August reported that the Associate Professionalism Course will be taught in Shanghai in March. A local Fellowship Admission Course will be considered for the future, depending on the number of eligible candidates.

12. Clearinghouse Scholarship Program Update

There is currently a motion to make the program a cooperative effort between the SOA and the CAS. Martha met with a representative from the CAS in Cancun. Next steps are to get this topic on the CAS Board of Directors agenda and set up a joint account. Once the program has been revamped, the committee will meet. In the event that the CAS does not accept the proposal, the SOA will continue to run the program on a solo basis.

The $2500 committee support contribution is still pending

13. Next Meeting

The next meeting will take place Tuesday, July 23rd at 8 a.m. Eastern time. ❐

The Life and Times of the International Actuary

by Dan R. Spafford

Are you looking for a job that involves long hours both in and out of the office, diverse and complicated projects often burdened by a serious lack of data, a heavy workload with conversations sometimes carried out in a language you don't understand and long days of travel, occasionally to dangerous places? Does that sound exciting? If so, you might try the career of an international actuary. On last year's survey of the International Section's membership, a number of you indicated that you would like to know more about what international actuaries do and where the international opportunities are for career growth. In the process of doing a job search I also wanted to understand the answers to those questions, so I interviewed 34 actuaries from 18 companies, who held "international" positions. The following article presents what I discovered with my survey.

While the sample size is small, I did have detailed conversations with most of the respondents and came away with many impressions, ideas and facts. Looking at the demographics of Tables 1 and 2, you will note that there is a pretty good spread of employers, countries and job positions represented. While the respondents are largely from U.S. insurance companies and U.S. consultancies, reinsurers, foreign insurers and regulators are also represented. Although 58% of the respondents live and work in the United States, nine other countries are represented as well. Finally, there is a good spread of job positions from CEO on down, including 10 CFOs and/or chief actuaries. Note that in foreign subsidiaries of large insurers, the jobs of CFO and chief actuary are often combined into one position.

The appendix contains the list of interview questions.

Table 1 – Types of Employers & Countries of Respondents

Country of Job Location	U.S. Comp.	Foreign Comp.	Consultants Acc'ting	Actuarial	Reins.	Regulator	Totals
Bermuda	-	1	-	-	-	-	1
Brazil	-	-	-	-	1	-	1
Canada	-	1	-	1	-	-	2
Chile	1	-	-	-	-	-	1
Hong Kong	1	-	1	-	-	1	2
Japan	-	-	1	-	-	-	1
Mexico	1	-	-	-	-	-	1
Spain	1	-	-	-	-	-	1
UK	-	-	3	-	-	-	3
U.S.	10	2	4	3	1	-	20
Totals	14	4	9	4	2	1	34

Table 2 – Positions held by Respondents from Insurance Companies

Positions	U.S. Comp.	Foreign Comp.	Reinsurers	Totals
CEO for Life & Health	-	-	1	1
CFO & Chief Actuary	3	1	-	4
CFO	1	-	-	1
Chief Actuary	4	-	1	5
Corp. Actuary	-	1	-	1
Product Actuary	1	-	-	1
Actuarial Oversight	1	1	-	2
Financial Oversight	-	1	-	1
M&A Oversight	1	-	-	1
Training & Reviewing	3	-	-	3
Totals	14	4	2	20

The large number of CFOs, chief actuaries and higher (11 out of 20 respondents who work for insurers or reinsurers) supports one of the impressions that I took away from the survey. That is, people who take international jobs often achieve a high level of responsibility relatively early in their careers. Many of the eleven had become a CFO or a chief actuary of a foreign subsidiary or of their company's international division within five years or six years after attaining their FSA. One of the respondents had been sent down to her company's Mexican subsidiary to "help out on actuarial work" and was subsequently appointed chief actuary for Mexico only two years after fellowship. Do international jobs automatically lead to career success? No, of course not. It is more probably a case of talented people taking demanding jobs which give them the opportunity to prove themselves on a wide variety of projects and responsibilities.

While the career rewards can be great, so can the risks, as several of the respondents pointed out. Taking on a lot of responsibility early doesn't always work out because those international positions require special qualities. First the actuary must be qualified. (Table 3 shows the many job functions that the respondents reported doing day to day.) Many of the jobs are involved with financial reporting, so an intimate knowledge of GAAP (U.S., international, and/or company specific) and sometimes local STAT is required. On top of that, the person must also be a "jack of all trades" because the combination of lean staffs and the wide variety of products and projects means that the actuary must be able to continually cope with handling multiple projects. For example, in addition to the life and health lines, P&C is often a major product line in foreign offices. In addition to the financial management, product development and in force management responsibilities, the actuary can find that M&A and other projects often pop up. Further, the person must be flexible enough to be willing to travel extensively, to relocate to a foreign post if needed, and to appreciate the various local cultures and business methods they will encounter. Facility with foreign languages is very helpful and often required. One person commented that the rigors and complexities of his job mean that he essentially had to give up on a domestic career. Another said that keeping his family happy was very difficult, while another complained that he didn't have time to get married!

Tables 4 and 5 list the responses to the

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Table 3

Rank	Job Functions	No. of Responses
1	Review Financial Reporting/ Valuation	19
2	Business Development	12
3	Review Pricing	9
4	Mergers & Acquisition Work	8
5	General Management Responsibilities	6
6	Project Oversight/ Management	6
7	Reinsurance, including underwriting	6
8	Audit Oversight/ Support	5
9	Planning—Strategic, Capital, Business	5
10	Product Development	5
11	Supervision of Staff	5
12	Oversight of Product Development	4
13	Training/ Internal Consulting	4
14	Conduct Sensitivity Testing	2
15	Embedded Value Modeling/ Review	2
16	Promulgating Laws, Regulations, Guidelines	2
17	US GAAP Conversions	2
18	Write Reports	2
19	Asset/ Liability Management	1
20	Developing Public Policy Proposals	1
21	Learning a Foreign Language	1
22	Marketing	1
23	Mentoring	1
24	Networking	1
25	Peer Reviews	1
26	Preparing Presentations	1
27	Problem Solving	1
28	Product—In Force Management	1
29	Recruiting	1
30	Reviewing Customer Complaints	1
31	Reviewing Financial Models	1
32	Stochastic Modeling	1
33	Travel	1

Significantly, many felt good about the value they add in helping the local staffs through training them, consulting on problems and reviewing their work.

series of questions about what people like and dislike about their jobs. Many responses were unique to international jobs and many were not. The overwhelming "likes" were the variety of people and cultures they have the opportunity to work with and the variety of projects they see. Significantly, many felt good about the value they add in helping the local staffs through training them, consulting on problems and reviewing their work. Travel rated highly as both a "like" and a "dislike." Which bucket it fell into varied primarily by how much the respondent traveled. Several people reported spending more than 50% of their time traveling. Surprisingly the danger of travel, especially post-September 11th, was not highlighted more in the responses. Six people did mention "travel" as a risk in terms of personal security. (See Table 6.) However, the overriding opinion of the respondents, while recognizing that there are some dangerous places to travel to and in, was to shrug off the concerns by commenting that one needs to be street-wise and careful. One person said that she felt safer in Beijing than in New York City.

The small company atmosphere of many international operations, especially for people in a foreign post, but even for those working at the home office international division of a Metlife or a New York Life, appears to be an important determinant of job satisfaction. The small company atmosphere makes people feel that they are playing a significant role and are "making a difference."

There were many fewer "dislikes" mentioned. The largest categories were the amount of time that travel takes and the often overwhelming work load.

The respondents recognized the risks of going global for both businesses and individuals with 64 responses to the "What are the risks?" question. One interesting comment was that foreign regulators sometimes try to make up for a revenue shortfall by surprising the insurance industry with an assessment via a regulatory change at year end, i.e., the actuary must stay tuned into the local politics. Several people commented that some governments, e.g., Japan and Taiwan, require higher contractual interest guarantees than can be earned in the securities markets, which makes product development and product management in those countries a challenge.

Not surprisingly the overwhelming majority of respondents (27 out of 34) feel that the international arena currently represents a major business opportunity for insurers and consultancies as well as a great career opportunity for actuaries. They feel that the opportunities greatly outweigh the risks. The

Table 4

Rank	What People Like about Their Job	No. of Responses
1	Working with other countries/ cultures	15
2	Diversity of work/ projects/ technical issues	13
3	Helping local countries' staffs	8
4	Opportunity to travel	7
5	Small company atmosphere	5
6	Business development	4
7	Making a difference	3
8	Meeting people & making friends around the world	3
9	Opportunity to speak Spanish	3
10	Intellectual challenge of financial/ stochastic modeling	2
11	Working on M&A projects	2
12	Challenge of growing revenue	1
13	Developing new products	1
14	Developing people	1
15	Having accountability for strategy/ priorities	1
16	Leading projects	1
17	Meeting regulators from other countries	1
18	Networking	1
19	Product Development Work	1
20	Public Policy work	1
21	Responsibility for bottom line	1
22	Seeing the big picture	1

One interesting comment was that foreign regulators sometimes try to make up for a revenue shortfall by surprising the insurance industry with an assessment via a regulatory change at year end, i.e., the actuary must stay tuned into the local politics.

Table 5

Rank	What People Dislike about Their Job	No. of Responses
1	Travel—too much	9
2	Overwork	4
3	Handling administrative details	3
4	Foreign executives lack of flexibility	2
5	Internal politics	2
6	As consultant—don't see results of projects	1
7	Always being at bottom of learning curve	1
8	Being away from home for long time	1
9	Danger in commuting and travel in some countries	1
10	Disappointment with actuarial profession's lack of interest in international issues	1
11	Doing M&A projects	1
12	Foreign executives reluctance to hire consultants	1
13	Getting sick in foreign lands	1
14	Government bureaucracy	1
15	Lack of data—for decision making	1
16	Long commute	1
17	Matrix management—lack of clear decision maker & accountability	1
18	No routine work—projects always changing	1
19	Travel—not enough	1
20	With thin staff—lack of access to boss when he's traveling	1

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Table 6

Rank	Risks of Doing Business Abroad	No. of Responses
1	Political & economic instability	16
2	Foreign exchange risk	10
3	Difficult/expensive to break in given barriers of language/culture/ diversity	7
4	Travel—can be dangerous	6
5	Volatility of regulations/ legal systems	5
6	Low interest rates in combination with high policy guarantees	4
7	Biggest risk is not being global	2
8	Keeping one's family happy	2
9	Lack of qualified people	2
10	Travel—can be exhausting	2
11	Banking systems—not transparent	1
12	Implementation risk	1
13	Inability to collect receivables	1
14	Institutionalized fraud	1
15	Lack of data	1
16	Not having standardized methods globally	1
17	Not leveraging knowledge—one country to another	1

Table 7

Rank	Countries with Best Marketing Potential	No. of Responses
1	China	19
2	India	16
3	Brazil	7
4	Asia	6
5	Japan	6
6	Eastern Europe	5
7	Latin America	4
8	Mexico	4
9	Taiwan	4
10	Europe	3
11	Argentina	2
12	Indonesia	2
13	Malaysia	2
14	Turkey	2
15	Chile	1
16	Countries with economic problems	1
17	Korea	1
18	Poland	1
19	Russia	1
20	Vietnam	1

primary reason for that optimism is the feeling that insurance market growth rates will remain much higher in many foreign countries than in North America and Western Europe as international trade grows and as the middle classes in a large number of countries continue to emerge. In fact, several mentioned that the biggest risk of all is in not going global. Also, several noted that even the political and economic turmoil that we are seeing in countries like Argentina and Indonesia actually represent opportunities for some insurers and consultancies. That is because the governments and companies in those countries would look to the consultants for advice, and many customers would seek out solid U.S. and European companies in times of stress. Table 7 contains the ranking of countries by the number of mentions as "good insurance marketing opportunities."

The reasons given for the international arena being a good current opportunity for actuaries are:

- International insurance market growth will continue to be higher than that of the United States in the foreseeable future leading to increasing actuarial opportunities,

- The increasingly complex international issues and financial reporting requirements will increase the demand for the technical expertise of actuaries,

- U.S.-trained actuaries are highly respected abroad and

- Working at a foreign post is a great training ground for actuaries.

One survey question asked about future career planning. Nine of the people said that they intended to remain in the international field and would not go back to a more traditional domestic job. Seven said that their career plan was to do a great job in their current assignment and they would not limit their future to any particular path. Three said that they would probably retire from their current positions.

See Table 8 for the responses to the question about what the interviewees identified as their greatest current needs in order to accomplish their missions. Several respondents made a point of saying that the cost of expatriate packages is too high, so they try to staff the local country offices with talented local actuaries or alternatively with U.S.-trained actuaries who are willing to accept the local wage rate.

One thing that the survey shows is that the international actuary's job is a taxing one, requiring special skills, and that it's not for everyone. However, there are clearly a large number of actuaries thriving in international roles, whether it's in the central office of an insurer or consultancy or in a far-flung regional or local office. The underlying theme from almost everyone I interviewed was that an international career is great for the talented actuary who seeks the opportunity to participate in a wide variety of projects, deal with diverse markets and products, and participate in different cultures and ways of doing business. Having the flexibility to handle the ambiguity of confusing or non-existent regulations and a lack of solid data along with a facility for foreign languages, is often essential.

Final note: I will be moderating a panel discussion on the topic of the roles of and opportunities for international actuaries at the SOA's annual meeting in Boston, October 28–30. □

Table 8

Rank	Needed to Accomplish Mission	No. of Responses
1	Talented local actuaries in various countries' offices	7
2	Actuaries with strong technical & communication skills	5
3	U.S.-trained actuaries in various countries' offices	4
4	Actuaries with financial modeling skills	3
5	Spanish speaking actuaries	3
6	5-10 year actuaries with strong business development, communication & language skills	2
7	Actuaries with M&A experience	2
8	Stronger financial team in central office	2
9	A "rainmaker"	1
10	Actuaries with business development skills	1
11	Central office to spec out actuarial & accounting systems for each country	1
12	More product actuaries	1
13	Portuguese speaking actuaries	1
14	Problem solving actuaries	1

Appendix:

Questions for the survey about international actuarial opportunities:

1) How does the international business fit into the overall company organization?

2) Would you say your company has a global orientation?

3) What % of revenues/ earnings is international of company total?

4) What countries are you currently doing business in? (note % of ownership)

5) How would you categorize your job? (Examples: General Mgmt., Oversight, Pricing, Product Development, Valuation, Financial Mgmt., Financial Reporting, Reinsurance, Underwriting; Consultant vs Company; Foreign vs Domestic Company; Central vs Regional vs Local)

6) What are your major job functions?

7) To whom do you report? How many direct and indirect reportees?

8) What do you most enjoy?

9) What do you like the least?

10) Who are others that you work with? How would you categorize their jobs?

11) How would you rate business growth opportunities in the international insurance arena in general? Why?

12) What are the big risks?

13) What is the mission and strategy for your company or office?

14) What are the countries with the greatest growth potential near term? Why?

15) What is the process by which your company evaluates whether to enter or exit a given country?

16) How would you rate career opportunities for actuaries in the international insurance arena? Do you expect your company to grow rapidly internationally?

17) What are the likely paths to best grow your career in the future whether in international or not?

18) In what areas do you currently have the biggest needs for additional resources to accomplish your mission? Why?

Dan Spafford, FSA, MAAA, is a consulting actuary in New York, and he can be reached at danspafford@earthlink.net

Insurance Product Regulation— A World Tour

by Yiji S. Starr

Editor's Note: This is part I of a four-part series on insurance product regulations around the world. This topic was presented in a panel discussion at the 2001 Society of Actuaries Annual Meeting in New Orleans.

PART I – SELECTED ASIAN MARKETS

Summary

There may be common features among the Asian markets, but it is difficult to make generalized statements about the regulations in Asian markets. Each country is unique and therefore the regulation is unique.

How strict the rules are vary by the need or the philosophy of the government to regulate the market. It also varies by the experience level of the market. There is often little regulation on illustration or sales conduct.

Little regulation means more freedom for companies and perhaps a more competitive market. However, it may also be easier for companies or the industry to make costly mistakes. More regulation may prevent some costly mistakes but may take away innovation. Only time will tell which approach is better.

However, no matter what is written on the paper, the rules of the game are dictated by what is endorsed via enforcement. In some markets, rules may not be well documented or multiple government agencies issue conflicting regulations. So it would be prudent for a company to obtain specific approvals from all appropriate agencies.

In some markets, rules may not be well documented or multiple government agencies issue conflicting regulations. So it would be prudent for a company to obtain specific approvals from all appropriate agencies.

A summary of regulations impacting product design are discussed for selected Asian markets.

Tax

Before getting into the regulations, I'd like to address tax regulation and its impact on product design.

Many products in the U.S. are driven by the U.S. tax regulation. For example, the tax deferral feature of the insurance products drives some of the product innovation in the United States. Often these products will not necessarily have a marketplace in Asian countries where there is no similar tax advantage. On the other hand, products that are not sold in this country due to tax regulation may have a marketplace in these Asian countries. For example, there are very few endowment products sold in this country because they fail to meet IRS definition of "insurance" products but are very common in Asian markets.

Singapore

Singapore was founded by Sir Raffles and was a British Colony for many years. Not surprisingly, there is a lot of British influence on this island. Since its independence, the island city has been ruled quite strictly by the government. The economy has developed tremendously over the last 30 years. The island country has a culture of strict rules and obeying these rules. This is reflected in insurance regulation.

Summary of Regulations

Every product must be filed

- Investment-linked products must be approved

No specific requirements on premiums

Minimum reserve is CVT92 at 4%

Whole life and endowment products must have cash value from year 3+ at 95% (life) or 80% (endowment) of reserves

Participating Products

- Segregated Funds
- Must pass Bonus Reserve Valuation
- 10% to shareholders (1/9 of the dividends)
- Signed by Appointed Actuary
- Reversionary bonus and/or terminal bonus may be paid

Maximum agency compensation set at 160% for recurring premium and 5% for single premium

Illustration

- Investment linked must be illustrated at 5% and 9%
- Non-investment linked at 4.5% and 7.5%
- Appointed Actuary must certify that bonuses are supportable on best estimate assumptions (maximum 6% and no shareholder transfer)
- Must distinguish between guaranteed and non-guaranteed benefits
- Must disclose distribution costs and reduction in yield due to expenses, commission, mortality costs, etc.

Investment-linked product, a British style product, is very popular here. It typically has a fixed premium and is front-end loaded. Some allow dump-in or partial withdrawals.

Participating products also follow the British style. A separate fund is kept for the product. Every year the bonus scale declared must pass the Bonus Reserve Valuation test. The Appointed Actuary must certify that the amount of assets in the fund is sufficient to support the business under the proposed scale using realistic assumptions. The ability to transfer money out of the participating fund is limited. Typically shareholders are allowed to receive 10% of the profit from this block of business. This is measured by 1/9 of the dividends declared. This structure creates some challenges for the actuary in the product design and dividend recommendation to make sure the "blocked" surplus is minimized while ensuring adequate surplus to support the business. The dividends are paid in the forms of reversionary bonus and terminal bonus.

Singapore may have the most developed and sophisticated regulation on illustration in Asia. The regulation is designed to protect the policyholders. It also encourages the companies to operate efficiently by making the companies disclose the impact of expenses on policyholders' yield.

Malaysia

Malaysia, Singapore's neighbor, has a lot of similarities to Singapore.

Summary of Regulations

Products must be filed and certified by the Appointed Actuary

- Annuity certain and investment-linked products must be approved

Minimum gross premium is 90% of M83-88 at 8.5% plus FY loading of 12%/160 and RY loading of 3%/40

Must have non-forfeiture values for most policies

Minimum reserve is SVT96 at 4.5% (4% for single premium) which may be modified using FPT

Maximum agency compensation plus overrides cannot exceed 171% over five years

- Segregated Funds
- Must pass Bonus Reserve Valuation
- 10% to shareholders (some companies at 20%)
- Signed by Appointed Actuary
- Reversionary bonus and/or terminal bonus may be paid
- Limits on amount and incidence of bonus

Illustration

- Each participating life sale must have an illustration
- May not illustrate rider with base
- Must distinguish between guaranteed and non-guaranteed elements

2000 was the first year of pension privatization. Annuity products were introduced to serve this market. These annuity products are old-fashioned annuities where the contracts specify the number of premium payments and the amount of annuity payments at the time of issue. The accumulation and payout phase are all part of the same contract. The Malaysian government has stopped this business in the middle of 2001 amidst concerns about the contracts not providing good value to consumers. It is unclear when this market may open again.

Thailand

Thailand's insurance market is still developing. The government has very strict rules which limit the amount of gross premiums as well as sets the minimum reserves. The minimum interest rate used in the gross premium calculation was 6% despite the fact that the bank deposit rates fell to the range of 1%. The government was slow to lower this rate but finally lowered it to 5% in early 2001 and 4% in late 2001.

Amidst all the discussion on interest rates, the official mortality table also changed. All products sold after January 1, 2002 will have

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Singapore may have the most developed and sophisticated regulation on illustration in Asia.

to be priced on the new mortality table. As a result, there was a backlog of products to be approved in late 2001.

Summary of Regulations

Products must be filed and approved
Maximum gross premium is TMO 97 at 4, 5 or 6% plus specific expense loading
Minimum reserve is TMO 97 at 6%, 5%, or 4% with FPT or Zillmer modification
Estimated dividends are filed but no need to inform to insurance department of dividends

Since gross premiums are tightly regulated, actuaries often face the difficult task of designing products that meet corporate profitability requirements.

The main distribution channel in Thailand is agency force. The activity and productivity rates in agency force are quite low. As a result, the key to growth is the number of agents. New entrants to the market are offering lucrative golden hellos to agency leaders. The resulting price war is making it a difficult and expensive market to develop agency force. The actuaries are given the unenviable task of making sure the distribution costs are covered by the expense loading dictated by the regulators.

Indonesia

Indonesia, one of the most populous countries in the world together with easy entry and little regulation, brought many foreign players to this market. However, the country is still undergoing turmoil making the operating environment very difficult.

The Chinese population in Indonesia is affluent and is a natural target market by the insurers. Specific products such as education and savings may be designed to attract the Chinese market. Insurers may also have programs to recruit Chinese agents in order to penetrate the Chinese market.

Summary of Regulations

Products must be filed and are assumed to be approved after two weeks unless told otherwise
No specific requirements on gross premiums
Minimum reserve is 1980 CSO at 9% (Rupiah products) and 5% (USD products) with Zillmer modification
No requirements on minimum cash values
No regulation on dividends or illustrations

Philippines

Unlike many other Southeast Asian countries where there is a strong British influence, Philippines has been heavily influenced by the United States. The regulations are therefore quite similar to that of the United States.

Summary of Regulations

Products must be filed and approved
No specific requirements on gross premiums but Insurance Commissioner makes sure expense loading is unfair to policyholders
Minimum reserve is a standard table (e.g. 1958 or 1980 CSO) at 6%. FPT, CRVM and NLP are acceptable.
Minimum cash value is 80% of reserves or reserves less 25 per mil (smaller of the two for Peso products and larger of the two for USD products)
Initial dividends are filed and approved
No specific regulation on illustration

Greater China—Mainland

Insurance and financial services industry is quite new to China. China has held a tight leash on the market by limiting entrance to the market as well as regulation to control the market. The goal is to control market liberalization so the local players can adapt to the competition over time.

The regulatory body has also changed over the past few years. People's Bank of China (PBOC) was the central bank as well as the regulator for the financial services industry. Newly created China Insurance Regulatory Commission (CIRC) is now in charge. CIRC is likely to continue the tight control on the market in the near feature.

Summary of Regulations

Products must be filed and approved
Maximum pricing interest rate limited and expense loading is subject to specific limits
Minimum cash value must be calculated using gross premium assumption plus 2% of interest rate
Minimum reserving rate is the pricing rate or a yearly specified rate by CIRC

Participating products and investment-linked products are two new innovations in the market. It is unclear what the regulation may be on these two products. Recent negative publicity over high growth return illustrated in investment-linked products may accelerate development of more stringent regulation on illustrations.

Greater China—Hong Kong

Hong Kong is known for its friendly environment towards business. This is evidenced by the fact that many multi-nationals choose to set up regional offices in Hong Kong. Insurance regulation is no exception.

Summary of Regulations

Product filing is not required as long as insurers have obtained the license for specific class of business but investment-linked products need approval from the Securities and Futures Commission
No specific requirements on gross premiums
Minimum reserve is 1.5 year FPT subject to Zillmer of 3.5% sum assured
Valuation interest rate must be at most the prudent asset yields less 2.5%
Participating Products

- No regulation on dividend and cash value scales
- No regulation on surplus split between policyholders and shareholders

Illustration

- Must clearly define guaranteed and non-guaranteed benefits

Greater China—Taiwan

The market is quite regulated in Taiwan. Many foreign players have branches rather than subsidiaries in Taiwan due to a past regulation that foreign entrants must be a branch of a stock company.

Summary of Regulations

Products must be approved
Minimum reserve is 1989 TSO at lower of the pricing rate or MOF declared rate
Minimum cash value required on long-term life insurance products is a percentage of reserve with percentage grading to 100% over time
Participating Products

- Policyholder dividends are based on the difference between pricing and MOF declared experience
- Recent changes in regulation allow companies to choose their own policyholder dividend formula

Illustration

- Currently under study by MOF working group

Dividends on participating products were paid based on the difference between pricing and industry experience as declared by the Minister of Finance (MOF). This has been the case until recently when the companies were allowed to choose their own dividend formula. Additional changes are expected on illustration once the MOF working group makes their recommendation. □

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Yiji S. Starr, FSA, MAAA, is chief actuary at John Hancock International Holdings, Inc. in Boston, MA, and the secretary/treasurer of the International Section Council. She can be reached at ystarr@hancock.com.

Insurance Accounting in the 21st Century

by Anthony J. Willemin

On March 5 and 6 in New York City, Ernst & Young LLP hosted a comprehensive seminar on the subjects of Fair Value, Embedded Value and International Accounting Standards. Titled "Insurance Accounting in the 21st Century," the seminar took one and a half days to cover improvements and changes that are likely to affect the insurance industry worldwide. Eleven presentations —punctuated by frequent questions and lively discussions—provided technical basics, case studies, discussion of significant issues, the trials and triumphs of implementation and the value of the information provided. The speakers included Peter Clark, Senior Project Manager of the International Accounting Standards Board, Ad Kok of AEGON, Hans Wagner of AXA and Tom MacKinnon of Scotia Capital, in addition to a team of Ernst & Young's experts in the field. Over 60 people attended, including senior executives from over 20 companies, analysts, rating agencies and other interested parties. In addition to the U.S. and Canada, other countries represented included the United Kingdom, France and the Netherlands.

The focus of the seminar was on life insurance performance measures and financial reporting. Several key themes resounded:

- Current U.S. and other local GAAP reporting is likely to change
- Implementation of new reporting standards could take years (2-4 based on IASB "field visits")
- Balance sheet and income statement results may be volatile
- New business value is a primary focus of attention by companies—embedded value may be the best measure
- The payoff is deeper insight into the business

The following provides a synopsis of the eleven modules:

Module 1—In "The Basics" Mike McLaughlin set up the seminar. He reviewed the main topics, indicated the magnitude of the shift in philosophy ("the matching principle is gone") and provided some historical perspective on the evolution of thinking at the IASB and FASB. Mr. McLaughlin also outlined the IASB structure and identified the multitude of decision makers shaping International Accounting Standards. Finally, Mr. McLaughlin described the role of embedded value, and its increasing use by companies, analysts, rating agencies, and regulators.

Module 2—Rick Lynch discussed the international accounting standards emerging for financial instruments, including the efforts of the Joint Working Group of Standard Setters (including the FASB), International Accounting Standard 39 (IAS-39 on recognition and measurement) and its proposed amendments, and IAS-32 (on disclosure and presentation). Mr. Freedman started his presentation by describing the scope of the DSOP—contracts with insurance risk. He then covered the requirements of the DSOP, highlighting the controversies, issues of interpretation, some product-specific implications and business implications.

Module 3—Ad Kok described AEGON, its experiences with IAS so far, and its schedule for developing a complete reporting package timed to meet the 2005 European Union deadline. AEGON piloted various life insurance products in the Netherlands, the United States, and the United Kingdom during 2001. Mr. Kok's view breaks the insurance portfolio down to product level, and each product down to the various risks covered. This should lead to measures that can be aggregated easily, but understood, and discussed by reference to the significant drivers of results. Mr. Kok sees information technology as the biggest challenge. Key hurdles include capturing the necessary data within and ultimately uploading the accounting result of the projection models (some stochastic) into the financial results in time to meet monthly reporting schedules. The Dutch Insurers Association, concerned about these difficulties and unresolved conceptual issues, has proposed that IAS be phased-in starting in 2005, beginning as disclosures in the notes to more traditional financial statements.

Modules 4, 5, and 6—Mike McLaughlin returned to explain embedded value reporting, including the components of embedded value, reporting of achieved profits, and variance analysis. Jim Milholland then walked through a case study, which further developed embedded value concepts with a concrete example. This was an opportunity to illustrate some key implementation issues (such as setting the discount rate and the approach to target surplus), and to show embedded value as a planning tool. Finally, Tim Roff discussed embedded value in the United Kingdom and across Europe. Mr. Roff presented the Association of British Insurers (ABI) embedded value standards (finalized in early-2002), discussed implementation issues, and charted published embedded value figures for three large insurers to show volatility of total achieved profits, the relative stability of achieved profits from operations, and significance of new business margins.

Module 7—Day 2 of the seminar commenced with Peter Clark's guided tour of the IASB Project on Insurance Accounting. Mr. Clark gave the IASB perspective on critical issues such as: whether to require entity-specific value or fair value, the treatment of renewal and cancellation options with insurance contracts and the appropriate provisions for risk. Mr. Clark also related the findings, so far, from the IASB field visits, the next steps in the insurance project, and some information about other current and potential IASB projects.

Modules 8 and 10—Peter Duran built on the work of Luke Girard to explain the theoretical link between fair value and embedded value. When consistent sets of assumptions are used, it can be shown that the fair value of liabilities equals the fair value of assets less the embedded value. Mark Freedman and Peter Duran provided practical information about modeling fair value financial results. They then demonstrated using modeled results for term life insurance and for single premium deferred annuity products under different crediting strategies. Graphs depicted anticipated statutory, GAAP, and fair value earnings over the projection horizon. Analysis included the impact of XXX deficiency reserves on term, experience variances, unlocking, and stochastic analysis on fair value results.

Module 9—Hans Wagner presented AXA's perspective on the implementation and uses of embedded value in the context of a global insurance enterprise with diverse companies, businesses, and geography. Mr. Wagner laid out AXA's template for consolidating results from a variety of local entities and described the several challenges faced. He stressed the importance of internal and external communications about embedded value as one of several measures used to interpret financial experience.

Module 11—To close the seminar, Tom MacKinnon shared an analyst's perspective on the value of embedded value information. Mr. MacKinnon provided some cautionary tales about situations in which statutory and GAAP financial reporting distort the view of a company's performance. He balanced the ability of embedded value to eliminate some of these distortions against several arguments against using embedded values. To facilitate comparability, Mr. MacKinnon "normalizes" the discount rates and mortality improvements. He provided a table of market indicators for six Canadian insurers that included several measures based on embedded values. Canadian embedded value reporting is just beginning and 2001 will provide the first opportunity for "movement analysis" (i.e., the components of the change in embedded value from the beginning to the end of the year).

Interest in the seminar was high, not only because of keen interest in performance measurement. The European Union has set 2005 as the date that European companies will need to adopt International Accounting Standards. IAS likely will require fair value reporting, or a similar "entity specific" value for all insurance liabilities. The Canadian Institute of Chartered Accountants may adopt IAS and the Financial Accounting Standards Board has publicly expressed its preference for fair value reporting. Given the substantial time needed for implementing these complex new standards, some U.S. and global companies have already begun the conversion process. □

When consistent sets of assumptions are used, it can be shown that the fair value of liabilities equals the fair value of assets less the embedded value.

Anthony J. Willemin, FSA, MAAA, is actuarial senior manager at Ernst & Young LLP in New York, NY. He can be reached at anthony.willemin@ey.com.

An Introduction to the Polish American Market

by Philip H. Simpson

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Author's Note: In the decade since the demolition of the Berlin Wall and the collapse of the hard-line authoritarian regimes of Eastern and Central Europe, there has been a complete rewriting of the political, social and economic landscapes in these countries that would not have been possible 10 years ago. Not all countries have grown in the same way, and many started from different points in terms of economic development. Generally those countries closest to Western Europe had the most developed economies (e.g., Hungary, the Czech Republic), and those furthest had the least developed economies (e.g., Bulgaria, Belarus).

Perhaps the most interesting of these countries is Poland, due to its size and the rapid developments of its insurance and pensions markets in the past decade. Poland may be viewed as a development template that other Eastern and Central European countries might follow.

The popularity of membership has declined recently, due in part to the suggestion that there should be a transitional restrictive arrangement regarding the mobility of labor and also because of the threat of unrestricted foreign purchasing of land.

Background

Poland is a parliamentary democracy with a population of just under 40 million people, covering an area of just over 300,000 square kilometres. Gross Domestic Product (on a purchasing power parity basis) is approximately US$330 billion or US$8,500 per head (compared with Bulgaria US$6,200, Czech Republic US$12,900 and USA US$36,200). Real economic growth has been steady since 1992, averaging about 5% a year—the best in the region. Annual consumer price inflation declined from an annual rate of over 30% in the mid 1990s to around 5% today. Similarly short-term interest rates declined from over 25% in the mid 1990s to around 13% today. The Polish currency is the Zloty (symbol PLN), which is fully convertible for trade purposes. The Zloty has declined considerably against the dollar in recent years, from around 2.27 PLN per U.S. dollar in 1994 to around 4.00 PLN per US dollar at the end of 2001.

The Polish economy remains diversified, with industry as the largest contributor, representing approximately 25% of GDP. In terms of employment, the largest sectors are agriculture and industry, each with about 25% of the workforce. The total workforce is approximately 17 million, with unemployment at about 16%. Poland's main imports and exports are manufactured goods and machinery and transport equipment. Its largest trading partner, by a considerable distance, is Germany with its former major trading partner, Russia, a long way behind.

Poland's population has increased by over 90% since the Second World War, however the rate of growth has slowed considerably in recent years and may now be slightly negative. The population, like that of many European countries, is aging, with approximately 25% of the population under age 18, 25% aged 65 or over, and 50% between ages 18 and 64. Average life expectancy at birth has shown slow, but consistent, improvement over the last 50 years, with current life expectancy at approximately 70 years for men and 78 for women.

Economic Liberalisation

Poland has moved from being an authoritarian regime to a liberal democracy, whilst pursuing a policy of liberalising the economy, with no major problems. Privatisation of small and medium-sized companies has lead to the development of a vibrant private sector. The two main concerns of Poland's post-communist governments have been to ensure security and to modernise the economy through integration with the rest of Europe, and the European Union (EU) in particular. The first of these aims was, at least partially, achieved in March 1999, when Poland, along with Hungary and the Czech Republic, was granted full membership in the North Atlantic Treaty Organization (NATO).

Membership in the EU took longer to negotiate and is having more direct impact on the individual lives of Poles and on the Polish insurance industry. Entry into the EU is expected around 2004. The perceived benefits of membership are unrestricted capital flow, unrestricted movement of labour, and aid in restructuring the economy, particularly reducing the agricultural share of GDP. The popularity of membership has declined recently, due in part to the suggestion that there should be a transitional restrictive arrangement regarding the mobility of labour and also because of the threat of unrestricted foreign purchasing of land.

Life Insurance Industry

The insurance industry in Poland is currently regulated by a quasi-independent body, the Panstwowy Urzad Nadzoru Ubezpieczen (State Office for Insurance Supervision), which generally conforms to EU-style regulation. But it is proposed that the Insurance Supervision merge with the Pension Funds and Banking Supervision to create a single body for Supervision of Financial Institutions. All insurance companies in Poland must now be either joint stock companies or mutuals, and there must be a separate capitalisation of life and non-life companies, not just a separation of funds. Polish insurance laws have been largely based on EU regulations in preparation for Poland's entry into the EU.

Poland's Insurance Law of 1990 allowed the establishment of 100% foreign-owned insurance companies. In January 1999, the market was opened up to foreign insurers' branch operations. Branches require a licence from the finance ministry and must deposit half the minimum capital requirement required for Polish insurers to cover future obligations. Funds at least equal to the solvency margin corresponding to business transacted in Poland must be kept in Poland.

Insurance was a state monopoly until 1988 with two companies, PZU and Warta, providing all insurance cover based on a Soviet model. PZU provided domestic insurance cover and Warta covered hard currency business and reinsurance. The insurance monopoly was broken before the general liberalisation of the economy.

The Polish life insurance market grew rapidly during the 1990s, at over 20% a year, resulting from increasing disposable income, the need for financial security, more innovative and attractive products, and better marketing techniques. Penetration remains low with a life insurance penetration of less than 1% compared with an EU average of 4% and penetration of 10% in the U.K., the highest in the EU. The Polish insurance market remains small in international terms; estimated life premium income for 2000 was PLN 8.3 billion[1]. However, compared with other Eastern European markets, Poland is the second-largest market after Russia for both life and non-life insurance. The life insurance market comprises approximately 25 companies including one mutual. The largest life insurance company is PZU Zycie, a subsidiary of PZU with a new business market share of over 50%. The next three largest insurers are Commercial Union Zycie, Nationale-Nederlanden Polska, and Amplico Life (AIG): all are foreign-owned and specialise in selling individual unit-linked life insurance contracts. The four companies account for over 90% of the market.

PZU dominates the market. It has a good range of products, a high level of expertise, it continues to have excellent links with state-owned industry and stoutly defends its market position. One reason for its continued market dominance was the mistaken view that PZU had a state guarantee. PZU's expansion was hindered by a low level of solvency. In 1991, PZU was transformed into a joint stock company wholly owned by the state Treasury. There were several attempts to privatise PZU, but political considerations hampered them. The primary reasons for privatisation were to reduce the state involvement in the insurance market and to increase PZU's level of solvency.

Table 1

TOTAL PREMIUM MARKET SHARE OF POLAND'S LIFE INSURANCE COMPANIES (BASED ON SIX MONTHS 2001)

PZU Zycie	53%
CU Zycie	19%
Nationale Nederlanden	11%
Amplico (AIG)	10%
Allianz Zycie	1%
Zurich	1%
Ergo Hestia	1%
Warta Vita	1%
Others 1%	

In 1999, the Treasury invited bids for a 30% stake in PZU, and several major international insurers from Europe and the US expressed interest. The 30% stake was bought by a consortium lead by Eureko, a Pan European insurer. The 30% stake cost approximately PLN 3 billion. In October 2001, Eureko thought it had reached agreement with the Polish government to buy an additional 21% share in PZU, giving it a 51% stake, with plans to float PZU by the end of 2002. However, as of mid January 2002, that deal was not finalised and was still being discussed by Eureko and the government.

Commercial Union Zycie was set up in 1991 and has grown rapidly to become the second-largest life insurer in the market with over one million policies in force. The vast majority of the company's business is in individual unit-linked contracts, where it has a new business market share of over 50%. The company (as will be discussed later) is also the leading private pensions provider. It has over 6,500 active agents and more than 70 branches and representative offices. The company also sells some bancassurance through two banks: BZ WBK and BPH. Nationale Nederlanden, the third-largest life insurer in Poland, has 4,000 tied agents and sells both endowments and unit-linked policies. It has a potential for bancassurance development through Bank Slaski, one of the larger Polish banks, which is controlled by ING. Amplico Life, owned by AIG, was set up in 1990 and also specialises in individual unit-linked life business.

There is no domestic market for life reinsurance in Poland. Sums assured are generally small and most new business is unit-linked. The total life reinsurance premiums are approximately 2% of the direct market.

Distribution in Poland is dominated by company branch networks and tied agents. PZU has the largest and most widespread network, but it also works through independent agents and brokers. The overall volume of broker-generated life insurance business is limited, but growing.

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[1] PLN 1 billion equals approximately 250 million U.S. dollars and 285 million Euros.

Bancassurance, so far, has not been successful in Poland. Generally there has been a clash of cultures between banks and insurers when insurers try to sell products through bank networks. It is highly likely that further attempts at running different variants of bancassurance will be tried. Direct marketing was recently introduced into the Polish market, but it is too early to measure its success. Television and radio advertising is used to sell life and personal lines of insurance with some success.

A wide range of protection products are sold in Poland. These are used, amongst other things, for loan protection. There is little demand for mortgage loan protection, as few houses are bought or sold, due to high interest rates. Term assurance accounts for about 4% of life insurance sales. With-profit endowments are a traditional savings vehicle and are still offered by some domestic insurers.

The market for unit-linked individual life insurance is growing rapidly, as people seek a haven for their savings, offering real returns and products with a greater transparency than traditional with-profits products. There are no tax incentives to encourage the purchase of insurance investment products. Foreign life insurers have dominated the unit-linked market due to superior products and marketing, high levels of service and a greater reputation for financial strength than many local companies. The unit-linked products are typically front-loaded with about three to five investment fund choices.

Pensions Marketplace

Poland, like many countries, is attempting to roll back the state's involvement in pension provision and to encourage private pension provision. Poland has undertaken wholesale reform of the pension system and its funding. A pillar pension structure was introduced in April 1999. The state will continue to provide a state pension (Pillar I), but has introduced the private sector to provide funded pensions on a compulsory basis (Pillar II) as well as on a voluntary basis (Pillar III).

Membership in the new Pillar II scheme is mandatory for workers born after 1967 (comprising about 1.5 million workers), optional for those born between 1948 and 1967, and not available to those born before 1948. Members of the Pillar II pension can choose which Compulsory Open Pension Fund (COPF) they will belong to.

The contributions for Pillar I and II pensions are collected through the Social Insurance Institute (ZUS). ZUS's systems proved inadequate to the task of setting up 13 million accounts to record employees' contributions and seven million accounts for pensioners. The full implementation of the Pillar II pensions was delayed for several months due to ZUS's administrative shortcomings.

To manage a COPF, a specialist pension company, called a PTE, needs to be formed. Licences for PTEs also allow Pillar III pensions to be written. For commencement of operations in 1999, 21 PTE licenses were granted. The leading insurance companies in the market either applied for licenses themselves or formed joint ventures with banks. Only one licence was allowed per insurer. Competition was fierce for business, and by the end of 1999, 9.3 million people had signed up for COPFs, with CU and PZU being the two largest providers, with 1.9 million and 1.7 million members, respectively.

The CU PTE (which is owned 50% by CU Zycie, 30% by CGNU, and 20% by two Polish banks, BZ WBK and BPH) is the most successful PTE company. The banks give the company considerable additional distribution flexibility. The merger of CU with Norwich Union in early 2000 required that Norwich Union's PTE operation be sold, as insurers are only allowed to own or partially own only one PTE company. The top five COPFs captured around two thirds of the whole Pillar II pension market.

Pillar II pensions are a success despite some initial problems with ZUS's administration systems. The market received a one-time boost with the introduction of Pillar II pensions, but is unlikely to substantially increase in terms of number of members. It is estimated that, to make a PTE company profitable, it needs 400,000 to 500,000 members to achieve economies of scale and recover its investment on items such as IT systems and distribution. Most PTE companies have not achieved this scale, and some will probably have to merge to maintain profitability and to retain members. So far, Pillar III pensions have had limited take up.

The Future

The Polish insurance market has shown considerable growth over recent years, which will likely continue as the economy grows and the life insurance market develops and increases its penetration. How PZU performs under its new ownership (regardless of whether Eureko obtains majority control) will likely dominate the future shape of the life market. The success of foreign insurers may encourage new entrants to the market and Poland may be used as regional base for existing insurers to increase their presence elsewhere in Eastern Europe. For example, Eureko and PZU have bid for Slovakia's top insurer, Slovenska Poistovna, and wish to expand into the Czech Republic and the Ukraine. Bancassurance will likely succeed to a greater degree, if the challenges of conflicting bank and insurance cultures can be overcome. The investment returns that companies can generate, and whether these are sufficient to provide adequate pensions, will ultimately determine the success of the PTEs and Pillar II pensions. In the short term, there is likely to be a degree of consolidation amongst PTE companies, as they attempt to generate economies of scale. □

Philip H. Simpson, ASA, FIA, is senior consultant at Milliman UK in London, England. He can be reached at philip.simpson@milliman.com

International Section Reception Old South Meeting House

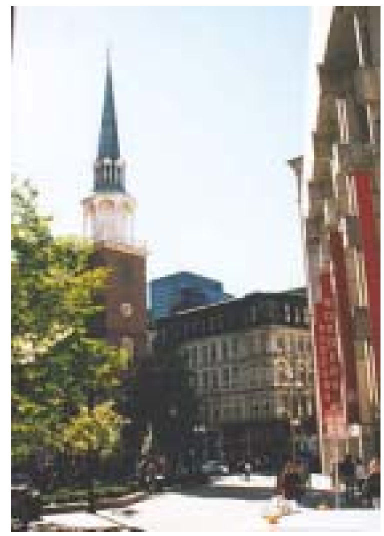
Boston, Massachusetts—Tuesday, October 29, 2002

For those who are attending the Annual SOA Meeting in Boston, we invite you to Tuesday night's reception, hosted by the International Section in the historic Old South Meeting House.

The Old South Meeting House is best known as the site of the beginning of the Boston Tea Party. Today, the Old South Meeting House is a museum where the tea party debates are reenacted. Contribute your modern-day perspective!

The reception is open to all Annual Meeting attendees. There is a non-refundable charge of $25 for International Section members and $30 for all others. Bus transportation will be provided.

We look forward to seeing you there! ☐



Upcoming International Sessions at the 2002 Annual Meeting in Boston

(for complete session descriptions, please go online at: www.soa.org/conted/boston_summary.pdf)

Monday, October 28

10:30 a.m. –12:00 Noon — Session 4 IF

Specialty Track: Education and Research/International

The International Actuarial Association's Impact on North American Actuarial Education

Moderator: Curtis E. Huntington

The International Actuarial Association (IAA) is an association of associations. To become a member of the IAA, certain requirements must be satisfied, one of which is education. The guideline syllabus proposed by the IAA is meant to specify the education requirements to be met by all members, starting in 2005.

Session Coordinator: Claire Bilodeau

Monday, October 28

2:00 p.m. - 3:30 p.m. — Session 36 IF

Specialty Track: International

The Sky Is Falling: Implications Of An Economic Collapse

Moderator: Michael E. Gabon

Panelists: Lee Faulkner *, Rodrigo Pitre Mendez *, Ronald L. Poon-Affat

Are you going global? Join our panel in an interactive discussion of the implications of the Argentinean economic collapse on the insurance industry.

Attendees gain a better understanding of how an economic collapse may occur, the effects on the broader economy and the implications for domestic and foreign insurers and policyholders.

Session Coordinator: Michael E. Gabon

Tuesday, October 29

8:30 a.m. - 10:00 a.m. Session 54 PD

Specialty Track: International/Financial Reporting

Analyst Views On Major Multinationals [PD]

Moderator: Hubert B. Mueller

Panel: Rodney A. Clark, Jorge Ramirez *

Participants gain insight into the way investment analysts look at the large companies in determining their buy/sell recommendations. [ME]

Session Coordinator: Michael E. Gabon

Tuesday, October 29

10:30 a.m. – 12:00 Noon Session 69 PD

Specialty Track: Computer Science/International

Internationalization Issues For Application Software

Moderator: David L. Snell

Panel: Mark Long *, Azam A. Mirza *

Your company is excited about doing business with a new client in Asia. Your software does not speak Chinese. Can't you just translate it? What do you mean the characters may be in columns from right to left on the page? How do you move from your childhood character set of 26 characters, to one with many thousands of possibilities? How do you do a phonetic search; and what is a Babelfish anyway? Even when the character set is identical, the same words can convey drastically different meanings in other countries. Legislative and cultural differences further complicate the situation.

The panel addresses these issues and more as we explore the opportunity and anguish of going global. [ME]

Session Coordinator: David L. Snell

Tuesday, October 29

10:30 a.m. - 12:00 Noon Session 70 PD

Specialty Track: International

The Life And Times Of International Actuarie: Opportunities At Home And Abroad

Moderator: Dan R. Spafford

Panel: Rejean Besner, Emma McWilliam *, Ronald L. Poon-Affat

The International Section conducted an online membership survey in the spring of 2001. When asked about topics of interest, several members responded wanting to know more about international opportunities for actuaries. A follow-up telephone survey was conducted by one of the section's members.

Attend this session to have your questions answered about the life and times of actuaries working in international roles.

Session Coordinator: Michael E. Gabon

Tuesday, October 29

2:30 p.m – 4:00 p.m. Session 103 WS

Specialty Track: International

International Hot Topics Forum [PD]

Facilitators: Michael E. Gabon, William R. Horbatt
This forum allows attendees to participate in a smaller group discussion of current topics of interest to insurers and actuaries outside the U.S. and Canada. [ME]

Session Coordinator: Michael E. Gabon

Wednesday, October 30

8:00 a.m. – 9:30 a.m Session 126 CS

Specialty Track: International/Investment/Financial Reporting

Implications Of International/Fair Value Accounting Changes [PD]

Moderator: Douglas C. Doll

Panel: Douglas C. Doll, Emma McWilliam *

Major changes to the accounting models for insurance contracts are likely to be adopted in the not-too-distant future —both domestically and globally. Presenters illustrate the accounting outcomes of proposed revisions to accounting requirements for insurance and annuity products and discuss potential ramifications.

The session enables participants to better anticipate and prepare for significant accounting changes that are likely to occur. Attendees are encouraged to ask questions of the panel and other participants. [ME]

Session Coordinator: Douglas C. Doll □