INTERNATIONAL SECTION NEWS

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Chair's Corner: Looking Ahead

by Lisa S. Kuklinski-Ramirez

As incoming chair, I'd like to start off with a big "thank you" to our outgoing Council members, Jim Toole, Mike Gabon, and Ronald Poon-Affat. These folks worked hard and made incredible contributions to the Section during their three-year terms. Welcome to our new members, Rejean Besner, Michael Enright, and Yiji Starr.

I feel very fortunate to start off my term with all of the valuable input from our survey. My only regret is that we did not hear from more of you! Thank you to everyone

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Population Aging: Global Challenges and Opportunities for the 21st Century

by Robyn I. Stone

Senator and former First Lady Hillary Clinton wrote a book based on the premise that "it takes a village to raise a child." It also takes a village—an increasingly global village—to address the challenges and opportunities of an aging society. This concept will become more and more of a reality in the 21st century as the impact of population aging—the combination of low fertility rates and the longevity revolution—is felt across the globe.

The purpose of this paper is threefold. The first objective is to highlight the key trends and projections that describe the magnitude and scope of the aging world in the 21st century. The second is to identify some of the key issues that countries in the developed and developing world will have to face as a consequence of population

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In This Issue

Editor's Note

by Randy Makin

So many of us look back at this last year with pensiveness. For those of us who are older we can still tell exactly where we were when we heard that John F. Kennedy was shot. Now all of us will be able to recall where we were when we first heard about the WTC bombing. After the bombing, I looked back at my Editor's Note and Jim Toole's Chairperson's Corner in the previous newsletter and compared the tones. Mine was written September 10th ; Jim's, September 12th. One has a tone of whimsy, the other, one of searching, questioning.

Jim's was not the only article with such a tone. Our lead article is by Dr. Robyn Stone, Executive Director of the Institute for the Future of Aging Services, AAHSA, on the global challenges of aging populations. Dr. Stone had this article almost ready for the previous *ISN,* but then an airplane crashed into the Pentagon close by the AAHSA offices, and life was disrupted, to say the least. But we may now present a very informative document on a situation affecting all of us around the world.

We also have a comprehensive update on the Korean Life Insurance Market by authors Chi

Hong An and Laird Zacheis. While we are in Asia, Martha Sikaras provides us with a look at Hong Kong and the East Asian Actuarial Conference. Martha has also written on the International Section Breakfast at the New Orleans SOA Annual Meeting.

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Jim Toole has details on the SOA Table Manager, which literally provides global data at our fingertips. He also was kind enough to provide write-ups on the International Financial Reporting Seminar and the Course One Seminar in Mexico City. Mike Enright, likewise, has further information on the Clearinghouse Scholarship Program.

We also have one more reminder to our readers about ICA 2002 and the parallel International Health Seminar in Cancun, Mexico. Where else can you go and see international friends, become better informed, and get a tan at the same time? Okay, so I don't tan well, but I'm still looking forward to it. We also have a copy of the most recent ISC minutes.

And we have the Chairperson's Corner. Did you think I'd forgotten, Lisa? Even though this corner received lower marks for information (see, the rest of you should have taken the survey), it is what imparts an overall vision for our section—no mean feat indeed. Be sure to stay involved with your Chairperson and all your council members, so that they can continue to make this section as useful as possible to you, our readers.

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Chairperson's Corner

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Lisa Kuklinksi-Ramirez

who responded. Your comments will help to set the International Section's agenda for 2002. Mike Gabon's wrap-up of the survey results can be found in the October 2001 newsletter.

One of the resounding responses we heard from you was the importance of this Newsletter. This is thanks, in no small part, to the efforts of our editor, Randy Makin. The newsletter is one of the main ways members in international locales keep in contact with the Section. We continue our commitment to having three action-packed newsletters each year, distributed via good old-fashioned snail mail. E-mailing the newsletters would cut our costs a bit, but I know many of us are more likely to read something that's in a handy hard copy that we can take with us.

"The newsletter is one of the main ways members in international locales keep in contact with the Section."

That said, one of our plans for 2002 is to build up the International Section's Web site. I'd like to welcome Marc Slutzky, who has bravely volunteered to be our Web Liaison. The Web should be another great way for our far-flung membership to stay in contact. If you have any ideas on content for our Web site, please contact Marc.

We also plan to continue sponsoring seminars in 2002. Last year was a banner year, with not one but two successful seminars-the International Start-Up Seminar/ Case Study and the International Financial Reporting Seminar. The survey gave us some guidance on future seminar topics that would be of interest and value.

Given that another of your candid responses from the survey was that the Chairperson's Corner was ranked as one of the "less important" features (no offense taken!), I will keep this one short and let this edition's crop of great articles speak for themselves.

Looking forward to 2002!

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Population Aging:
Global Challenges & Opportunities for the 21st Century
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aging. The third objective is to emphasize the triumph and opportunities of an aging world, providing a counterpoint to the prevailing notion that the aging of societies is a catastrophe, leading only to undue burden on future generations. It is important to embrace the aging of the world, to redefine aging in terms that are appropriate and useful for the 21st century and to recognize the variation and diversity of its impact.

By now we are all aware that population aging is an unprecedented historical phenomenon; in 2020, more than 700 million of the world's inhabitants—or one in 10 people—is expected to be 65 or older (1). One in five people in the developed countries and 8% of the population in the developing world are projected to be elderly (Figure 1).

But the timing, rapidity and effects of population aging are and will continue to be experienced in very different ways across the globe—particularly as these trends emerge in the developed and developing countries. In France, for example, it took 115 years (from 1865-1980) for the proportion of the elderly population to more than double from seven percent to 17%; it is projected that the same doubling in China will take 27 years (2000-2027), or four times the rapidity. In developed countries, population aging has evolved gradually as a result of improved living standards over a relatively long period of time after the industrial revolution. In developing countries, this phenomenon has occurred much more rapidly, mostly accounted for by medical interventions based on the use of advanced technology and drugs (2).

The remarkable demographic transition underway will result in the old and the young representing an equal share of the world's population by mid-century (3). Globally the proportion of older adults is expected to double between 2000 and 2050, whereas the proportion of children is projected to drop by a third. In certain developed countries and countries with economies in transition, the number of older persons already exceeds the number of children, and birth rates have fallen below replacement levels. In some developed countries, the number of older persons will be more than twice that of children by 2050.

Nearly two-thirds of the elderly will be in the developing world by 2020 (1); given the dramatic growth of the aged population in these countries over a relatively short and compressed period of time, the developing nations have not had the time or the resources to establish the infrastructure to address the needs of such a population.

Therefore, the first important message of this paper is the need for policy makers, planners and the public to understand that while aging is a global issue, the debates and discussions related to the "graying of the world" must not be monolithic. The issues of the future of work, retirement, family relationships, quality of life, as a result of population aging, are not the same across the globe and must be addressed in stages.

The second key message of this paper is the importance of recognizing that the aging of the world is primarily a female issue. Women enjoy a near-universal advantage of longevity, even in developing countries, although the gender gap is somewhat lower than in the developed world (1). In most developed countries, older women account for more than 10% of the population (Figure 2). By 2025, it is estimated that many national proportions will exceed 15%; in Italy and Japan, one in six people will be an elderly female (4). The number of widows is on the rise worldwide; while the proportion of widowed or never married females in the developed countries are declining, the absolute numbers will increase in the future (5).

Furthermore, because women have a higher life expectancy than men at age 65, the proportion of disability-free years of life in old age for females is lower than for males (6). This means that across the globe, women will be living longer, alone, and with a higher proportion experiencing chronic illness and disabilities.

The feminization of later life (7), characterized by both the high proportion of women among the world's elderly and the large proportion of formal and informal caregivers who are also female, poses a unique and important challenge to policy makers and planners in the developed and developing countries.

The third message is a cautionary note. While the aging of the world is an immutable phenomenon, the nature, magnitude and scope of these demographic changes remain uncertain. As we worshiped voodoo economics in the 1980s, we need to be careful not to become prey to voodoo demographics in the 21st century. Who could have predicted the AIDS epidemic that is sweeping through Africa and Asia, creating a dilemma for aging grandmothers left to care for the millions of children orphaned by this disease? What will be the impact of medical breakthroughs and technological advances that may create a true fountain of youth but with unintended iatrogenic consequences? How long will the "birth dearth" prevail? Given these uncertainties, the designers of policies and programs to address the needs and preferences of an aging world must proceed cautiously, focusing on the shorter term (e.g., the next 10 to 25 years) and avoiding the temptation to extrapolate into the far future.

The Status Of The Aging World

The elderly population (those 65 and older) is the fastest growing segment of the world population, expected to increase 88 percent by 2020 compared with a 45% increase in the working age population (8). As noted earlier, however, the magnitude of this phenomenon varies tremendously across regions. In the year 2000, 14.8% of the European population will be 65 and over, compared with 5.8% of the population in South America and 3.1% in Africa (Figure 3). In 2020, older adults will comprise 19.3% of the population of Europe, compared with 9.1% in South America and only a marginal increase in Africa (1).

The growth of the oldest old (75 or 80 years and over depending on the definition used) is expected to increase dramatically as well, although the variation across nations is significant. The world's population of oldest old is currently very concentrated; more than 43% of those aged 75 years or older lived in just four countries in 1996—China, India, Japan and the United States (6). In 2020, the 80+ population is expected to be a little over 5% in Europe compared with 2% in South America and less than one percent in Africa (1).

> *"By the year 2025, 26 countries will have a life expectancy at birth of above 80 years; the highest is expected in Iceland, Japan, and Sweden (82 years)...."*

The projected proportion of people aged 80 or older in 2020 varies tremendously with Japan leading the nations at 7.4% (9) (Figure 4). Among the European nations, Italy will have the largest proportion of oldest old (7.2%). Approximately 4.6% of Canadians are projected to be at least 80 years old; the comparable estimate for the U.S. is 3.9%.

Among the South American countries the proportion ranges from 4.2% in Uruguay to 1.6% in Brazil. Less than one percent of the Chinese population will be old old.

By the year 2025, 26 countries will have a life expectancy at birth of above 80 years; the highest is expected in Iceland, Japan and Sweden (82 years), contrasted with an average life expectancy of 75 years in China and 51 years in Sierra Leone (8). The numerical growth and heterogeneity of the oldest old will be a challenge to policy makers and social planners because these are the people that are likely to be living at or near the poverty level at the same time that they are at highest risk for needing substantial health and long-term care services.

Another important trend is the change in the working age population. According to the United Nations 1998 medium variant forecast (10), the growth in the size of the population age 15 to 64 years will slow over the next half century, and older countries will experience a significantly shrinking workforce. Consequently, the number of workers per retiree will fall everywhere. In Japan for example, the ratio of the working-age population to the retiree-age population is projected to decline from 4.0 in 2000 to 2.2 in 2025 and 1.7 in 2050. Similar estimates for the United States are 5.3, 3.3, and 2.8. The change will be especially dramatic in several developing countries. In Mexico, for example the ratio will decline from 13.2 in 2000 to 3.3 in 2050; similarly, the ratio in Brazil will shrink from 12.9 to 3.6. In China, the ratio plunges from 10.0 in 2000 to 5.2 in 2025 and 2.7 in 2050.

Aging Issues In The Developing World

Among the oldest countries in the world in 2000, Italy and Greece headed the list with 18.2% and 17.9% respectively of their populations aged 65 or over in 2000 (10) (Figure 5). In comparison, 12.6 % of the population in the United States was age 65 years or older in 2000. By 2025, Japan will surpass Italy and Greece with 26.7% of its population age 65 or older compared with 26.1% and 24.4% respectively. By 2050, one-third of

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the populations of Japan, Italy, Greece, and Spain are projected to be at least 65 years old.

As the world moves more and more toward a global economy, it is important to understand that all is not equal across the developed nations. A recent study comparing the economic status of the elderly and other age groups in Sweden, Canada, the United States, and the United Kingdom, found significant intra-and intergroup differences (11). The United States, for example, reported the highest relative poverty rates and Sweden the lowest among the age groups up to age 65. After age 65, elders in the United Kingdom had higher poverty rates than in the United States. For the over–70 age group, Canada had a lower elderly poverty rate than Sweden. Among the four countries, the United States is the most frugal transferor of social expenditures via income transfers; Sweden is clearly the most generous and "off the charts" for the 60-and-over population. Furthermore, the ratio of transfers to market income has risen dramatically in Canada and Sweden from age 55-59 onward in recent years.

The irony of the success of population aging in the developed world is that, as the countries have grown older, the tendency toward early retirement has increased as well. Gruber & Wise (12) observed declines in labor force participation rates between 1960 and 1996 for men aged 60-64 years in 11 developed countries, but the magnitude of this decline varies substantially. In the early 1960s, these rates were above 70% in all countries except Italy. By the mid 1990s, the rate had fallen below 20% in Belgium, France, and the Netherlands; to 30% in Italy; to 35% in Germany; and to 40% in Spain. The U.S. rate experienced a relatively modest decline from 82% to 53%, with the lowest decline observed in Japan, from 83% to 75%.

To illustrate the magnitude of the retirement phenomenon even further, it is important to point out that at age 50, approximately 90% of men are in the labor force in all of the 11 industrialized countries. By age 65, fewer than 5% are working in Belgium, and in all but three countries, fewer than 20% are in the labor force. Evidence from several studies (12,13) indicates that old age pension policies discourage people from staying in the labor force. In many countries, the combined effect of pensions, disability benefits, and unemployment benefits impose an implicit tax on those who work past the minimum retirement age.

Researchers (12) cited an example where the effect of an older German male remaining in the workforce for an extra five years would reduce the present value of his benefits by almost 18%.

The major issue related to population aging for most of the industrialized, developed world is how to take advantage of the triumph of population aging by encouraging the productivity of the elderly. It is difficult, if not untenable, to comprehend a world in the 21st century where so many people living well into their 80s and 90s are experiencing 30 to 40 years of retirement. Recent data point to decreases in the rate of disability among the elderly in the United States (14) and several other countries (8) and successes in both the prevention of and treatment for chronic diseases. These trends suggest the possibility that the elderly of tomorrow living in the developed world will have greater capacity than today's elderly cohort to contribute productively to society. Researchers assessing the impact of demographic changes on the economic situation in several emerging Asian countries (15) examined the relative effects of growing young dependent and elderly dependent populations on the economic growth in this region.

The study authors reported that a one percentage point increase in the growth of the under age 15 population is associated with a decrease in the GDP per capita growth of about 0.4 percentage points. In contrast, a positive (although statistically insignificant) coefficient emerged for the elderly population. The authors speculate that since the elderly continue to make important economic contributions by working part-time, caregiving, doing other volunteer work, and continuing to save, they are not a drag on the economy; rather, they contribute to economic growth in old age.

The longevity revolution in the industrialized world, coupled with low birth rates that have contributed to the mushrooming of the elderly population, has triggered the need for a new paradigm of aging. The chronological benchmarks (i.e., 60 or 65 years) have lived out their usefulness, for both public and private sector policies. How can we talk about raising the retirement age another two years, when a large proportion of the elderly will be spending a third of their lives in that status? The major challenge and opportunity for the developed countries is to figure out how to redefine the institutions that we hold so dear—work, family, education, leisure—in the face of this demographic imperative.

We must experiment with new forms of work that incorporate opportunities for all social classes to creatively combine successful employment with ongoing education and leisure activities over a lifetime. We must reinvigorate and strengthen the intergenerational contracts that have been so important for families and societies over the centuries. This will be particularly important as the five-generation family becomes the norm, and as alternative family structures (e.g., single-headed households, stepparents and children from divorce and remarriage, same-sex marriages) provide new opportunities for establishing contracts across the generations.

We must also get beyond our relatively narrow, budget-driven policy debates about the future of health care and income security programs. Some have argued that they are red herrings; that the crises have been invented or at least exacerbated by politicians looking toward re-election. Whether real or invented, it is clear that these debates have engendered undue and unwarranted intergenerational conflict. To use the somewhat hackneyed expression, "We are all in this together!" The developed world can and should take advantage of population aging to create a new and exciting 21st century.

Aging Issues In The Developing World

The issues for the developing countries are "worlds apart" from their developed counterparts. The rapidity and compressed time frame within which these changes are occurring makes the graying of the developing world a particularly challenging phenomenon. The average annual growth rate in the 65+ population between 1996 and 2020 for the developing world is projected to be 3.3% compared with only 1.5% in the developed countries (Figure 6).

The 80+ population is expected to triple in the developing nations during the next 25 years, compared with just a 70% increase in the developed world (16). By 2020, seven developing countries will be among the 10 countries with the largest elderly populations in the world: China (231 million), India (145 million), Brazil (30 million), Indonesia (29 million), Pakistan (18 million), Mexico (15 million), and Bangladesh (14 million) (2). Among the developing nations, China is certain to experience the most rapid aging because fertility rates have already declined dramatically, from 5.4 in 1970 to the current 2.0 level (2). Within less than four decades, China's old age dependency ratio will be higher than North America's and about the same as that of Western Europe today (17).

The growth and pace of aging within the developing world varies tremendously (10). Asia and Latin America are aging most rapidly, and will reach 20–25% of older persons by 2050. Sub-Saharan Africa, which continues to struggle with the HIV/AIDS pandemic in association with economic and social hardship, will reach half that level. Areas affected by very high levels of mortality of young adults due to HIV/AIDS may, however, also experience a relative increase in the proportion of older persons.

"Even though by the year 2020 many of the developing nations will have age structures approaching that of the developed world today, the resources and infrastructure needed to provide for rapidly aging societies will not be in place."

Latin America and the Caribbean is the next region of the world to experience the significant effects of population aging. Uruguay, for example, currently has a higher percentage of people aged 60 or older than does its northern neighbors, Canada and the United States. Outside of Europe and North America, the Caribbean is the oldest region of the world, with 10% of its aggregate population aged 60 years and over (1).

Even though by the year 2020 many of the developing nations will have age structures approaching (and in some cases, exceeding) that of the developed world today, the resources and infrastructure needed to provide for rapidly aging societies will not be in place. By 2020, it is estimated that three-

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quarters of all deaths in developing countries will be aging-related and caused by non-communicable diseases such as diseases of the circulatory system, cancers, hypertension and diabetes (2). As life expectancy increases, the older population in this region will likely experience more chronic disease and disability, placing undue demand on health and long-term care systems that are minimal or nonexistent. In the majority of these countries, poverty, lack of social security schemes, continuing urbanization, and the growing participation of women in the work-force all contribute to the erosion of traditional forms of care for elderly people.

In 1992 the World Bank projected that GNP per capita in sub-Saharan Africa would remain at the present very low levels of US$300 for the next 40 years, and would only reach US$4000 in North Africa. The projections are almost as bleak for Latin America where the estimated figure is US$6000 (18). Clearly, there are no real prospects of saving for old age in these countries, and even in nations with higher incomes, savings may not be secure over the long term or even remain in the country with increasing international capital transfers.

While the developed world struggles with the future of its social security, private pension and health care systems, these issues are not relevant to most of the developing countries. As Julia Alvarez, spokesperson for the United Nation's International Year of the Elderly, noted: "Social Security income or a private pension is not an option in my country. People work until they drop!" This observation is born out by statistics revealing that the proportion of economically active elders in the developing world is significantly higher than those in the developed countries.

A recent World Health Organization report (19) of life in the 21st century emphasized the need for intergenerational relationships that are based on equity, solidarity, and social justice. However, as noted in another briefing paper by WHO's aging and health program (18), the intergenerational relationships in industrialized nations are built on a level of adequate resources for both younger and older generations, and on economic transfers through public or private sector initiatives. In the developing countries, there is likely to be a widening social and economic gap between the generations, with the younger generation lacking the material resources to provide any support to the older generation.

Although this discussion would lead one to believe that population aging will be a catastrophe for the developing world, I believe that the triumph of this demographic phenomenon should be viewed as an opportunity for creative social planning. The first step is for policy makers to understand the importance and immediacy of these changes and the implications for societies across the developing world. It has been difficult to keep the concerns of an aging society on the priority list in the developed nations; it will be even more difficult to place these issues on the radar screen of decision-makers in the developing world, where the concerns of poverty, communicable diseases and basic economic development still prevail. On the other hand, it is essential that policy makers in these regions understand the connections between population aging and economic growth and that initiatives designed to address the changing demographics will have an impact on the overall economic well being of their respective countries.

In addition, it is important for the developing countries to learn from the failures as well as the successes of the developed world. To cite one example in the long-term care arena, most of the industrialized nations have encouraged the development of hospitals, nursing homes and other institutions to meet the needs of chronically disabled elderly. These institutions have required significant capital investments over the years, and while they may have taken advantage of economies of scale, they have not created environments conducive to optimal independence and quality of life for frail elders or their families. Furthermore, they are now the driving forces behind most of the health care budgets in these countries.

Ironically, because of the lack of infrastructure, the developing world has the opportunity to create alternative long-term care systems that use as their base the local communities in which people live. They can experiment with new and creative models of home care and community residences that take advantage of the indigenous cultures and that create nurturing environments at lower costs than would be required to invest in elaborate institutional structures.

This may include training healthy, non-disabled elders to become home care workers in their neighborhoods where they already have established ties. To do so, policy makers and planners in the developing world must resist the temptation to equate "bigger with better" and believe that an edifice is the best solution to long-term care system design. This may be difficult as investors and developers from the industrialized world who are looking for new, fertile markets barrage developing countries.

Finally, as the population of the developing world ages, issues of chronic illness and disability will become a major public health concern. It is imperative that policy makers and planners develop primary and secondary disability prevention programs that help mitigate the potential negative effects of extended longevity.

Here, again, there is much to learn from the developed world with respect to successful interventions (e.g., exercise, nutritional counseling, environmental modifications).

"It is imperative that policymakers and planners develop primary and secondary disability prevention programs that help mitigate the potential negative effects of extended longevity."

Some Concluding Thoughts

Population aging is one of the most exciting and challenging trends in the history of the world. We must embrace this triumph, recognizing that the world is, in fact, a global village, and that we all have a responsibility to take advantage of the opportunities emerging from these demographic changes. While developed and developing nations are at different stages of experiencing this phenomenon, several issues are relevant across the globe. The first is the need to develop a new paradigm of aging, which redefines what it means to be old and which recognizes that all of our sacred institutions need to change with this demographic shift. The second is the need to establish new intergenerational contracts that recognize the "give and take" of wisdom, energy and resources across the age groups at the individual and societal levels. Finally, we need to move the discussion of population aging from "doom and gloom" to one which is realistic about the challenges but which also recognizes the range of possibilities for the next century and the new millennium.

The International Strategy for Action on Aging, developed in preparation for the Second World Assembly on Aging to be held in the Summer of 2002, advocates changes in several areas to ensure that the enormous potential of aging in the 21st century is fulfilled (3). These include change in attitudes, in national and international policies, and in community, corporate and other organizational practices. The aim of the Strategy for Action is to ensure that people everywhere will be enabled to age with security and dignity, and continue to participate in their societies as citizens with full rights. The report recommends three priority directions: development for an aging world, advancing health and well being into old age, and ensuring enabling and supportive environments. The authors of the report also argue that mainstreaming aging into global agendas is essential. To achieve this goal, a concerted effort will be required to move toward a wide and equitable approach to policy integration that links aging to other frameworks for social and economic development.

Please look at the upcoming pages as they will have all the charts that I was referring to earlier.

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References

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Figure 1

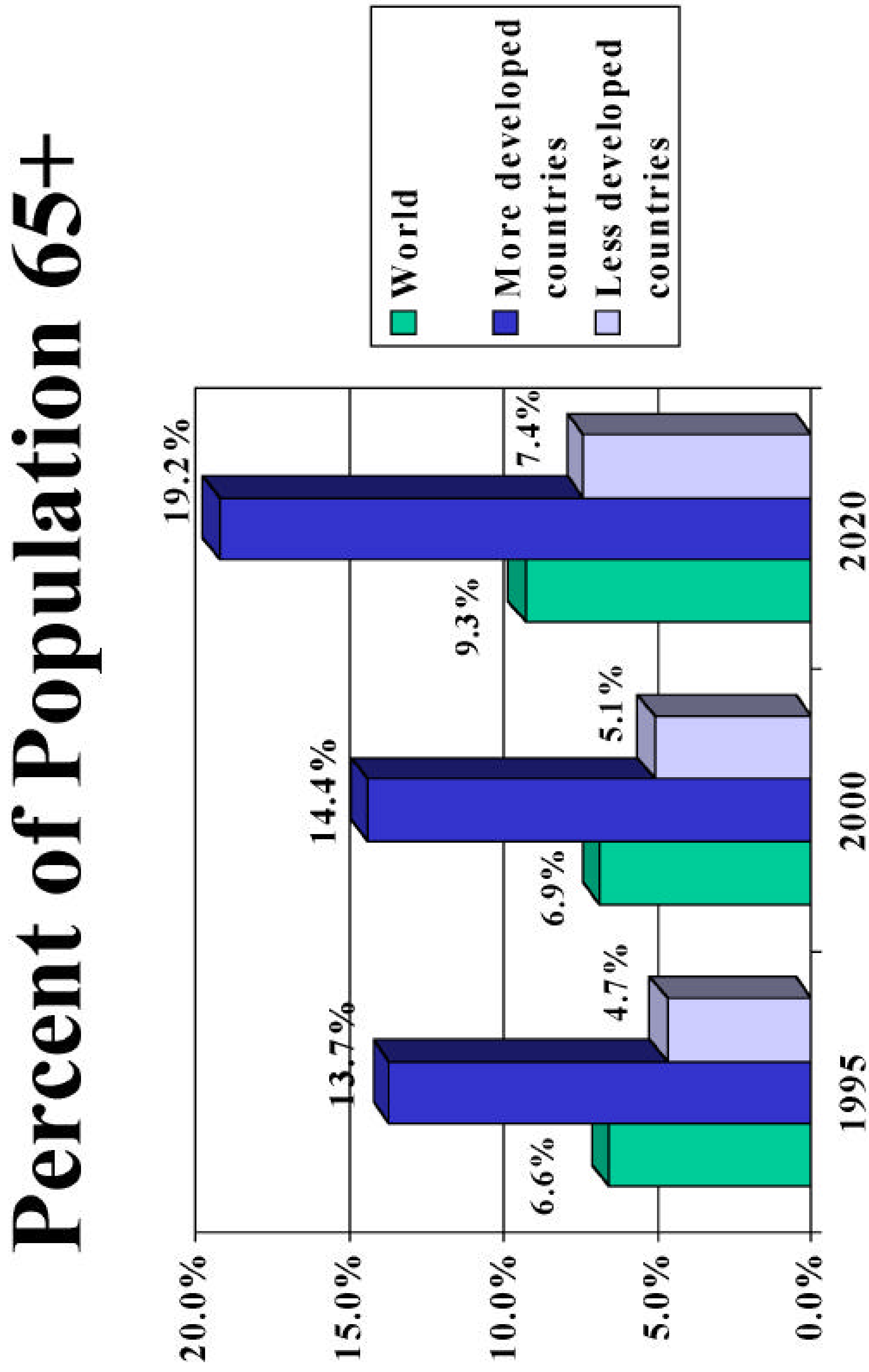
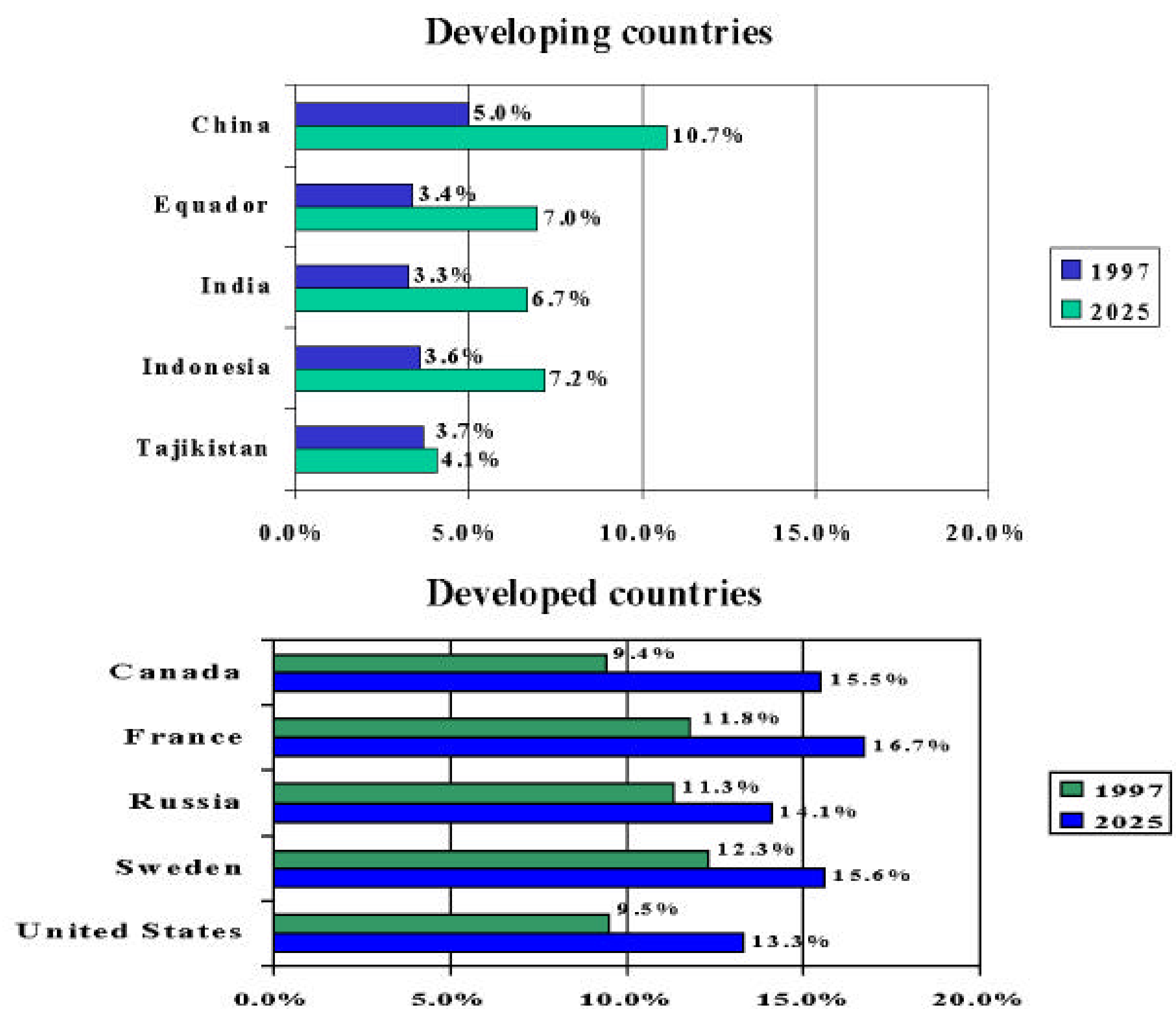


Figure 2
Older Women as a Percent of the Total Population: 1997 and 2025



Source: Gist, Y.J., & Velkoff, V.A. (1997). International Brief: Gender and Aging. Washington, DC U.S. Bureau of the Census.

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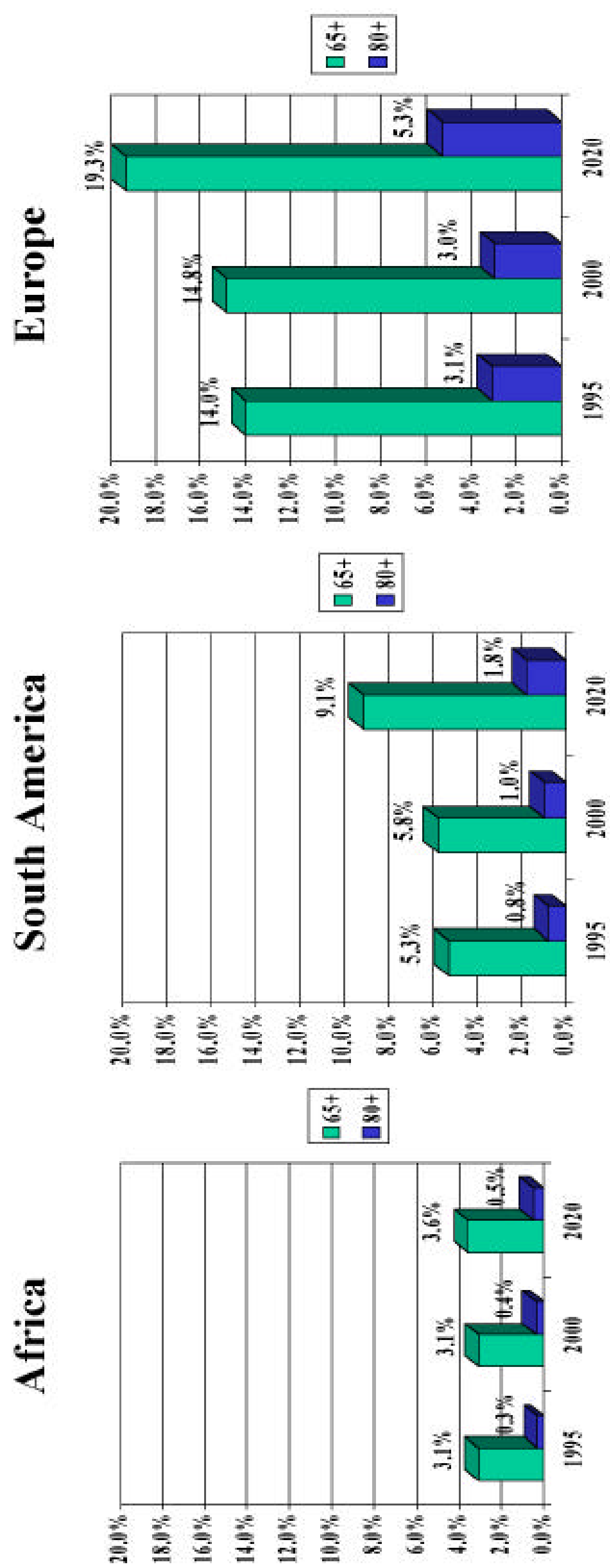
Figure 3

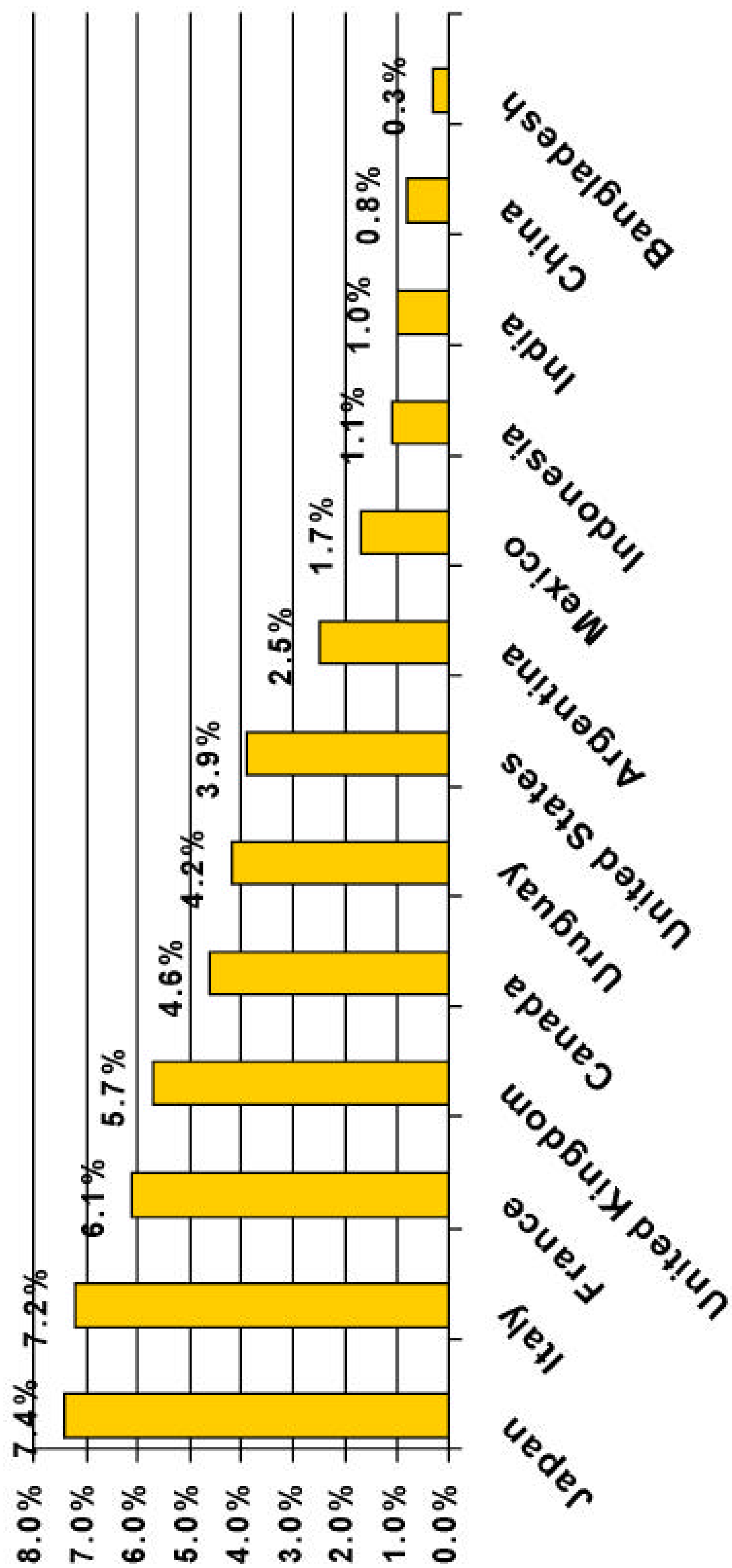
Percent of the Elderly, Selected Continents: 1995-2020



Source: U.S. Bureau of the Census, International Data Base (1998).

Figure 4

Percent of Population 80+: 2020



Source: Hobbs, F.B., & Damon, B.L. (1996). 65+ in the United States. Washington, DC: U.S. Bureau of Census.

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Figure 5

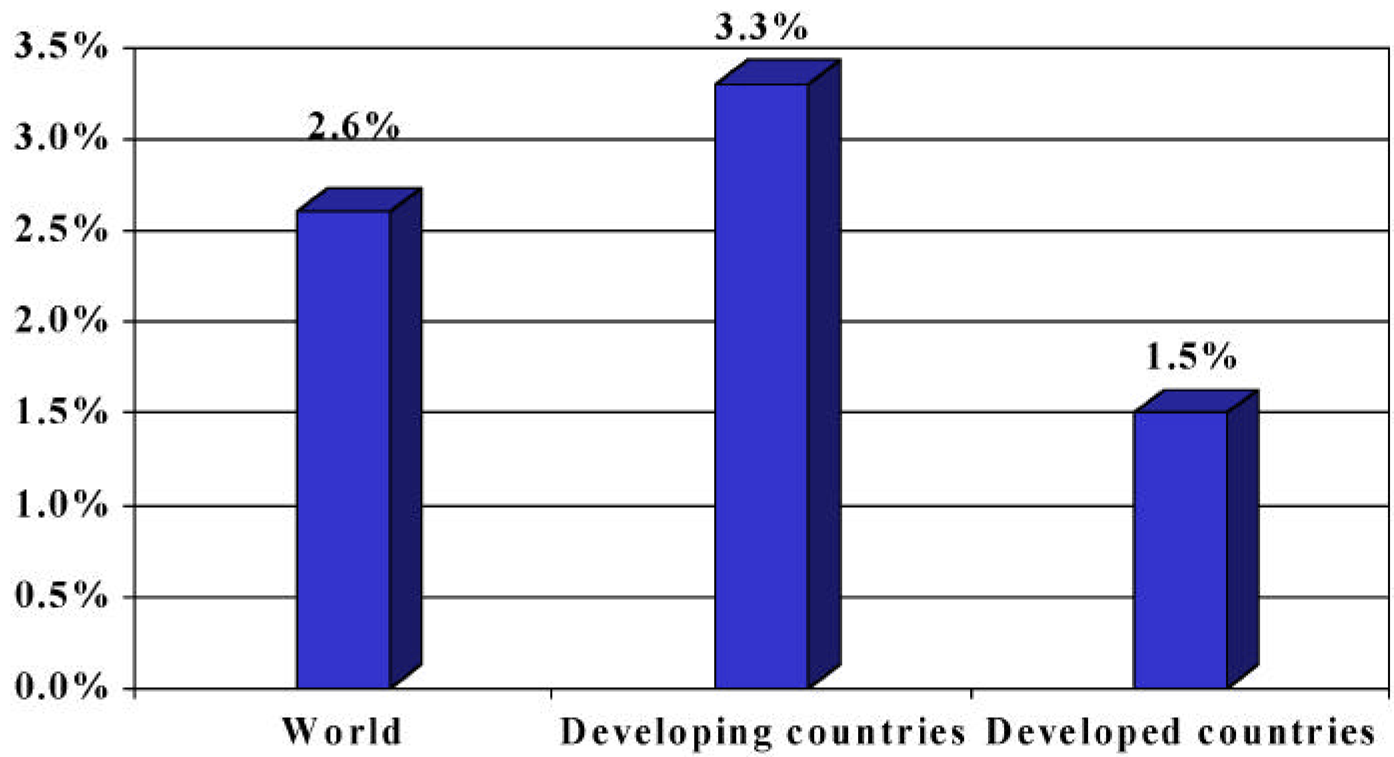
Ten Oldest Countries, 2025

Country	% 65+ 2000	2025	2050
1 Japan	17.1 %	26.7 %	31.8 %
2 Italy	18.2 %	26.1 %	34.9 %
3 Greece	17.9 %	24.4 %	34.3 %
4 Sweden	17.4 %	24.2 %	26.7 %
5 Finland	14.9 %	24.0 %	25.6 %
6 Spain	17.0 %	23.5 %	36.9 %
7 Germany	16.4 %	23.4 %	28.4 %
8 Belgium	16.7 %	23.0%	27.6 %
9 Netherlands	13.8 %	23.0 %	28.1 %
10 Switzerland	14.7 %	23.0 %	30.0 %
World	6.9 %	10.4 %	16.4 %

Data Source: UN 1998 Medium Variant Forecast

Figure 6

Average Annual Growth Rates for the 65+ 1996 to 2020



Source: U.S. Bureau of the Census(1996). World population profile, 1996. Washington, DC.

A Chicagoan in Hong Kong

by Martha Sikaras, SOA Manager of International Affairs

On October 3, I traveled to Hong Kong to attend the International Actuarial Association's meeting as well as the East Asian Actuarial Conference, or EAAC. This trip also gave me the opportunity to meet so many of the Society of Actuaries volunteers with whom I share e-mails and late-night conference calls. Sixteen flight hours, 7000+ miles, four movies, a book and a day later, I arrived at Hong Kong's international airport. The airport itself is a tribute to high-tech efficiency, and after quickly clearing customs, I found myself en route to the Kowloon side of Hong Kong, my home for the next seven days.

Following the advice of the travel experts, I knew that I had to remain awake until what would normally be my bedtime. Fortunately, the Society's China Region Committee assisted me by kindly hosting a dinner for me and the other SOA members in town for the two meetings. Chairperson Shu-yen Liu outdid herself by ordering a tremendous feast of every Chinese delicacy from eel to shark fin soup to beggar's chicken to Peking duck. Unfortunately, my appetite was larger than my ability to handle chopsticks, so my dining companions, Pat Kum (our Hong Kong office coordinator) and Estella Chiu (China Region Committee member), helped me out and made sure that I had the chance to try everything. The only negative is that I am now no longer impressed with my favorite Chicago Chinese restaurant!

The next two days were devoted to meetings during the day and the warm hospitality of the Actuarial Society of Hong Kong (ASHK) during the evening. One evening's reception was at the Hong Kong Jockey Club, an enormous arena where horse racing plays second string to a unique view of central Hong Kong. A formal dinner at the Hong Kong club, complete with live entertainment rounded out the weekend. Sunday afternoon brought the first real chance to see the sights. A short walk from my hotel was the famed Star Ferry Terminal. The descriptions provided to me from friends were perfect. It is impossible to board the wrong ferry because the hoards of people loading and unloading keep everyone, including tourists, looking every-way but forward in line. The seven-minute ferry for HK$2.20 or approximately 30 U.S. cents gives you the best view of the city's impressive skyline. Despite being born in the city that plays host to the world's tallest office building, I felt tiny amidst the skyscrapers of central Hong Kong. Even on Sunday, this city reverberates with activity and commerce. A casual glance reveals a cell phone in every pocket and the appearance that no one stands still in this city. In an afternoon, which included a trip to Victoria Peak and the Hong Kong Art Museum, I soaked up this city's intoxicating ambience.

The EAAC was an impressive event, not only for the attendance it generated (over 500 actuaries from the region), but for the support given to the event by the region's major employers. Again, the ASHK, as well as the staff from the joint actuaries office, gave more than 110% to ensure a successful meeting. The opening session included a colorful dragon dance. During EAAC meeting sessions, I met some of the SOA Ambassadors from the region, as well as leaders of the local actuarial groups, like the Philippine Actuarial Society. The days that followed gave me a few chances to try my bargaining abilities at the local markets and jewelry shops. I also visited the giant Buddha bronze sculpture on Lantau Island; sailed on a sampan out in the Aberdeen fishing villages, and stepped out onto the warm sand of a beach on the South China Sea. What started as a seemingly long business trip ended remarkably quickly and has left me with an even longer list of things to see on my next visit. I would like to take this opportunity to thank everyone who had a hand in making this trip so enjoyable for me including Pat Kum, Sarah Hui, Shu-yen Liu, KC Chan, the SOA China Region Committee and Norm Crowder for suggesting the trip.

Martha Sikaras is Manager of International Affairs at the Society of Actuaries in Schaumburg. She can be reached at msikaras@soa.org.

Table Manager Update

by Jim Toole

Did you hear? The latest version of the SOA Table Manager is available for free download on the SOA Web site! The first hour it was available it almost brought the site down—we had hits from all around the world! I mean, if you could get free access to 1000+ mortality tables from around the globe, wouldn't you jump at it? This thing is hotter than the Victoria Secrets Webcast, güey!

Well, maybe not that hot. But it sure seems like one of the brightest examples of cooperation within the international actuarial community since the ICA 2002.

It all began when Steve Strommen and I were on the Computer Science Section Council together. While I was busy reading speculative fiction contest entries, Steve was designing and implementing the first version of the table manager. It was very successful and has become well known in actuarial circles.

Fast forward. Each year in the International Section we have a project for the ambassadors. One year, the project was developing country Web pages. The next, it was educating international students about changes in the E&E system. Somehow, I became fixated on the idea that this would be the goal for my last year on the council, bringing the international resources of the section to bear, working in a collaborative effort to bring information to the constituency at home. So, Steve is minding his own business and the phone rings, and before he can really think about it, he agrees to upgrade his software to support the needs of the international community.

> *"The SOA Table Manager is available for free download on the SOA Web site!"*

Update Focus

The update had two main goals: to update table content, and to upgrade the software to better support the needs of international users.

In order to meet the needs of international users, the mortality databases were completely reorganized to allow the user to sort and access information by country and by usage (insured mortality, annuitant mortality, population mortality). Not only did this entail collecting the information to support these fields on our new tables, but all past tables needed to be updated as well. Finally, additional categories were provided to support selection factors, projection factors, lapse rates and miscellaneous tables.

In order to update the content, we drew on volunteer resources both inside and outside of the section council. Organizationally, we approached the project on the same regional basis as the ambassador program. The ambassadors were alerted to the project and served as our first contact in any country. We turned to IAA representatives with some success, and finally, as often as not relied on the resources and generosity of the local offices of Tillinghast and Milliman to fill in any blanks.

Update Summary

The summary netted over 200 new and updated tables from 25 countries, six of which are entirely new, including Korea, Indonesia, PR China, the first ever Egyptian table (provided by our ambassador Mohammed Amer) and population tables from Brazil and Argentina. In the Asia/Pacific region, coordinated by Karl Khor, there are over 30 new tables. In the Americas region, we have over 60 new tables thanks to Tom Leonard and Jorge Noronja, while in Europe/Africa there are over 100 new tables thanks to the creative and unflagging efforts of Mike Gabon and Hubert Mueller. The countries now included in the table manager represent over 95% of the global insurance premium volume according to Swiss Re, so if you want to do business there, chances are the Table Manager has a table for you.

A World of Thanks

Time now to say thanks again to all the people involved, including the International Section Council, Steve Strommen, Mo Chambers at the IAA, Martha Sikaras at the SOA, the dozens of people who helped by contributing and documenting all the tables, the regional coordinators Mike Gabon, Carl Khor, Tom Leonard, Hubert Mueller and Jorge Noronha, and finally, Citlalli Vital who was there every step of the way and was ultimately responsible for getting all those tables loaded into the system.

Saludos!

Jim Toole, FSA, MAAA, is a consulting actuary at Milliman & Robertson, Inc. in Denver, CO, and is immediate past chairperson. He can be reached jim.toole@milliman.com.

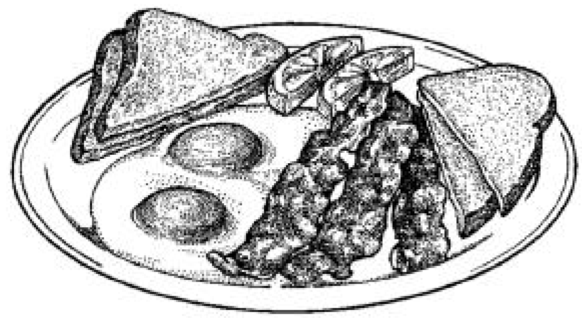
International Section Breakfast

October 24, 2001

Over 30 section members participated in the International Section Breakfast held during the Society's annual meeting in New Orleans. Outgoing Section Chairperson Jim Toole hosted the morning's events, standing in for incoming Chair Lisa Kuklinski, who was unable to attend. Jim provided an overview of the section's 2001 activities including a review of the Ambassador program. Unfortunately, the tragic events in the U.S. on September 11 greatly impacted the travel plans of many of our Ambassadors and as such, none were able to join the group for this meeting.

The section's 2001 activities included the sponsorship of numerous sessions at the spring and annual meetings, adeptly coordinated by Mike Gabon. Thanks to the leadership of Lisa Kuklinski-Ramirez and volunteers from the council, the section co-sponsored two successful seminars, an International Startup Seminar and an International Financial Reporting Seminar. The section also paid homage to Randy Makin who consistently puts out one of the highest quality newsletters around.

The section was instrumental in locating speakers for a highly successful regional seminar series organized by the SOA's China Region Committee. The section also provided funds to the SOA Latin America Committee for the creation of a exam-taking techniques seminar on which has successfully been offered twice to new SOA candidates in Mexico. Finally, the Section was pleased to report an increase in members for 2001.



Martha Sikaras, the Society's Manager of International Affairs, provided a brief description of the SOA's role in the promotion of the 27th International Congress of Actuaries, ICA 2002 in Cancun. Society members are involved extensively in the planning of two shared sessions, one on Life Reinsurance and another on Bancassurance. Also, an International Health Seminar is planned for March 18-19, which will encompass the majority of the health session topics and will include over 25 speakers from around the world.

Jim Toole provided an update on the Table Manager Project. The update of the Table Manager program and database, available at no charge from *www.soa.org*, is being coordinated through the Section Council with the participation of Steve Strommen, the program designer. The update, now available, contains over 1000 tables representing 95% of world life market share by premium.

The meeting continued with a short presentation from Mo Chambers, the current president of the International Actuarial Association. His comments centered on the activities of the IAA's Advice & Assistance Committee as well as the International Promotion and Education Fund.

Finally, SOA President Rob Brown presented the outline of the proposed QRA (Quantitative Risk Analyst) designation and the work of the Task Force on Education and Qualification 2005. The QRA proposal is exciting because it represents the potential for a designation which would be jointly granted and recognized by the major English speaking actuarial organizations like the Institute/ Faculty of Actuaries; Institute of Actuaries of Australia, the Casualty Actuarial Society as well as the Society of Actuaries. The QRA proposal will strive to meet the IAA educational guidelines and will provide the candidate with a solid background in probability, statistics, economics, corporate finance, investments and modeling.

The International Section looks forward to a productive new year and another reunion in October 2002 in Boston.

Clearinghouse Scholarship Program

by Michael P. Enright

At the annual meeting in New Orleans the International Section Council voted to donate $2,500 to the Clearinghouse Scholarship Program, CSP. The Committee on International Issues believes this money will play a critical role in the redesign of the CSP program.

Increasingly, members of the SOA are becoming involved in global financial services and the profession has a responsibility to insure that high standards are maintained in developing countries. One way of doing this is by making SOA study material and exams available to future actuaries. With this in mind the scholarship was developed to help low-income candidates with the cost of both the study materials and the exams. Eligible countries are those that have an annual per capita income equal to or less than one third the average of that of the United States and Canada as reported by the World Bank. The SOA has a list of close to 100 countries that fall into this category.

Candidates submit an application to a subcommittee that reviews them and awards the scholarships. The program is relatively new. It began in 1999 when initial efforts raised US$5,500. Currently, 2–3 candidates have been funded per examination session out of an average of five applications received. The small number is related to the lack of funding as well as a lack of getting the word out to the potential candidate audience. To stay eligible candidates must attempt at least two exams in 18 months and continued participation is based on exam success. So far scholarships have been awarded to candidates from Ghana, Pakistan, China and Zimbabwe, with the candidate from Zimbabwe having sat for three exams to date.

For 2002, the goal is to establish a fund and scholarship program for the first four exams jointly administered by the Casualty Actuarial Society (CAS), and the SOA. Both the CAS and the SOA give credit for these exams. Beyond that each organization will be responsible for soliciting funds for their respective higher examinations.

The SOA goal is to fund approximately 50 candidates per year at an average cost of US$2,000 – 3,000 for an ASA candidate and US$3,000 – 4,000 for an FSA candidate so company participation is very important. Companies can contribute to the general fund, designate which country they want their contribution to go to, or sponsor an individual. All contributions are U.S. tax deductible and, unless anonymity is desired, a list of sponsors is published after each exam session.

Please look for more information to be included in future issues of *The Actuary* as well as posted on the Web sites of the CAS, *www.casact.org*, and the SOA, *www.soa.org*. It is also expected that SOA Ambassadors will play a critical role in marketing the program. To make a donation, companies should contact Martha Sikaras at 1-847-706-3596 or *msikaras@soa.org*

Michael P. Enright, ASA, MAAA, is product actuary at American Life Insurance Company in Wilmington, DE. He can be reached at Michael.Enright@aig.com.

International Health Seminar

Second Communiqué

Preparations are well advanced for the first International Health Seminar to be held during the first half of the International Congress of Actuaries in Cancun on Monday, March 18 and Tuesday, March 19, 2002. The International Health Seminar is the health program of ICA. Attendance is open to all ICA participants.

This is a truly international seminar. Our variety of policy and practice sessions feature speakers representing 16 nations. The keynote speaker is Julio Frenk Mora, Health Minister of our host nation, The Republic of Mexico. Señor Frenk is a well-known international health policy expert.

Our goal in developing this program is to create a forum where health actuaries from around the world can come to interact and learn from their international colleagues. Our 12 sessions offer an international perspective on a wide range of health policy and health product-oriented topics of interest to health actuarial practitioners. We welcome your participation!

Questions about the seminar should be address to Organizing Committee co-chairs, Howard Bolnick (*hbolnick@nwu.edu*), Ibrahim Muhanna (*ibrahim@ muhanna. com*) or Edward J.Levay (*ejlevay@praemium. org*).

International Health Seminar Program

Opening Plenary Session

Health-Care Reform Using a Public-Private Partnership: Chairman, Howard Bolnick (USA)

Welcome and Introductory Remarks: Edward J. Levay, IAA President

Keynote Speaker: Julio Frenk Mora, Health Minister, Republic of Mexico (invited)

Responders:
- o Ibrahim Muhanna (Lebanon and Cyprus)
- o John Bertko (USA)
- o Alvaro Castro Gutiérrez (Switzerland)

Public Health and Policy Concurrent Sessions

Session P1: Integration of Public and Private Sectors: Chairman, Ibrahim Muhanna (Lebanon and Cyprus)
- o Howard Bolnick (USA), "Designing a World-Class Health Care Financing System" (ICA paper #44)
- o Alvaro Castro Gutiérrez (ILO) and Giovanna Ferrara (Italy), "Funding Health Care" (ICA paper #45)
- o Edward Reiche (Singapore), "Social Security and Private Health Insurance in Tandem in Singapore"

Session P2: Health Risk Adjustment: Chairman, Bernard Rabinowitz (USA)
- o Brent Walker (Australia), "Health Systems in Australia"
- o Enne Osinga (The Netherlands), "How Insurers are Compensated by Government and/or Insurance Premiums for Extra Health Risks in the Netherlands"
- o John Bertko (USA), "Health Systems in the U.S."

Session P3: Health-Care Financing Systems: Chairman, Yair Babad (Israel)
- o Yair Babad (Israel) and Tuvia Horev (Israel), "The Israeli Health Care System - From Health Funds to a National Health Insurance Law"
- o Erich Schneider (Germany), "The Main Features of the German Private Health Insurance" (ICA paper #41)
- o Rainer Fuerhaupter (Germany), "Adjustment in a Fully-Funded System"

Health Insurance Practices Concurrent Sessions

Session H1: Critical Issues in Managing Long Term Care Insurance: Chairman (to be determined)
- o Enne Osinga (The Netherlands)
- o Ermanno Pitacco (Italy)

- o Helga Riedel (Germany) (Note: also see "Private Compulsory Long-Term Care Insurance in Germany," ICA paper #163)

Session H2: Critical Issues in Managing Income Replacement Insurance: Chairman (to be determined)

- o Jeroen Breen (The Netherlands)
- o Erich Schneider (Germany)
- o Mike Lombardi and Helene Pouliot (Canada)

Session H3: Critical Issues in Managing Critical Illness Insurance: Chairman (to be determined)

- o Peter Temple (South Africa)
- o Peter Turvey (U.K.)
- o Darrell Spell (USA)

Note: Andres Webersinke (Singapore) to send presentation for inclusion in the seminar record

Session H4: Critical Issues in Managing Supplemental Private Medical Indemnity Insurance: Chairman (to be determined)

- o Rainer Fuerhaupter (Germany)
- o Aisling Kennedy (Ireland/U.K.)
- o Ricardo Casares Cebrecos (Mexico)

Session H5: Critical Issues in Managing Full Coverage Medical Indemnity and Managed Care: Chairman (to be determined)

- o Shaun Matisonn (South Africa)
- o Michel Sudbrack (Germany)
- o David Axene (USA)

Session H6: International Issues in Private Sector Health Insurance Supervision: Chairman (to be determined)

- o Norma Alicia Rosas (Mexico)
- o David Paul (U.K.)
- o Brent Walker (Australia)

Session H7: State-of-the-Art Modeling Techniques: Chairman (to be determined)

- o Dr. Steven Habermann, City University (U.K.)

Closing Plenary Session

Concurrent Session Reports and Discussion: Seminar Co-Chairmen Howard Bolnick (USA), Ibrahim Muhanna (Lebanon and Cyprus) and Edward J. Levay (ASTIN)

- o Chairmen provide short reports on their concurrent sessions.
- o A summary of national reports on the current state and future of health actuarial practice will be prepared and presented.
- o Discussion of future plans for international health actuarial activities
- o The seminar Co-Chairs will make their closing remarks

Seminar Time Schedule

Monday, March 18 13:45 - 15:15
Opening Plenary Session

Monday, March 18 15:30 - 17:00
Concurrent Sessions: P1, H1, H2, H3

Tuesday, March 19 8:30 - 10:00
Concurrent Sessions: P2, H2, H3, H4

Tuesday, March 19 10:15 - 11:45
Concurrent Sessions: P3, H1, H5, H6

Tuesday, March 19 12:00 - 13:30
Concurrent Sessions: H7, H4, H5, H6

Tuesday, March 19 15:00 - 16:30
Closing Plenary Session

Important Administrative Notes:

1. If you are registered for ICA 2002 and plan to attend the health seminar session, please visit our Web site: *www.ica2002.com* to register for the Seminar and sign-up to attend sessions.

2. Presentations, papers and national reports will be available on the seminar web page that is part of the ICA Web site. Health papers that are submitted to the ICA Scientific Committee and not presented during the health seminar will be presented in a separate ICA session at a time to be determined.

Course One Seminar in Mexico City

by Jim Toole

The Latin American Committee (LAC) sponsored its second SOA Course 1 review seminar October 12–14, 2001 in Mexico City. This successful series, taught by SOA board member and Benedictine University professor Warren Luckner, has been directed primarily at university students. The first seminar, held in the Universidad of Las Americas in Puebla, was attended by 50 students and professors. The latest seminar in Mexico City sponsored by ITAM university was attended by over 30 students and a few practicing actuaries interested in presenting the SOA exams. Enrique de Alba, dean of math, statistics and actuarial science programs at ITAM, and Jim Toole, LAC Chair, coordinated the seminar.

By way of background, in much of Latin America, actuaries are qualified through university study at either the undergraduate or masters level. Because of this, the SOA exams are not commonly taken. In Mexico in particular, students complete a 4–5 year undergraduate program and finish a thesis, usually after graduation, which they must present and defend before receiving their certification. Undergraduate coursework generally covers Courses One and Two from the new syllabus, as well as significant portions of Courses Three and Four. Currently, at least one university in Mexico is offering an option of passing Courses One and Two and either Three or Four to become a qualified actuary instead of writing a thesis.

Multinational companies which are investing in the region have not, as a rule, brought the study programs and exam raises to the region that made the culture of exam taking so successful in the U.S. and Canada. The time and discipline required to pass the exams is not well understood, and there are few examples of what might happen to an individual's career 20, or even five years down the road by taking the exams.

Because of the lack of precedents, the road is unclear as well as difficult. Investing 2–3 months of study without a clear payoff is a difficult choice to make in a university setting, and is even harder in a work environment without corporate support for fees, books, and study time. Everything we take for granted in the U.S. with our generations of test taking experience from the amount of study required, to the performance level needed to pass, to strategies for taking exams, has not been available to this generation of Latin American test takers.

Investment in the region has grown dramatically, and the LAC is committed to helping the actuarial profession develop as well. One approach the committee has decided to take is to promote taking the SOA exams, not to replace the university path, but to help quantify the rigors of the Mexican university education. The LAC is providing access to Course 1 seminars in an effort to show students early in their careers that they can succeed at the exams and to prime the pump at the supply level with the expectation that students with exams will command a better price and get better jobs.

It is important to point out that the SOA has made significant efforts to encourage the internationalization of the exams, from the new syllabus which removed the bulk of nation specific information, to making the cost more accessible via fee reductions to developing nations, to supporting regional efforts such as these. It is also important to recognize the labors of Martha Sikaras and Mo Chambers, who together are responsible for coordinating the international efforts of the Society. A growing percentage of our members live and work overseas, and a rapidly growing sub-segment are individuals who have never taken an exam in an English speaking country or had the benefits of a student program. While the work the LAC is doing now is likely transitional, we hope to both benefit the next generation of Latin American actuaries and have a positive impact on the development of the industry in the region.

Jim Toole, FSA, MAAA, is a consulting actuary at Milliman & Robertson, Inc. in Denver, CO, and is immediate past chairperson. He can be reached jim.toole@milliman.com.

Actuarial Careers in the International Insurance Business

The international insurance business is growing by leaps and bounds. Because North America represents a stable and mature insurance market; American, Canadian and foreign insurers in many cases are finding better growth opportunities abroad. The actuarial profession is a vital contributor to that growth currently, and actuarial business opportunities will surely expand internationally at least as quickly as the overall insurance business does.

Among the responses from last year's survey of International Section members were many requests for more and better information about international opportunities for actuaries. In response to those requests, I'm planning an article for the next newsletter to address the following questions:

- What are some of the roles that SOA members are playing in the international insurance expansion?
- What are the types of jobs that actuaries hold as both employees and consultants, for both US and foreign companies?
- What's the prognosis for actuarial jobs and careers in the international arena?

I plan to research the topic primarily by talking to International Section members, the SOA staff and executive recruiters.

I welcome any comments or assistance that you would like to contribute to this project.

Dan Spafford, FSA, MAAA, a consulting actuary, can be reached at danspafford@earthlink.com.

Meeting Minutes of the International Section Council Meeting, October 21, 2001

1. Roll Call

Lisa Kuklinski-Ramirez, Shumei Kuo, Yiji Starr, Rejean Besner, Michael Enright, Hubert Mueller, Jorge Noronha, Hans Wagner, Jim Toole and Lois Chinnock and Martha Sikaras of SOA.

2. September Meeting Minutes

Approved.

3. Treasurer's Report

No changes in the treasury report since last meeting. 31 participants registered for the international financial reporting seminar. There may be a small charge to the section since 40 registrants are needed to break even.

4. Elections

Secretary / Treasurer: Yiji Starr
Web Liaison: Marc Slutzky
Seminar Coordinator: Shumei Kuo
Ambassador Coordinator: Jorge Noronha as overall coordinator (Mike Enright will help coordinate Latin America with Jorge Noronha since Jorge is moving to South Africa).

The council raised the idea to reserve a seat for an actuary whose primary practice is health care. The council will vote on this issue at the next meeting.

5. Clearinghouse Scholarship Program Request for Support

The Committee on International Issues (CII) has requested financial support for this program. This program supports students (study material and examination fees) in developing countries to take examinations as long as students keep passing examinations.

The Council voted to provide $2500 towards this program, renewable at the section's discretion next year. The Council will also seek to put a person on the CII subcommittee (Mike Enright) to monitor the expenditure.

Mike will discuss with Marina Adelsky on an article to be published in the newsletter to give better exposure to this program.

6. Funding for the Latin America Committee

The Committee was started with initial $1,000 support from the International Section Council and the Board of Governors. Two course one seminars were given in Mexico.

The Latin America Committee would like to request funding of $2,500 for a project yet to be determined.

The Council would like to table this issue until the budget is better set and to allow the Latin America Committee to re-propose for the funding at that time.

7. 2001-2002 New Project Planning

The council will give financial support of $4500 (in addition to SOA's general funding) to better recruit speakers. This funding may be rolled over from year to year if not spent.

Proposed an International Health Care Seminar to compare the evolution of international health care markets compared to the U.S. market. The seminar may include critical illness and long-term care. Mike and Rejean will explore this idea and report back to the council. Everyone on the council is encouraged to bring ideas to the January meeting while the budget is put together.

8. International Financial Reporting Seminar

Good to go.

9. Spring Meetings

Overview of the strengths and weaknesses of major multinational insurers from analysts and investment bankers' points of view.

Dealing with declining interest rate environment outside of the U.S. (may be applicable for pension as well).

Mergers and acquisition activities outside of the U.S. (workshop or open forum?).

Specialty health care operation.

Nontraditional international health/pension roles for actuaries.

10. Ambassador Program

A potential Australian ambassador has been identified and the section is in the process of appointing him.

11. Table Manager Update

Regional coordinators put in a lot of effort to assemble the tables into the table manager. A session on the table manager is included in the Annual meeting on Tuesday. A final version is expected in late December or early January.

Jim Toole will continue to lead this effort after his retirement from the council. The council voted to allocate $750 for gifts for each of the table manager contributors (approximately 30 persons) in appreciation for their effort.

12. Newsletter Update

Bob Kuhl reported for Randy Makin that the January newsletter has two articles, a reprint article from Korea and meeting notes.

Other article ideas: report on Mexican seminar (Jim), report on Hong Kong seminar (Marta), Pakistan development (ambassador), report on the International Financial Reporting seminar (Lisa/Jim), an article on mortality table manager (Jim), a preview of the international health care seminar (Rejean), article on Clearinghouse Scholarship program (Mike E.), regulatory topics (Jorge/Yiji/Hubert).

The deadline for the articles is late November and early December.

13. 2002 Meetings

8 am EST is deemed as the best time for all parties involved.

January 22, April 22, July 22, October 27 are set as meeting dates.

Special thanks to outgoing members of the Council.

Korean Life Insurance Market

1998-2000: Years Of Restructuring

by Chi Hong An and Laird D. Zacheis

Note from SOA Editor: the following article was written for the September 2001 issue of Milliman Global Insurance. It is reprinted with permission.

From the Editor of Milliman Global Insurance: In May 2001, an international group of 22 consulting and actuarial firms announced the formation of Milliman Global, a worldwide platform for serving the insurance, employee benefits and healthcare industries. Along with the new organization comes a new logo and new names for many of our key newsletters, including this publication — Milliman Global Insurance. This publication (replacing Insurance International) continues our commitment to providing valuable articles on current insurance issues. We hope you find this publication of interest and welcome your comments or suggestions. Feel free to email your comments to steven.schreiber@milliman.com.

Author's Note: The Asian economic crisis, which reached Korea in late 1997, provided the landscape for restructuring that allowed some Korean companies to excel while forcing others to close down. Strong growth in exports, due in part to the depreciation of the Korean currency, resulted in a remarkable recovery in the Korean economy. The government has accumulated significant foreign currency reserves and paid off International Monetary Fund (IMF) bailout loans in advance. While the stock market continues to fluctuate, the economy is substantially stable.

The Asian economic crisis also provided similar opportunities for restructuring the Korean life insurance industry. Companies that entered the crisis from a position of strength emerged even stronger, while less strong companies were left seriously weakened. In 1995, there were 33 Korean life insurance companies. Today there are 23, with the prospect of fewer companies by the end of 2001. This article reviews the experience and restructuring that has taken place in the industry since the Asian economic crisis reached Korea. It also discusses the recent trends of the life insurance industry.

Merger & Acquisition Activity

Between 1998 and 2000, there were several attempted acquisitions of life insurers by foreign companies. However, aside from government interventions, only one transaction has been completed to date. Domestic companies have actively sought both foreign capital and foreign expertise to facilitate the necessary restructuring.

The life insurance market is beginning to open to both non-Korean competitors and, within Korea, financial institutions other than life insurers.

Fiscal year (FY) 1998 (starting April 1, 1998) began with the announcement that MetLife was considering an investment of over US $1 billion to take over the troubled Korea Life. As talks between MetLife and the regulators slowly progressed, numerous other parties, both foreign and domestic, were rumored to be making bids. Ultimately, the regulators could not find a satisfactory bid, and consequently chose to nationalize Korea Life. Nevertheless, the perception was that Korea was more amenable to foreign capital and domestic restructuring, and merger and acquisition (M&A) activity, together with significant restructuring, began in earnest.

The years 1999 and 2000 witnessed the most active period of restructuring and merger and acquisition (M&A) in the history of the Korean life insurance industry. Allianz acquired First Life (Jeil) after an auction process, completing the one acquisition of a solvent company in the Korean industry in a manner typical of western M&A. Several insolvent companies (KukJe, BYC, Coryo, TaeYang) were acquired by financially strong companies (Samsung, Kyobo, Allianz Jeil, Hungkuk, respectively). The government arranged these acquisitions as the first stage of the restructuring plan after the currency crisis.

As several of the chaebols (Korean business conglomerates) expressed interest in entering the life insurance industry to expand their presence in the financial sector, the government proposed that the chaebols be allowed to set up life insurance companies by taking over (and infusing capital into) the insolvent companies. Hyundai (via Hankuk and Josun) and LG (via Hansung) entered the insurance industry in this way. SK, one of the financially strongest chaebols, acquired Handuk and Kookmin, putting it in the top six, in terms of assets. Kumho Group took over Dongah Life to become the fifth largest insurance company. This was the second stage and the

Table 1
Restructuring and M&A Activities
(billions of won)

	Asset				M&A Activity
	FY98	FY99	FY00 (Dec)	Increase (F00 / F98)	
Samsung	36,376	44,846	48,444	33.2%	Considered IPO
Kyobo	20,677	22,194	23,671	14.5	Considered IPO
Korea Life	13,076	15,499	17,338	32.6	Nationalized, reported "for sale"
Jeil	3,827	3,968	4,252	11.1	Acquired by Allianz
Hungkuk	3,404	3,446	3,508	3.1	Reported "for sale"
Dongah	1,430	1,971	N/A	N/A	Acquired by Kumho
Daishin	1,149	1,413	1,051	-8.5%	Reported "solvency problem"
Handuk	792	692	N/A	N/A	Acquired by SK
Hanil	408	354	195	-52.2	Allowed to restart operation
Hyundai	1,197	1,267	935	-21.9	Being transferred to Korea Life
Kookmin	925	1,240	N/A	N/A	Acquired by SK
Kumho	561	490	2,530	27.1	Considered JV with foreigners
Lucky	509	393	378	-25.7	Acquired Hansung Life
Pacific	738	859	N/A	N/A	Acquired by Tongyang
Shinhan	1,905	1,816	1,720	-9.7	
SK	867	863	2,790	8.0	Acquired Handuk & Kookmin
Dongbu AXA	545	559	534	-2.0%	AXA is leaving JV
New York	40	38	37	-7.5	Korean partner left JV
MetLife	516	568	625	21.1	Korean partner left JV
Samshin	886	772	490	-44.7	Being transferred to Korea Life
Tongyang	1,452	1,623	2,809	28.3	Tongyang bought out JV
Youngpoong	36	63	61	69.4	Manulife left JV
AIA	31	48	77	148.4%	
France	48	44	44	-8.3	Reported "JV with Hana Bank"
ING	146	258	550	276.7	20% acquired by H&CB Bank
LINA	64	84	110	71.9	
Prudential	104	203	348	234.6	

end of the restructuring plan initiated by the government after the Asian economic crisis.

The regulators recently declared three-medium sized companies-Hyundai, Samshin, and Hanil-non-viable due primarily to the large realized losses from the default of corporate loans to the Daewoo group and other insolvent companies. Several life companies expressed interest in purchasing these companies with the government's promise to make up the losses. However, the deals fell through. As a result, Hyundai and Samshin are transferring their policyholders to the nationalized Korea Life. Hanil, however, recently succeeded in recouping the loans made to its related chaebol and was permitted to open new business operations.

It should be noted that these activities were largely driven by the government, not by market principles. However, future changes in the marketplace will be driven by market principles, as the entrance of additional chaebols into the life insurance industry will change the long-term landscape of the industry. The industry is in the process of restructuring into a group of large, local companies supported by chaebols, and a group of foreign companies supported by multinational insurers. The medium or small local companies will experience a more

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competitive market for products and capital. The survival of these companies will depend heavily on differentiated products targeted for niche markets, and their ability to raise capital to meet solvency requirements. Hence, medium-sized companies are likely acquisition targets of multinational companies with large capital bases.

Among the joint ventures, Manulife and Allstate withdrew from their partners, while MetLife and New York Life bought out their partners' shares. AXA's departure from its joint venture with DongBu Life is further indication of the difficulties foreign and local companies have experienced with joint ventures.

Table 1 on page 25 summarizes recent growth in assets for Korean life insurance companies and recent restructuring activity. The companies are typically segmented into (1) the Original Six that began operations following the Korean War; and (2) New Korean, (3) Joint Venture and (4) Foreign, all of which began operations after the market opened in 1989. The Original Six continue to dominate the industry in terms of revenues, income and assets.

Regulatory and Accounting Changes

The industry crisis spawned numerous regulatory responses aimed at hastening the industry's recovery and improving its strength against future economic shocks. In January 1999, the Financial Supervisory Services (FSS) was established, through the consolidation of the roles of the Banking Supervisory Authority, the Securities Supervisory Board, and the Insurance Board. The establishment of the FSS was designed to facilitate the cleanup of troubled financial institutions, and to improve capital adequacy and the transparency of financial statements for banks and insurers.

Beginning in fiscal 1999, life insurers were required to mark assets to market, under an approach similar to US GAAP FAS 115 treatment. Trading securities are now marked to market in the income statement, while unrealised gains or losses on investment securities now flow through the equity account. This prevents insurers from hiding losses in subsidiaries.

Under IMF recommendations, life insurers were required in FY 1998 to hold net level policy reserves instead of the historical minimum of seven-year Zillmer. At the same time, life insurers were allowed to establish a deferred acquisition cost (DAC) asset equal to the unamortized 7-year Zillmer allowance, thus creating a net liability equal to the old minimum standard. Of those companies who held reserves in excess of 7-year Zillmer at fiscal yearend 1997, all except Samsung took the opportunity in 1998 to reduce net liabilities by establishing the full DAC, to offset losses on the investment side.

Also based on recommendations from the IMF, the FSS is instituting a minimum-required capital standard for life insurers based on the European Union formula: generally, 4% of general account individual liabilities plus 0.3% of net amount at risk. Under current FSS guidelines, this standard will be fully phased in by the end of FY 2003. It is notable that the FSS formula excludes any capital requirement on group

Table 2
Reported Capital & Surplus
(billions of won)

Fiscal Year	Original Six	New Korean	Joint Venture	Foreign	Total	Original Six Excluding Korea Life
1993	754	178	126	61	1,119	
1994	844	(195)	58	35	742	
1995	582	(811)	(112)	41	(299)	
1996	700	(1,437)	(234)	45	(926)	630
1997	778	(2,123)	(337)	38	(1,644)	698
1998	(2,361)	(2,354)	(228)	23	(4,919)	296
1999	1,120	(1,205)	(197)	46	(235)	2,742
2000(Dec)	653	(920)	(53)	110	(210)	2,205

Table 3
Reported Profit
(billions of won)

Fiscal Year	Original Six	New Korea	Joint Venture	Foreign	Total
1992	98	(7)	0	(4)	88
1993	123	(10)	19	(4)	128
1994	113	(389)	(113)	(3)	(393)
1995	(31)	(646)	(169)	(6)	(852)
1996	17	(713)	(149)	(14)	(859)
1997	101	(768)	(155)	(24)	(845)
1998	(2,947)	(910)	(136)	(28)	(4,021)
1999	(828)	(145)	(27)	20	(981)
2000(Dec.)	(702)	(194)	2	50	(844)

Table 4
Premium Income
(billions of won)

Fiscal Year	Original Six	New Korean	Joint Venture	Foreign	Total
1993	18,458	4,202	1,310	83	24,053
1994	20,454	5,549	1,640	106	27,749
1995	25,807	7,340	2,021	120	35,288
1996	28,550	7,398	2,075	140	38,163
1997	37,127	9,476	2,187	166	48,956
1998	37,898	6,381	1,880	231	46,390
1999	35,092	4,402	1,810	391	41,695
2000 (Dec)	32,061	2,785	1,411	630	36,887

pension liabilities. Also, this standard for required capital does not specifically reflect asset-related risks. The recent failures of life companies in Korea were largely related to exposure to defaults in corporate loan portfolios and heavy stock and real estate investments. Some question whether this formula is adequate to identify troubled companies in Korea.

In April 2000, the assumed interest rates in pricing were liberalized. But the FSS now prescribes an interest rate ceiling for the calculation of policy reserves, to prevent inappropriate assumptions. In 2000, the ceiling was set at 6.5% for participating products and 7.5% for non-participating products; in 2001, rates were reduced to 5.5% and 6.5%, respectively.

Historically, reserve calculations on interest- sensitive products were based on the guaranteed surrender value interest rates, which typically approach the ultimate interest rate in three to five years. Regulators, concerned that the level of reserves in early policy years were not adequate, mandated the use of ultimate interest rates for new business beginning in 2000.

Profitability Levels

The reported capital of the industry declined each year from 1993 to 1998.

Table 2 on page 27 indicates that this decline is not confined to a particular group of companies, but was felt within three of the four industry sectors. The improvement in reported capital in 1999 was mainly due to stock market performance and capital injections by government and shareholders. To meet stronger government solvency requirements, insurance companies tried to raised capital through affiliated companies and new investors. Initially, the regulators allowed subordinated debt to count as capital for solvency margin purposes. To meet solvency requirements, several life companies issued sub debt to each other or to affiliated companies. However, the FSS became concerned that the solvency problems of several companies would spread to the entire industry and responded by disallowing certain sub debt.

During FY 2000, the Korean stock market lost close to half of its value. This event, combined with low interest rates and declining profitability of saving products with high guarantees, resulted in many companies not improving their capital position as of yearend 2000.

The government currently plans to inject 2,100 billion won into Korea Life to cover net value losses associated with the two non-viable companies being merged into Korea Life, and then to put it up for sale. Once this infusion of capital is made, the industry is expected to finally be in a solvent position in total.

The profitability of the Korean life insurance industry dramatically improved in 1999, excluding Korea Life and Dongah Life, which accounted for losses of 814 billion won and 378 billion won, respectively. For example, Samsung reported a 310 billion won profit.

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Table 5
Shift in New Business Mix
(billions of won)

Fiscal Year	Pure Endowment	Protection	Endowment	Group	
1996	39%	41%	10%	11%	
1997	21	50	18	11	
1998	17	58	13	11	
1999	12	61	15	12	
2000(Dec.)	10	69	15	6	

This was attributed to the improved productivity of its sales force and capital gains from trading investments. While the profitability of domestic companies reduced significantly in 2000, foreign insurers, led by Prudential and ING, further improved their profitability. It should be noted that most foreign companies do not invest in the stock and real estate markets, and instead rely on large mortality gains from products such as whole life.

The Korean life insurance industry as a whole has not been profitable over the last seven fiscal years, and may not be profitable for several more years, because of structural problems such as high operating costs and high dividend guarantees on participating policies. With the move to non-participating protection products with higher margins, the profitability of the industry is expected to improve over time.

A better indication of industry profitability perhaps can be obtained by focusing on specific areas of experience. Current indications, including 1999 and 2000 (Dec.), suggest that surrender rates are now falling for most insurers and mortality and morbidity rates remain stable. These trends will improve the financial health of the industry.

Marketing and Product Mix

Industry growth subdued during 1998 and 1999, as insurers focused their efforts on financial and product restructuring. Table 4 shows the premium income for the industry from 1993 through December, 2000. From 1997 to 1999, the Original Six insurers experienced a decrease of 5% in premiums, while the joint venture insurers experienced a decline of 17%, and the New Korean insurers lost 54% of premium income. The foreign companies, on the other hand, continued to grow with an increase of 236%.

The results of the first nine months of 2000 show large increases in premium income for all segments of the industry, except the New Korean. As consumers paid more attention to the financial health of life insurers, the Original Six insurers and foreign companies took advantage of better financial conditions to increase their market share. Even though the foreigners' market share is still less than 2%, in terms of premium income, their average growth rate during the last four years (including the currency crisis) was 150% per year. The foreigners' market share for new policies through nine months of FY 2000 is about 8%.

The fall in average premium per in-force policy is consistent with the shift across the industry from savings-type to protection-type policies, depicted in Table 5. Long term, the shift toward protection business should be beneficial to the industry because protection products:

- o are longer term and more stable than the pure endowment savings vehicles,
- o better fit consumer needs (several of the foreign companies, in particular, have focused on needs-based selling of long-term protection products such as whole life), and
- o allow a higher level of profitability at lower risk than the indexed short-term savings products.

In response to the losses suffered during the Asian economic crisis, as well as the weakening of the chaebols, there is an increased emphasis among the leading life insurers on product profitability, asset-liability management, and financial management. We expect future product development to focus on products that pass through investment and other company experience, while avoiding the legal limitations on profits on par policies.

New Product Development

As described in the previous section, the shift toward protection products has been strongly felt in the market. Among the protection products, the whole life product is receiving attention from both consumers and life insurers. Foreign companies, such as Prudential and ING, developed and initially dominated this market through alternative distribution channels with a well-educated male sales force. With high persistency compared with other products in the industry, they made this market profitable, mainly because of large mortality gains and acquisition expense loadings sufficient to cover expenses. As other domestic and foreign companies begin to employ this strategy, it will be interesting to see whether this market continues to be profitable in the future.

Most companies are developing non-participating savings products as a strategy to improve profitability and capital levels. Current regulatory guidelines specify that a minimum of 90% of all pre-dividend profits on par policies must be returned to policyholders. Shareholders, on the other hand, are responsible for all of the losses from participating blocks, as long as a company has positive retained earnings. Under this rule, it is difficult for a company accumulate enough capital through participating business to meet solvency margin requirements.

The development of interest-sensitive products was intended to cope with fluctuating interest environments. Historically, public index rates, which reset only on semi-annual basis, were used to define the crediting rate on savings products, but these rates could become quickly outdated, as market interest rates change dramatically. As a result, several life companies began using internal index rates to reflect new interest levels sooner. They claim that these new indices are beneficial to policyholders, as they will be more market responsive.

Asset Liability Management

In the past, Korean life companies have not adhered to a strict discipline of matching cash flows of assets and liabilities. In part, the asset-liability mismatch in the industry is a result of inadequate availability of long-term fixed income securities in the Korean capital markets.

The asset-liability imbalance impacts the sales strategy of many Korean life insurers. For example, if a company expects high cash outflows in the future, it may motivate its sales forces to sell saving products to improve cash inflow. This strategy was employed by many of the domestic life companies at the time of the Asian economic crisis. As a result, companies sold large blocks of single-premium policies with little consideration of asset-liability management. Maturities in invested assets supporting this business are significantly shorter than the maturity structure of the liabilities. As interest rates declined in recent years, this block of business depressed the profitability of the life insurance industry.

This situation significantly reduced the profitability of savings products and forced life companies to re-price all major products over the last year. With consistent improvements in persistency rates and shifts to protection products, life companies predict the duration of liabilities will lengthen. Several companies tried to extend the duration of investments by launching personal loans, collateralized by residences, and investing in long-term treasury bonds.

Another industry approach is investing in stocks as long-term assets. Under recent revisions to accounting standards, fluctuations in the stock market will directly affect the capital/surplus position of the company. Insurance companies must confront the challenge of stabilizing future income patterns while making long- term equity investments.

Because a limited number of chaebols have historically dominated the Korean economy, it has been difficult for life companies to avoid concentration risk in their investment portfolios. Most of the recent failures in life companies were related to their exposures to the Daewoo group and other insolvent chaebols. Currently, the Hyundai construction group is facing solvency problems. The total exposure of the life industry to Hyundai is not clear, but could potential cause further damage to the financial health of the industry.

Conclusion and Industry Outlook

Much of the restructuring necessary to ensure the continued viability of the Korean life insurance industry appears to be well underway. The industry absorbed the effect of measures to strengthen reserve bases and to force quicker recognition of future investment losses. Even though several loan defaults and real estate write-downs were incurred in the last three years, future deterioration of investment quality is still possible. One industry credit researcher predicts that the potential corporate loan defaults for only the companies listed in the Korean stock market will be 75 trillion won. Defaults of corporate loans may

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continue to be a large burden to life insurance companies in the future.

The recent entry of additional international players such as Allianz and others, should stimulate competition within the market and hasten the development of new products and sales channels. Other foreign insurers, such as Prudential and ING, show that targeting niche markets with efficient distribution channels can be profitable in the Korean market. It should be noted that another critical factor of the foreign successes is strong management and financial control, which has proven to be more difficult in joint ventures.

ING, Allianz, and Prudential are active in other financial industries, such as banking, trust, and investment bank- ing, as part of overall bancassurance strategies in Korea. With leading expe- rience in bancassurance operations in their own countries and a much larger base of capital, these companies are expected to play bigger roles in the Korean financial marketplace in the future. Because domestic life companies have had limited access to other financial industries, due to strict regulations and lack of capital, they will have a disadvantage in exploring opportunities in this new market.

Many of the smaller domestic life companies were absorbed by other entities during the last two years, and there will be more pressure toward this trend in the coming years. The life insurers that remain, however, will likely emerge stronger and more profitable, if the following restructuring is pursued:

- Product profitability management
- Focused marketing management and extension into new distribution channels
- ALM and investment strategy
- Financial management focused on improving and stabilizing the bottom line (as opposed to top line or asset base growth)

As life insurers in other countries have discovered, the Korean life industry must design products and distribution systems that meet customer needs and provide adequate return on capital, or it will ultimately lose its market to more innovative financial players.

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ICA Meets in Cancun

The 27th International Congress of Actuaries ICA 2002 will take place in Cancun, Mexico from Sunday, March 17 to Friday, March 22 2002. The congress will not only offer a wonderful opportunity to enjoy the marvels of the Caribbean and to discover one of the oldest archeological sites in the world, but it will be, above all, an unsurpassed occasion to meet a large number of actuaries from different countries.

The Congress is divided in two parts. The first part will focus on P&C insurance, Health and Social Security. The second part will essentially deal with topics related to Life, Pension and Financial Risks. The Health related topics will be discussed within the framework of the first International Health Seminar, which will be an integral part of the Congress (more information on this seminar is provided in a separate article).

To provide greater flexibility to Congress participants, and to guarantee that each participant chooses the option that best suits his/her professional interests, there are three registration choices:

1. Full Congress
2. First Part of the Congress
3. Second Part of the Congress

The scientific programme of the Congress will include both plenary and parallel sessions. Plenary sessions will focus on topics of general interest to the profession, and parallel sessions will focus on specific topics of interest to each particular area of specialty.

For more information on this event, please take a look at the website of ICA 2002 at *www.ica2002.com*. The site includes detailed information on the Congress.

See you in Cancun!

International Financial Reporting Seminar

by Jim Toole

International financial reporting in today's market requires an understanding of both domestic and foreign standards as well as constant attention to evolving developments. Throw in the nuances of purchase GAAP and you have, well, a challenge. Jointly sponsored by the International and Financial Reporting Sections, the International Financial Reporting Seminar provided up to date information on a broad range of topics directed towards the practicing valuation actuary with international responsibilities. A team of industry experts including actuaries, accountants and business executives presented a broad array of topics covering business planning, performance measurement, capital management, global financial reporting standards, U.S. & Canadian GAAP for international companies, and Purchase GAAP.

Despite the events of 9/11, the seminar was well attended by over thirty international actuaries representing consulting, insurance and reinsurance firms. Jim Toole, consultant from Milliman Latin America, opened the seminar with an overview of the international financial reporting process and the unique challenges facing international organizations, from greenfields to joint ventures to full purchases.

Greg Boyko, CEO of The Hartford International, then discussed the budgeting and business planning process and how it relates to performance measurement.

After a break, Dan Pelletier from RGA talked about current developments in International Accounting Standards and threaded the needle with an explanation of Canadian GAAP accounting. Dan Kunesh from Tillinghast–Towers Perrin then spoke about embedded value and why it is increasing in popularity as a management reporting tool for international operations.

After lunch, Owen Ryan, an M&A expert with Deloitte & Touche, spoke on U.S. GAAP reporting issues for international companies, including valuable anecdotal information. To complete the day, a veritable smorgasboard of issues were discussed in a relaxed, open format, including taxation, reinsurance and capital considerations.

The final half day focused entirely on the art and science of Purchase GAAP. John Bevacqua of Deloitte & Touche gave an overview of the basic components of P-GAAP, while Craig Reynolds of Milliman USA followed up with a discussion of the practical considerations of post sale P-GAAP implementation.

Feedback from participants was very positive, and it is likely the seminar will be considered for presentation again. Special thanks to Lisa Kuklinski-Ramirez, Greg Boyko and Jim Toole who planned the seminar, with the unflagging support of Sandy Neuenkirchen in the Society office, who, in a spectacular display of just-in-time manufacturing skill, was literally putting binders together as participants were arriving.

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