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INTERNATIONAL NEWS

NEWSLETTER OF THE INTERNATIONAL SECTION

contents

The Challenge of Financial Reporting during the 21st Century

by Ghislaine Royer and William R. Horbatt

Challenges Facing Insurance Company Management

Financial reporting demands on insurance companies continue to increase each year. Beginning in 2005, publicly traded companies in Europe will be following International Accounting Standards (IAS). In addition, companies publishing embedded values will need to comply with the new European CFO Forum guidelines, and Solvency II for insurance companies is just around the corner.

Organizations that suited companies during the past may not be sufficient to meet these new demands. Company systems that were predicated upon cost basis accounting, deterministic actuarial projections and simple solvency margins may not be conducive to a "brave new world" of market value accounting, stochastic valuations and active risk management. Organizational structures based upon "silos" of expertise do not have the flexibility to adapt to a rapidly changing environment that requires interdisciplinary cooperation. Manually intensive procedures that worked well in an environment of semi-annual or annual financial reporting may not work as companies report results quarterly, monthly or even more frequently.

What is needed as we enter the 21st century is an organization that is fast, flexible and intelligent. Let us explore this in greater depth and detail.

Our Changing Business Environment

Dramatic changes have occurred in both business practices and financial reporting over the past two decades. Changes occurred first outside continental Europe, but as the globalization of business accelerates, Europe is catching up fast. In the 1990s many of the largest European companies adopted generally

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Editor's Note

by Cathy Lyn

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I would like to start my term as editor by saying that this newsletter a forum to discuss matters that are relevant to the membership. I would like you all to write to me so that I can find out:

- What is happening to you in your actuarial career
- What challenges you are facing both at the local and international level
- Your thoughts on the influences of the commercial world
- How globalization has impacted you professionally
- How you would like to influence actuarial practice in your sphere of operation
- Your opinion on whether prescriptive regulations improve governance and meaningful transparency
- Anything else of interest you would like to tell me.

I would enjoy engaging you in a dialogue regarding your ideas, viewpoints and recommendations. As the number of actuaries working in the international arena increases dramatically and as the forces of globalization take on more momentum, the International Section is well placed to become one of the main leaders to influence and drive our profession in a positive direction for our customers.

The Ambassador Program has a key function linking the International Section Council to the membership in each territory they cover. I have been sending out appeals to all ambassadors to provide an update of the actuarial activity in their country and an account of recent functions or events for publication. I am now contacting people outside the Ambassador Program to send in contributions to the newsletter. Through this exercise, develop a community of leaders who will make a difference.

I must thank Randy Makin for his introduction in the last publication, and let you know that I have moved from Watson Wyatt in Toronto, Canada to Eckler Partners in Kingston, Jamaica. You can contact me at *clyn@eckler.ca*.

I look forward to hearing from you so we can work together with Marc Slutzky, International Section chairperson, and his fellow council members to help make the section work for you. ☐

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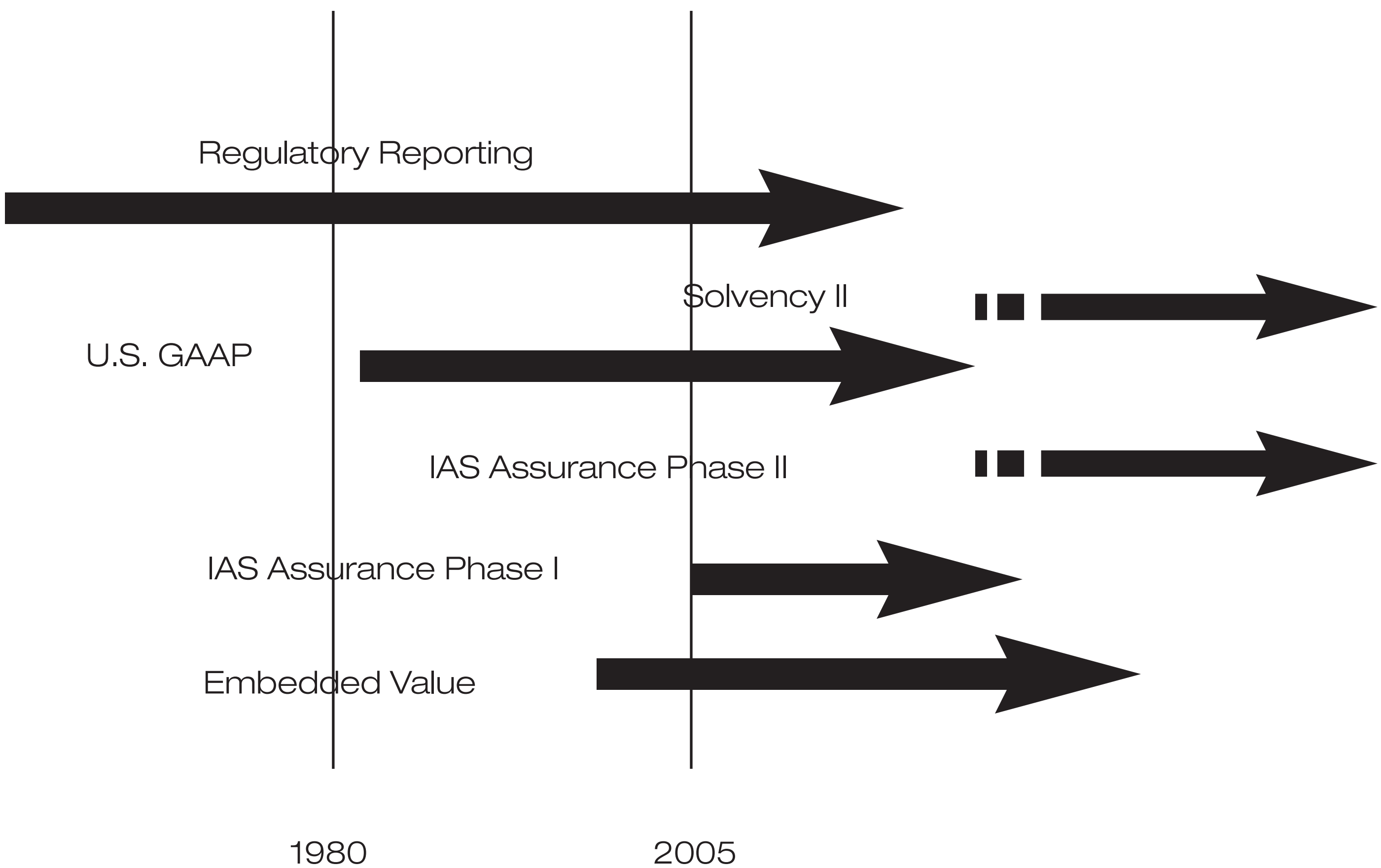
accepted accounting principles (GAAP), which had been promulgated for United States life insurance companies in 1982. Even some companies that are not listed on U.S. stock exchanges adopted U.S. GAAP insurance standards, in whole or in part, for stockholder reporting.

U.S. regulators began requiring "stress testing" of asset-liability management during the 1990s, while ratings agencies included stress tests when evaluating insurance company financial strength. The European CFO Forum has just introduced requirements that companies explicitly value options and guarantees in their insurance products while Solvency II for insurance companies may follow the new Basel II standards for banks that reward companies practicing rigorous risk management with lower capital requirements.

During 2005, European Union life insurance companies will be implementing new accounting standards for shareholder reporting, most notably IAS 39 for investments and International Financial Reporting Standard (IFRS) 4 for insurance liabilities. The requirement to hold assets in the balance sheet at market value will be a challenge for many companies, while IFRS 4 offers options like discounting liabilities at current interest rates that may not be possible using existing valuation systems and procedures.

Waiting in the wings is Phase II of insurance accounting standards, which may require that the "fair value" of insurance liabilities be calculated or which may converge with U.S. accounting standards. In any event, there is a clear and growing trend to require companies to hold their balance sheet at market value. In addition, the Solvency II project may be expected to change how minimum required company surplus is calculated.

Figure 1



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The Shape of the Future

Stakeholders in insurance enterprises, including stockholders, regulators, policyholders and other interested parties, are looking for more financial information, more frequent reporting of results and more accurate results. Stakeholders do not like surprises — rather, they want to see steady progress and growth.

Insurance companies and the consulting firms supporting them have developed solutions to portions of this challenge. For example, "fast close" projects reduce the time and effort required to report financial results, balanced scorecards and "dashboards" provide actionable information on a real time basis and re-engineering projects have improved productivity in many areas of companies. However, there is a need for a holistic solution that can be implemented throughout the organization.

Organizations need to adapt to the emerging requirements by changing how they work. In particular, optimal solutions to this challenge involve the following three attributes:

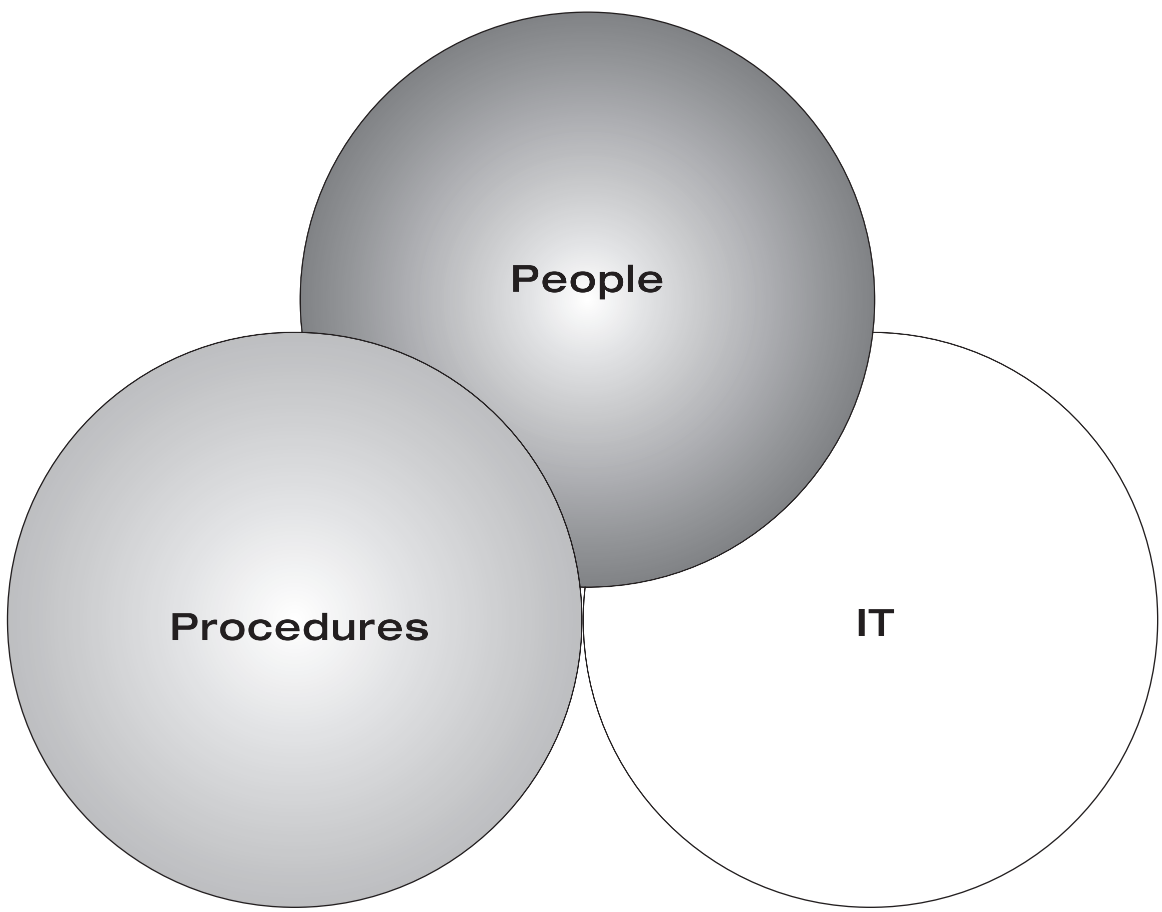
- **Collaboration** – no one professional specialization is sufficient during the 21st century, so teams need to be formed with all of the appropriate skills for the task at hand.

- **Flexibility** – today's solution may not be appropriate for tomorrow, so organizations need to be able to "change on a dime" to meet unanticipated needs.

- **Low cost** – financial reporting is an overhead cost that simply reduces the organization's profits and surplus, so costs must be as small as reasonably possible.

To envision a holistic approach, one may wish to think of any solution to the evolving challenge as involving three organizational elements: staff, procedures and systems.

Figure 2



Creating a 21st Century Organization

Before sketching out our proposed solution, let us look at typical organizations from a different perspective. One may also wish to view the reporting process as people managing data. Figure 3 at the bottom provides a simplified illustration of how raw information is transformed into financial reports needed by stakeholders.

The real world is much more complicated than this illustration:

- **Data Accessibility** – Data resides in many computer systems and some data is only available in a paper format. Excessive manual steps may exist and interfaces may be inaccurate.
- **Interdependencies** – Different functional areas need to collaborate to meet corporate objectives. For example, finance needs the actuaries' projections of future cash flows to select appropriate assets with matched cash flows for ALM while actuaries need policy records from the administrative system.
- Inefficiencies – Procedures can become inbred and not change with changing requirements. Sometimes, inefficient "stop gap" measures become permanent while new technical possibilities remain undiscovered.

A solution to these limitations can be addressed in several organizational redesigns (which are not necessarily sequential):

- **Data Warehouse**[1] – Data is extracted from individual systems and placed into a single database that can be accessed by individual users. This can be referred to as a data warehouse or, more accurately, a "pseudo" data warehouse.

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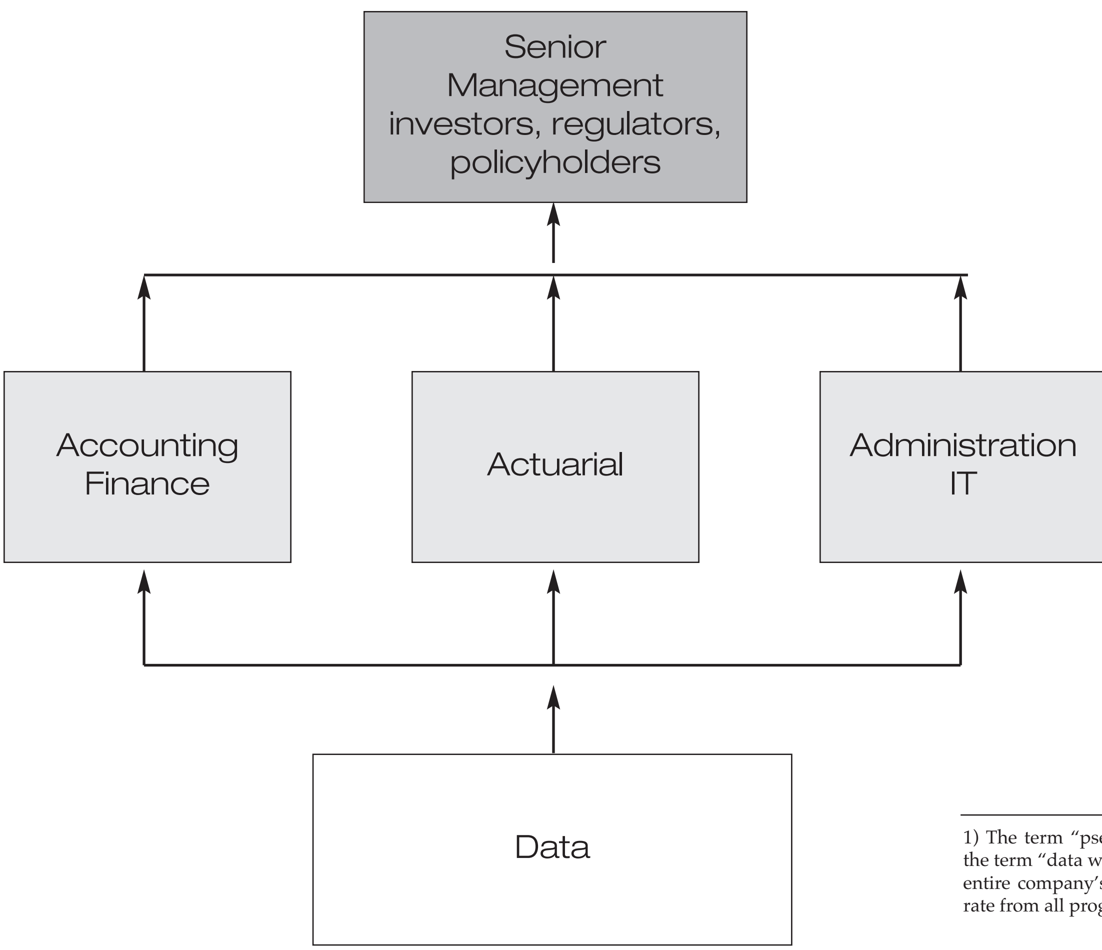
Figure 3



1) The term "pseudo" is used since IT professionals use the term "data warehouse" to connote a system where the entire company's data resides in a single database separate from all programs.

One solution to outdated procedures is to empower teams of the best and brightest staffs to evaluate current procedures compared against business requirements and develop new, improved procedures.

- **Team Creation** – Teams are formed from different disciplines to develop the reporting tools that access the data warehouse and generate the financial reports required.

- **Procedure Reengineering** – All related procedures can be reviewed in light of the new approach, eliminating procedures that are no longer needed and improving other procedures to improve efficiency.

The concept behind this structure is simply to have accurate data efficiently placed in one place that can be accessed by all the professionals that need it. Alternative technologies can be adopted provided that they meet this single requirement.

This is not a simple process, but can be achieved incrementally over time at reasonable costs. The professional teams will improve both processes and the quality of data, first on a project basis then later as part of normal day-to-day operations.

Referring back to Figure 3 on page 5, we will now present our views on people, procedures and systems.

21st Century Staffing

Obviously, an organization needs to have qualified staff, staff that bring expertise to the organization and who can work well with their associates. The maximum flexibility occurs when staff members are organized into matrices of overlapping responsibilities and when teams can be formed rapidly to accomplish a mission and then disband.

Teams can either be temporary or the organizational structure can be transformed into a permanent matrix structure wherein cross-functional relationships are formalized. In some organizations, individuals may move from team to team, never taking a permanent line or staff position. What is most important is that the teams be composed of the organization's "best and brightest" people and that successful team efforts be considered an essential characteristic of all successful employees.

21st Century Procedures

Organizations run based upon multiple layers of procedures ranging from elementary procedures followed by administration units to record premiums to procedures followed by the board of directors to make strategic decisions. As time passes, procedures become outdated and overly complicated for current business requirements. Too much time may be spent on activities that add little value (or even subtract value) while higher priority projects receive little attention.

One solution to outdated procedures is to empower teams of the best and brightest staff to evaluate current procedures compared against business requirements and develop new, improved procedures. These teams can "map" current procedures, identifying obvious inefficiencies, then ask the question "why?" This uncovers outdated and outmoded inefficiencies that would otherwise continue indefinitely.

The multi-disciplinary team also adds perspectives and insights that no one functional area can contribute alone. IT professionals can suggest automation, actuarial resources can develop simple yet elegant alternatives and administrative staff can advise on what really will work and what will not.

A procedure review can be thought to follow several well-defined steps:

- **Identify Customer Requirements:** Although this article focuses on financial reporting, companies should always remember who generates the money that is reported – customers! Similar to the physician's oath to "first do no harm," a procedure review/redesign is predicated on maintaining (or improving) appropriate customer service.

- **Process Mapping:** Financial reporting can be subdivided into a number of distinct processes, each of which can be "mapped" to understand what information is input into the process, how this information is handled and what information is output to other processes. When the results of this are represented in a "spaghetti diagram," areas for improvement become self-evident. Redundant, useless or otherwise inefficient steps that are just opportunities to make mistakes can be eliminated.

- **Process Change:** Teams recommend appropriate improvement plans to an oversight group composed of more senior management and, if acceptable, they are implemented. Procedural improvements may involve people's responsibilities, tasks performed and alternatives. Automating additional tasks is frequently a critical element of this phase and may be achieved in a low-cost manner.

Once the original process redesign has taken place, staff should continuously search for further improvements. During one Italian project involving the author, closing time was reduced from eight to three working days. After completion of the project, the company's staff continues to reduce the closing time further.

21st Century Systems

Procedural reviews invariably encounter the company's computer systems, ranging from basic administrative systems to more sophisticated systems such as the general ledger and actuarial modeling systems. System issues frequently encountered include:

- **Vendors:** Companies may not be using the full functionality of existing systems. In other cases, computer system vendors can suggest efficient modifications of their systems to meet client requirements.

- **System replacement:** It is difficult to recommend a full-scale replacement of a given computer system unless it can be conclusively demonstrated that this solution is cost effective. Costs to be considered include internal costs of training employees and possible client disruption during a conversion.

This being said, the costs of excessive labor being routinely spent correcting system errors or poor policyholder service may justify such a decision. For example, one continental insurance company was operating four different administrative systems (as the result of acquisitions) where the savings from adopting a new system outweighed the cost of system migration.

- **New technologies:** New technologies continue to emerge that can improve financial management.

Overall, managers need to identify a broad outline of what a "perfect system" platform would look like and then empower its professionals to incrementally implement it.

Can this really be done?

It is difficult to find an international insurance company that would demonstrate that fast, flexible financial reporting is really feasible, since virtually all such companies take two months to report financial results after the close of a fiscal year. However, Cisco systems — an international technology company — did accomplish a "virtual close" during the 1990s. Larry Carter, Cisco's chief financial officer, stated that on the first day after the end of the financial reporting period:

> *We're done by 3 or 4 p.m. I get an e-mail with the revenues, margins, EPS and so on, but I already know them because I can track them every day.*[2]

Although it took four years to accomplish it, Cisco reduced the closing time from 14 days to less than one day and cut financial reporting costs in half.[3] Echoing some of the concepts introduced in this article, Larry Carter explained how this was accomplished:

> *Achieving the virtual close was not just a matter of rolling out new technology. It required a sustained, companywide effort to redesign our processes and align disparate parts of our business. Every month, we meticulously reviewed the closing process to pinpoint opportunities for improvement.*[4]

Reiterating the point that the objective of improved financial reporting process was to improve business capabilities, not just financial reporting, the *Fortune* article describes one of the early steps in the four-year project:

> *Carter began as all change managers should: with a highly visible project that mattered to people who set the tone for the company. At Cisco — which has grown 58 percent a year for the past five years — job one is to keep the salesmen happy. They were fuming because they spent too much time filling out expense reports and waited weeks to get reimbursed. So Cisco moved expense reporting to the Web and made it virtually instantaneous for all employees. Carter then worked to automate paying commissions — a giant step toward real time because it meant calculating revenues and commissions as orders were entered.*[5]

Ghislaine Royer is co-author of this article. She is director of Marketing and Development with Foyer International, S.A. in Luxembourg. She can be reached at ghislaine_royer@lefoyer.lu.

2) "Making Decisions In Real Time." *Fortune*; 06/26/2000, Vol. 142 Issue 1, p332

3) Carter, Larry. "Cisco's Virtual Close," *Harvard Business Review*, April 2001

4) ibid

5) *Fortune*, ibid

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Chairperson's Corner

by Marc Slutzky

Marc Slutzky, FSA, MAAA, is a consulting actuary at Milliman Inc. in New York, N.Y. He can be reached at marc.slutzky@milliman.com.

It is my privilege this year to become chair of the SOA International Section. In assuming the post, I must thank retiring section chair, Yiji Starr, and section council members, Rejean Besner and Mike Enright, as well as newsletter editor, Randy Makin for their efforts and accomplishments over the past years. I also welcome new council members Michele Chong-Tai Bell, Frank Buck and David Parmee, as well as newsletter editor, Cathy Lyn.

We had a well-attended activity at the SOA Annual Meeting in October 2004 in New York. Section members and guests toured the United Nations and enjoyed a cocktail reception there as well. The members attending included the SOA ambassadors to South Korea and New Zealand. There was an informative tour of the building and we learned about the history of the United Nations, the building, its agencies, members and staff. Many thanks to Lois Chinnock and Martha Sikaras of the SOA who helped arrange it. Over the last several years the section activity at the SOA Annual Meeting has proven to be one of our most popular functions, and I expect that next year's will be as interesting.

The next year promises to be an exciting one for the section. The section and practice area evolution within the SOA is well under way, and this will allow us to participate in more SOA activities and have more frequent and meaningful communication with all of the other areas in the SOA. At the section council meeting in October, we agreed that the primary activities of the section are to provide a sense of community and opportunities for our members to interact, and to obtain and communicate information and ideas on current and emerging relevant issues for our members, as well as other activities.

The council is eager to learn about any of your desires and needs for section activities, plans and initiatives. Please let us know what these are so that we can consider them, and, if possible, make them happen.

I look forward to an eventful year. ☐

Thanks,

- Marc

The Challenge of Financial Reporting... | from page 7

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Although insurance companies follow different business models from Cisco and have different financial reporting requirements, it appears feasible for them to achieve improvements similar to those achieved by Cisco.

Conclusions

Successful managers know that they can gain 80 percent of the benefits from any project from only the first 20 percent of efforts. In a rapidly changing world this is a reasonable objective since even perfect results will quickly become obsolete. To be successful, a company should:

- Have full senior management commitment, since these people will have the most to benefit from access to real time information.
- Aim for perfection — the virtual close — but willingly accept incremental progress. Think long-term, but focus on short-term actions — actions that can improve results in months rather than years.
- Focus on improving internal capabilities to make continuous improvement a permanent part of the organization. Use outside resources only when absolutely necessary — for example, for training or specialized purposes. Staff that has been trained to improve processes once can do it again!
- Focus on customer requirements — if the customer is happy, then the business will grow and an increasing revenue base will more than cover overhead expenses.
- Optimize systems and processes in place, replacing them only when cost justified.

Improving financial reporting at reduced costs is not only possible, but has already been done. The example given in this article, Cisco systems, proves that a company can accomplish virtual closing at half the prior cost in just a few years. ☐

Actuarial Conference in Trinidad

by Marcia Tam-Marks

The Caribbean Actuarial Association (CAA) held its 14th annual conference on December 1-3, 2004 at the Hilton Hotel in Port-of-Spain, Trinidad. The theme for the conference was "Accepting New Realities," which addressed the changing regional and global landscape in which actuaries operate.

The conference commenced with two workshops for Caribbean actuaries, students and regulators. The first workshop discussed proposed IAA standards and focused on CAA standards; brainstorming the next steps for the CAA in developing and adopting its own standards of practice. It was also an opportunity for the CAA to strengthen its relationship with the local regulators. To this end Allan Brender of Canada's OSFI conducted a workshop on solvency and financial condition assessment for Caribbean students and staff from the local Office of the Inspector of Financial Institutions.

Day two brought the official opening of the conference by the CAA president Ms. Robyn Day. This was followed by insightful discussions on "The Vision for the Financial Landscape of the Caribbean" by the governor of the Central Bank of Trinidad and Tobago, Mr. Ewart Williams, Mr. Arthur Lok Jack, an entrepreneur and chairman of Guardian Holdings Limited, and Dr. Norman Girvan, a distinguished regional scholar. Other topics included IFRS4 readiness by Caribbean companies, the future effects of the social demographics in the region, views from the accountants, the financial analysts and the regulators on the impact of volatile financial statements and lessons learned from the fallout of the Equitable Insurance Company in the United Kingdom.

As is usual, day three focused on the more technical issues. Both Caribbean and foreign actuaries presented on various topics including critical illness, pension plan governance in the Caribbean, financial economics and pension actuaries, enterprise risk management, how insurers create value for shareholders, insurer solvency and financial condition assessment, embedded value versus economic value and the implications for social security in the Caribbean with the introduction of the Caribbean Single Market and Economy (CSME). All of the presentations can be found in downloadable format on the association's Web site at *www.caa.com.bb*.

The CAA achieved a major milestone in 2004, when a motion was passed at the Annual General Meeting to adopt its first standard of practice for pensions, APS 1. This standard took effect on January 1, 2005. The life standard will be exposed for 2005 before being put up for adoption at the next AGM.

Both the president of the Institute of Actuaries, Mr. Michael Pomery, and the president of the Canadian Institute of Actuaries, Mr. Brian Fitzgerald were in attendance as was Dr. Harry Panjer, who represented the Society of Actuaries. The CAA conference has become a must on the calendars of several reinsurance actuaries and software providers from the United States, Canada and the United Kingdom. There were approximately 125 attendees at this year's conference.

The local financial fraternity as well as some of our foreign colleagues graciously sponsored the luncheons and dinners at the conference. In particular, sponsorship was received from Eckler Partners Ltd., AXIS, Valani Consulting, Munich Re, RBTT, Guardian Life of the Caribbean Limited and Tatil Life.

One of the highlights of attending a Caribbean conference, aside from the beautiful warm weather, is the unforgettable entertainment. Trinidad is known all over the world for it's steel pan and calypso music. Actuaries come to life and exhibit rhythm as never experienced before, especially our non-Caribbean visitors. Attendees were treated to tasty Caribbean cuisine, the sweet sound of the steel pan, belly dancing, tassa drumming and on Friday night, a boat cruise in the Caribbean waters while they danced to the sweet sound of 'soca' music.

Several of the conference attendees have vowed to make this conference an annual event on their calendars, while others have volunteered their services to speak at the next conference. Have you marked your calendar for the 2005 conference? The CAA conference is held annually during the first Thursday and Friday in December. This year's conference will be held in Jamaica. For more information please visit our Web site at *www.caa.com.bb*. ☐

Marcia Tam-Marks, FSA, MAAA, is an external consultant at Eckler Partners Ltd. in Port of Spain, Trinidad. She can be reached at mtam-marks@eckler.ca.

Reconstruction of the Insurance Industry in Jamaica — An Enhanced Role for the Jamaican Actuary

by John W. Robinson

Introduction

Policyholders of the Jamaica Mutual Life Assurance Society awoke on the morning of August 2, 1999, to find the company closed for business.

Mutual Life, founded in 1855, was one of the most stable companies in the English-speaking Caribbean. Its failure was part of a general failure of the financial services sector. All locally owned banks and insurance companies were seriously affected.

In this article, I will recap the causes of the failure, discuss the response of the government of Jamaica and end with an explanation of the appointed actuary's new role.

Causes of the Failure

In the early 1990s, the government of Jamaica pursued a policy of liberalization of the financial sector. This included:

(a) Relaxation of controls over entry into the sector;
(b) Elimination of foreign exchange controls and
(c) Deregulation of interest rates on savings.

The government strengthened the regulatory framework for monitoring and enforcing new banking rules, but there were no changes to the supervision of insurance.

With liberalization came a major expansion of bank credit. However, loans were made without proper risk assessment. Moreover, loans were primarily consumption-oriented rather than production-oriented. Inflation eroded borrowers' ability to repay loans; interest rates increased dramatically, which in turn further eroded borrowers' ability to repay loans. Consequently, the banks suffered a high proportion of nonperforming loans.

In the insurance company arena, there were three relevant developments:

(a) Financial sector groups;
(b) The extensive use of real estate to back liabilities and
(c) The impact of inflation on internal expenses.

Financial sector groups emerged during the late 1980s. Typically, a group included a life insurance company, a commercial bank, a building society and a general (property-casualty) insurance company. Their goal was to minimize the overall impact of regulation, supervision and taxation on the enterprise. They typically had interlocking boards of directors and extensive inter-group transactions. This made it impossible to tell the true financial position of any one member of the group.

Financial sector groups emerged during the late 1980s...Their goal was to minimize the overall impact of regulation, supervision and taxation to the enterprise.

For life insurance companies, real estate was the main asset class used to back policy liabilities. There were two main reasons for this:

(1) The country had a dire need to generate foreign exchange. A company that had the ability to help meet this need and failed to do so could be seen as socially irresponsible.
(2) There was no other asset class in abundant supply.

So, life insurance companies invested heavily in tourism-related real estate, agricultural ventures and office buildings.

One of management's responses to inflation was to increase salaries beyond the level that could be accommodated within their price structure. In order to generate cash, they sold large amounts of deposit-like contracts that offered high interest rates and liberal withdrawal provisions. Many of these contracts were equity-linked (i.e., variable). With the economy in decline, the stock market plummeted, and policyholders exercised their withdrawal rights. This run on the bank could not be financed by normal cash flows, so the life insurance companies turned to their bank affiliates for loan support.

Real estate also suffered a major decline as fewer tenants could afford to pay increasing rents, and this, combined with the normal illiquidity of real estate, created two major adverse effects:

(1) The life insurance companies became insolvent, due to the decline in the value of their assets; and
(2) They were unable to repay the loans from their bank affiliates.

A severe asset-liability mismatch, combined with a decline in asset values, led to the demise of all the locally-owned life insurance companies, and consequently spread to further cause the demise of their affiliated banks. Ironically, foreign-owned banks, such as the Bank of Nova Scotia, became favored. They avoided a similar fate by not becoming part of a group, and by having superior internal controls.

Economists have identified other contributing factors:

(1) CEOs of the life insurance companies were too prone to bend prudential norms and regulations
(2) Deficient management
(3) Lack of a credit-reporting entity
(4) A deficient regulatory environment, particularly for insurance
(5) Increased risk-taking and reduced managerial prudence that resulted from liberalization
(6) Within the financial sector groups: lack of transparency of relations and lack of accuracy of information on the individual companies

The Jamaican Government's Response

The government responded on two levels: financial and regulatory.

Financial

The precedent for the financial response was set in 1994, when problems with Blaise Trust were uncovered. The government's response was to:

(1) Guarantee depositors' funds;
(2) Shut down Blaise Trust, liquidate its assets and recover what it could; and
(3) Take legal action against its owners, where warranted.

In 1995, Century National Bank had similar problems, and the government took the same steps.

In mid-1996, CEOs of the troubled life insurance companies approached the government for assistance. What appeared to be liquidity problems were also revealed to be solvency problems. In 1997, following a study by local and international experts, the government formed the Financial Sector Adjustment Company (FINSAC) and announced that it would again guarantee depositors' funds.

FINSAC's mission was in three phases:

Phase 1: Intervention

Phase 2: Rehabilitation

Phase 3: Divestment

The mission was to be completed in five to seven years. As a result of FINSAC's work, the 13 locally owned life insurance companies have been merged into two, both foreign-owned.

FINSAC has provided J$65-70 billion of financing to the troubled institutions in the form of Government-guaranteed bonds. When this is compared to the 2002 GDP of J$364 billion, the magnitude of this is apparent.

In effect, the government has created money. The impact of this will unfold over many years, as the bonds come due.

The rationale behind the government's method of resolving the problem was to restore public confidence in the financial sector. This is in contrast to the "shut-it-down" approach adopted in other Third World countries with similar problems, such as Indonesia. The shutdown of Mutual Life was a major loss to the corporate community. Its reincarnation, Guardian Life, began operations a few weeks later.

Regulatory

The need for comprehensive regulatory reform was clearly understood. The Insurance Act of 2001 was drafted to replace the Insurance Act of 1971. The new law (94 pages) is accompanied by a substantial set of regulations (1,038 pages) and a separate set of actuarial regulations (57 pages).

The drafters of the new law recognized the need for regulatory convergence — to ensure that the regulation of the different sub-sectors was synchronized. The new Insurance Act was one of five new pieces of legislation.

The other set of driving principles was the Insurance Core Principles (ICP) developed by the International Association of Insurance Supervisors (IAIS). As of October 2003, there were 28 of them, with more to come.

I will now outline nine of these principles, which I consider particularly relevant to the Jamaican situation.

(1) *ICP 1 Conditions for effective insurance supervision*
Insurance supervision relies upon
- A policy, institutional and legal framework for financial sector supervision;
- A well-developed and effective financial market infrastructure;
- Efficient financial markets.

Not only is this applicable to successful supervision; it is a prerequisite for a successful insurance industry.

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In mid-1996, CEOs of the troubled life insurance companies approached the government for assistance. What appeared to be liquidity problems were also revealed to be solvency problems.

(2) *ICP 3 Supervisory authority*
The supervisory authority
- Has adequate powers, legal protection and financial resources to exercise its functions and powers;
- Is operationally independent and accountable in the exercise of its functions and powers;
- Hires, trains and maintains sufficient staff with high professional standards.

(3) *ICP 5 Supervisory cooperation and information sharing*
The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.

This is particularly applicable because the two continuing life insurance companies are foreign-owned.

(4) *ICP 7 Suitability of persons*
The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.

The right of ownership is normally conferred on the basis of ability to pay. This ICP suggests that this criterion is not enough. Also, it implies an increased level of accountability for boards of directors.

(5) *ICP 9 Corporate governance*
The supervisory authority requires compliance with all corporate governance standards.

(6) *ICP 10 Internal control*
The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.

This ICP bears comparison to the principles and objectives underlying Sarbanes-Oxley.

(7) *ICP 18 Risk assessment and management*
The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.

Management should not simply "bury its head in the sand" regarding risk.

(8) *ICP 21 Investments*
The supervisory authority requires insurers to comply with standards on investment activities.

The old law had no restrictions on investment policy.

(9) *ICP 26 Information, disclosure and transparency toward the market*
The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.

Recall that the financial sector groups routinely violated this principle, by design.

Some Provisions of the New Law, And Resulting Changes

(A) INVESTMENT REGULATIONS
The new law has restrictions on the asset classes that are suitable for backing life insurance liabilities. To be eligible for purchase by an insurance company, a security must be:
- Interest-bearing; or
- Interest-accruing, or
- Dividend-paying;
  AND
- Not in default.
- Real estate is admitted
- For the head office and branch offices,
  AND
- Only up to 10 percent of assets.

Not more than 5 percent of assets may be in any one security. Bonds issued by the government of Jamaica, municipalities and government agencies are admitted.

Obligations of certain (named) regional financial institutions are admitted. Preferred or guaranteed stocks are admitted, up to 15 percent of assets. Ordinary shares (common stock) are not admitted.

First mortgages are admitted,
$\leq$ 80 percent LTV for residential mortgages up to 30 years;
$\leq$ 75 percent LTV otherwise.

Every investment must have the approval of the Investment and Loan Committee.

The following table compares the asset portfolio of Life of Jamaica at year-ends 1990 and 2003.

Investments	1990	2003
Leased assets	0.0%	0.0%
Real estate	33.6%	5.5%
Quoted equities	7.8%	4.5%
Gov't. of Jamaica & other fixed-income securities	8.2%	55.8%
Unit trust	9.9%	1.3%
Term loans and deposits	6.7%	0.3%
Mortgage loans	7.3%	4.2%
Policy loans	5.6%	1.9%
Other	0.0%	0.1%
Investment in subsidiaries	8.6%	7.8%
Investment in associated company	0.8%	0.0%
Fixed assets	3.6%	3.0%
Goodwill	0.0%	5.2%
Other assets	8.0%	10.3%

Notice the great decrease in real estate assets and the corresponding increase in fixed-income assets, consisting mainly of government bonds.

(B) SOLVENCY REQUIREMENTS,
LIFE INSURANCE

The new law set out, for the first time, minimum continuing capital and surplus requirements (MCCSR), similar to those in Canada:

Available capital $\geq$ minimum capital, where minimum capital = the sum of components for

- Asset default risk
- Changes in interest rate environment risk
- Foreign exchange risk
- Interest margin pricing risk
- Mortality / morbidity / lapse risk

MCCSR percentage = Available capital ÷ Minimum capital

The minimum MCCSR percentage is scheduled to increase each year to 150 percent by 2010, and remain there.

(C) SOLVENCY REQUIREMENTS,
GENERAL INSURANCE

The new law set out, for the first time, solvency requirements for general insurance companies.

Admitted Assets $\geq$ Required Assets

Required Assets = Total Liabilities
+ Reserves for reinsurance ceded to unlicensed reinsurers
+ margins for unearned premiums and claims

(D) CORPORATE GOVERNANCE

A 1988 study of bank failures in the United States found the following primary causes:

- Uninformed or inattentive board of directors;
- CEO lacked capability, experience and/or integrity;
- Inappropriate transactions with affiliates.

Risk-based supervision requires strong corporate governance and less emphasis on compliance. The new regulatory approach stresses sound business and financial management.

Risk-based supervision requires strong corporate governance and less emphasis on compliance. The new regulatory approach stresses sound business and financial management.

Requirements include:
The board of directors must appoint

- An Audit Committee;
- An Investment and Loan Committee; and
- A Conduct Review Committee.

The board of directors must have a written policy for each of the risks faced by the company.

(E) APPOINTED ACTUARY

Prior to new law, the life insurance actuary's responsibility was limited to the calculation of reserves and the pricing of insurance products. There was no requirement or authority related to the companies' investment policies.
General insurance companies had no actuaries; senior management considered them unnecessary.

The new law provides that every insurance company must appoint an actuary.

Under the new law and regulations, the actuary shall:

- Value reserves and other policy liabilities

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- Submit a report at the annual general meeting of shareholders and policyholders;
- At least once a year, meet with the board of directors to report on the company's financial position;
- Submit a written report to the CEO and CFO on matters adversely affecting the company, *with a copy to the regulator*. If management fails to act, the actuary must notify the board of directors *and the regulator*.

Upon termination, the actuary must communicate in writing the reasons, to the regulator, the board of directors and his/her successor.

The appointed actuary must carry out Dynamic Capital Adequacy Testing (DCAT) annually. The objective of this exercise is to identify threats to future solvency and mitigate those threats.

Finally, the actuary is expected to play a key role in risk management.

In effect, the actuary's role now includes the role of whistleblower, with built-in protection from arbitrary termination.

CONCLUSIONS

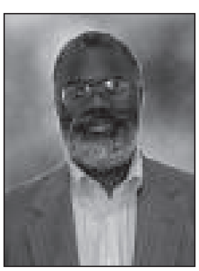
Jamaica provides a prime example to the Third World of how to handle a financial crisis without IMF assistance. However, the impact will evolve over many years.

In Jamaica, the appointed actuary, and the profession in general, now has a much more demanding, more respected and more public role, as well as the independence needed to act as a quasi-regulator.

While the situation for life insurance companies is much improved, this author is concerned about two ongoing issues:

1. While the asset side of the balance sheet seems much more appropriate to the purpose, the issue of whether there is a proper asset-liability match also depends on the nature of the liabilities.

2. The government of Jamaica is currently the primary provider of the fixed-income assets used to back the life insurance liabilities. The motivation for the government to issue bonds is not necessarily aligned with the needs of the life insurance companies. This author believes that companies should do what they can to foster a private-sector bond market. □



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China Update: What Happened in the Chinese Insurance Market in 2004?

by Guo Dan

The year of 2004 was an unusual year, especially for the Chinese insurance market. This was filled with milestones, which have been integral to the development of the Chinese insurance industry.

Opening of the Market

China's insurance industry fully opened to the outside world at the end of 2004, three years after China entered the World Trade Organization. According to the agreement, China has removed all restrictions on foreign insurance companies, including business location, scope of business and market access. As a result, local insurance companies thoroughly lose the protection of the Chinese government and face strong foreign competition. Statistical data shows that the premium income of foreign insurance companies in China during the first half of 2004 were up over 50 percent compared to the same period last year. And their share of the Chinese insurance market will continue to increase.

Business Specialization

China Insurance Regulatory Commission (CIRC) approved licenses for the first agricultural insurance company, first health insurance company and first annuity insurance company in 2004. The insurance industry has become more specialized. Insurers have begun to branch out into all major areas of the industry, including those that are newly open to foreign insurers — pension and health insurance — and deal with the competition positively.

Chinese insurance companies are trying to tap into international capital markets. PICC Property and Casualty Co, Ltd. and China Life Insurance Co., the nation's largest property and life insurance firm, launched global IPOs in 2003. Ping An Insurance (Group) Co. of China, the nation's second-largest life insurer, also launched its IPO in Hong Kong with great success. TaiKang Life Insurance Company Limited pioneered the issuance of subordinated bonds by the industry in China. New China Life also announced a successful subordinated bonds issue recently. Undoubtedly, the local insurance industry's expansion into domestic and global capital markets will promote the development of China's market system, strengthen local insurers and improve local insurers' management, product innovation and service.

Investment Expansion

Insurance firms in China had long been frustrated by the restricted investment scope set by regulators. They could only invest in bank deposits, treasury bonds, selected corporate bonds or trade stocks through securities investment funds. This threatened their repayment capacity, especially for those high guarantee policies. Now, the situation has changed. Several regulations were issued in 2004. Insurance companies are allowed to invest in subordinated bonds issued by banks and convertible bonds. With the permission of CIRC and China Securities Regulator Commission (CSRC), insurance companies can invest directly in the stock market. Restrictions still remain for insurance capital in foreign exchange to be invested overseas. Just as a CIRC spokesman said, these are major steps in broadening the limited investment scope of the domestic insurance industry. The loosening policies will help insurance companies broaden their investment scope, improve investment returns and diversify investments.

Changing Regulation

Simplifying policy filing

CIRC issued new policy filing regulations in June 2004. Products not violating actuarial requirements need not be approved by CIRC beforehand, but companies are required to send files to CIRC after the product is sold. This draft regulation speeds up the product filing process. CIRC plans to remove restrictions on product pricing so that insurance companies can design more competitive products. The draft regulation being discussed now and may take effect in the near future.

New requirements for actuarial reports

In order to control risk better, the CIRC enhanced its regulation on solvency. The CIRC's annual report of reserves will be replaced by annual actuarial report in 2006. In addition to reserve reporting, the actuarial report should include respective business report of par, universal life and unit-linked products. The report also requires that the appointed actuary reports on the adequacy of reserves and assets. Furthermore, regulation on the insurance protection fund was issued recently. This regulation requires that a specified percentage of premium income should be devoted to the protection fund that will be used to compensate policyholders if the insurance company were to announce bankruptcy. □

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Offshore Pension Plans —
Their Role in Global Pension Programs

by Stephen J. Ainsworth

Editor's Note: This paper was first presented to the International Association of Consulting Actuaries in Amsterdam in 2002. It was updated in December 2004

Abstract

One of the interesting aspects of many global pension programs is the offshore pension plan. This paper explores the continuing popularity of such plans and reviews their design and funding. It then considers the practical operation of offshore pension plans from the viewpoint of a practitioner in this specialized field.

1. Introduction

Offshore pension plans have been around for at least as long as the International Association of Consulting Actuaries, but have received little attention at past conferences, despite the fact that two such conferences (Bermuda and Hong Kong) were held in international finance centers where such plans have been established. This paper seeks to remedy this and to indicate why offshore pension plans remain as popular as ever.

The paper is written from the perspective of a practitioner working in Guernsey, Channel Islands, where a large number of offshore pension plans are based. The practical examples are thus drawn mainly from such plans established by multinational companies with head offices in the United Kingdom. However, the concepts should be of application more generally to offshore pension plans, wherever they may be based.

The paper concentrates on trusts established to provide specific pension provision. It does not consider the use of other employee benefit trusts (established for example to deliver share options or awards). Neither does it consider the use of employee benefit captives for the delivery of risk benefits. Both structures are also encountered offshore and merit consideration, but will need to await a further paper.

2. Some Definitions

In order to set the scene it is useful to start with some definitions. While the terminology is not universal, the following definitions would probably be generally accepted:

- An **offshore pension plan** may be described as a pension plan established in an offshore location, which is the home country of neither the employer nor the employees, to provide benefits for the international staff of a multinational group. Thus, a United Kingdom multinational company might establish an offshore pension plan in Guernsey to provide retirement benefits for its international staff working, for example, in Africa or the Far East. The plan can sometimes also be used to encompass locally recruited staff in overseas locations where, by reason of economies of scale or because of the lack of local pensions vehicles, it is efficient to arrange their pension provision through a global offshore pension plan.

- **International staff** might be career expatriates, or may be secondees or permanent transferees from one country to another, while remaining within the multinational's group of companies.

- A **career expatriate** is an employee recruited for international service (probably in a number of countries in the course of a career) or an employee transferred into this category in the course of their service within the multinational group.

- A **secondee** is an employee recruited in one country and seconded from there to another country for a specific period, or to carry out a specific project, with the intention that he or she will return to the original country when the period of secondment is over.

- A **permanent transferee** is an employee recruited in one country and then subsequently transferred permanently to another country.

- International staff are sometimes referred to as third-country nationals (TCNs) although strictly a **third-country national** is a citizen of one country, working in another country for the local subsidiary of a parent company that has its headquarters in yet a third country (for example a Dutchman working in France for the French subsidiary of a U.K. parent company).

In practice, the distinctons between these categories may become blurred at times, and employees may move from one category to another as their careers progress.

3. Reasons for Establishment

But why set up an offshore pension plan? This is usually because the alternatives have been considered and found unsuitable.

It is not generally possible for a multinational group to retain all its global employees in a single pension plan established in its home country. In the case of a U.K. multinational, for example, there are only limited circumstances in which secondees or employees of overseas subsidiary companies (whether locally recruited employees or permanent transferees) may remain active members of the U.K.-exempt approved pension plan, although this may change once the U.K. government's arrangements for pension "simplification" are adopted in 2006. In recent years there has been some discussion about the possibilities of global (or at least pan–European) pension plans, but to date the taxation and social insurance difficulties have proved insurmountable. This may change in time, at least within the European Union, since the pensions directive came into force in 2003 with a requirement generally to adopt its provisions into national legislation by September 2005. However, even if the regulatory, taxation and social insurance obstacles can be overcome within the European Union, this will not provide a complete solution for most multinational groups, as their activities will extend beyond the European Union boundaries.

Equally, the pension arrangements (if any) of the local overseas subsidiary company are unlikely to be suitable for international staff posted there for a limited period. Such local arrangements will have been designed in the local currency to meet the needs of the local staff, having regard to the available local social security benefits, local expectations and the local cost of living, and may well not meet the requirements of any international staff working in that location. In particular, international staff may not work in any location long enough to build up a full social security contribution record, and may not qualify under any local vesting requirements for occupational benefits either. Moreover, few international staff retire in the country of their assignment and those career expatriates with a series of overseas postings would not wish to accumulate a number of small deferred benefits denominated in a variety of currencies en route (even if the vesting conditions had been satisfied) and overseas transfer payments are not usually available. Additionally, international staffs are unlikely to appreciate retirement benefits denominated in the currencies of certain emerging market economies, or payable from some developing countries.

An additional reason for establishing an offshore pension plan (or more usually for extending the scope of a plan already created for career expatriates) can be to provide pensions (or other leaving service benefits) for local staff where there are no suitable local investment vehicles for pension provision, or in order to gain from greater economies of scale when investing the assets.

4. Possible Locations

When selecting a location, a number of features will need to be considered.

- The location should have political and economic stability, and a good reputation as an international finance center.
- There should be no exchange controls to restrict the flow of income or outgo.
- Regardless of whether the location itself is tax-free, there should be legislation that exempts offshore pension plans from local taxation, both on investment income and on the benefit payments, whether in pension or lump sum form.
- The regulatory authorities should have a helpful approach and be prepared to respond rapidly.
- There should be minimal restrictions on benefit levels, and the ability to take benefits wholly in lump sum form can often be important.
- Assuming that the pension plan is to be established under trust, the location should recognize the concept of a trust and have its own trust law.
- There should be appropriate (but not excessive) regulation of pension trusts and trustees.
- There should be a range of support services to enable the offshore pension plan to be managed effectively.
- There should be good postal and telecommunication links with the home country of the parent company, and ideally

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It is not generally possible for a multinational group to retain all its global employees in a single pension plan established in its home country.

convenient air links so that corporate executives can visit the location easily.
- Communications are also assisted if the location is in a similar time zone as the parent company and if it shares a common language.

Having regard for these features, there are three types of location generally considered for offshore pension plans.

First, there is the home territory of the parent company. For U.K. multinationals for example, and perhaps surprisingly, the United Kingdom could itself be considered to be an "offshore" location for this purpose, through the facility to set up such funds under the provisions of Section 615(6) of the U.K. Income and Corporation Taxes Act 1988. This has the advantage that the pension plan could be controlled and managed in the United Kingdom alongside the domestic U.K. pension plan. However, the future of such plans is uncertain in the light of the U.K. government's arrangements for pensions' "simplification."

Secondly, there are other "onshore" locations such as Switzerland that may be considered, although the lack of recognition of the concept of a trust in much of mainland Europe is unlikely to make many European onshore locations attractive. One possible exception is Luxembourg, which has recently introduced two new funding vehicles as a possible solution to the pension provision of mobile employees within the European Union. However, these are not trust-based arrangements and it is still too early to say whether they will prove popular.

However, in practice, most offshore pension plans are established in one of the world's international finance centers in order to provide greater flexibility. The choice of location will depend in part upon the location and time zone of the parent company. So far as U.K. multinationals are concerned, while some such plans are established in locations such as Bermuda or the Cayman Islands, the obvious choices are Guernsey, Jersey or the Isle of Man, both because of their respected reputation and financial infrastructure, and also because of ease of communications (having a common time zone with the United Kingdom and convenient air links). Guernsey and Jersey both have a minimum of regulatory requirements, while the Isle of Man has recently introduced a comprehensive regulatory regime (modeled on parts of the U.K. Pensions Act 1995).

5. Benefit Design

Historically, many offshore pension plans were set up on a defined benefits basis, to reflect the benefit design of the multinational's home pension plan. Minor adjustments might be made to reflect the overseas service. For example, benefits might be based upon a notional home country salary or adjustments made for differences in social insurance accruals. As a variation, a "base country" approach has sometimes been adopted, whereby a base country would be determined for each of the international staff and benefits provided on the same basis as local staff working in that base country, regardless of where the international staff are posted from time to time. A further variation has been to determine a special benefit structure for all international staff, perhaps with a higher accrual rate or a lower pension age than for comparable staff in the multinational's home pension plan.

Historically, many offshore pension plans were set up on a defined benefits basis, to reflect the benefit design of the multinational's home pension plan.

However, defined benefit structures are often too inflexible to provide for all the variations encountered in the employment conditions for international staff and one can end up with as many variations from the standard benefit package as there are members in the offshore pension plan. In addition, defined-benefit structures can be complex in practice to administer. While it may be equitable to allow for the effect of differing social insurance accruals for each member, it can prove exceedingly difficult in practice to determine just what those accruals may be in some countries. This can be a problem for funding calculations, but a major concern for benefit calculation purposes, where benefits are to be brought into payment (or a transfer payment made) before the social insurance benefits fall due.

Thus, a defined contribution structure is particularly suitable for international staff, since it is easier to design a defined contribution arrangement, with contribution rates determined to fund a target level of benefits (where this is desired), than to have a rigid defined benefit structure. Such an approach also streamlines the documentation required, since there is no longer any need to draft detailed schedules of benefit rules. Instead, standard defined contribution documentation can be adopted, supplemented by individual member letters setting out any target benefits to be provided on a case-by-case basis.

Accordingly, in common with trends elsewhere in the United Kingdom and North America, most new offshore pension plans are set up on a defined contribution basis and some existing defined benefit arrangements are being converted to defined contributions.

Another trend is to establish offshore pension plans on a "master trust" approach, so that a number of different plans (with different benefit designs, or perhaps funded by different companies within the multinational group) can be provided within a single trust. This can prove more cost effective than setting up separate trusts. It can also provide a central-funding vehicle for local pension plans operated by subsidiaries within the group who do not have suitable investment vehicles in their particular locations.

Flexibility of plan provisions should be aimed for wherever possible, in order to cope with the unexpected. This can often be more readily achieved with a pension plan in an offshore location than in heavily regulated onshore locations, for example to permit the payment of retirement benefits in lump sum form when required, and to permit the accumulation of unallocated (surplus) reserves and/or for their return to the employing companies as agreed from time to time.

6. Funding

Conventional defined benefit offshore pension plans would typically be funded using the attained age or projected unit methods of valuation and using similar assumptions as for the equivalent onshore pension plans of the parent company. The attained age method may be more often used, in view of the relatively small numbers of members usually found in offshore pension plans, and hence the greater variability of the experience. Equally, the size of membership would not normally enable scheme-specific actuarial assumptions to be adopted.

The general absence of complex solvency requirements for defined benefit offshore pension plans gives welcome flexibility for the employer, but can result in some concerns about security of benefits, particularly in small plans.

Accounting standards on pension costs are unlikely to be a factor in determining the funding plan, as offshore pension plans are unlikely to be material to the reporting entity, so the cash contributions made during the reporting period would then be used for accounting purposes.

Where the offshore pension plan has been established on a defined contribution basis, but with a target level of benefits, a current unit method of calculation may be more appropriate. Thus the funding objective would be to provide for the leaving service benefits at any time, but no more, in order to prevent surplus arising in the event of leaving service. This would be expected to lead to an increasing funding requirement with age and service.

Indeed, provided that the sponsoring employer understands the increasing funding commitment over time, there is an argument that a current unit valuation method would be appropriate for conventional defined benefit offshore pension plans with only a handful of members, to avoid the need to dispose of surplus in the event of the members leaving service.

7. Trusteeship and Administration

Central to the establishment and operation of a successful offshore plan is the appointment of a suitable trustee and administrator. The trustee should be based in the chosen offshore location in order to demonstrate control and management there (and thus not, for example, in the home country of the multinational) and to avoid taxation or regulatory problems in the home territory. Several international finance centers specialize in the provision of trustee services, although most trustee services are geared to the provision of private discretionary trusts for high net worth individuals, and the number of trustees with meaningful experience in pension trusts remains limited. The better-regulated international finance centers have not only introduced their own trust law but have also introduced legislation to regulate professional trustees (or are planning to do so). Thus, a check should be made to ensure that the intended trustee is fully licensed in the chosen territory.

Some multinationals will have a natural wish to retain more control of the trustee function than is possible with the appointment of an independent professional trustee. In such cases, a suitable solution can be to form a separate trustee company in the offshore territory as a subsidiary of the multinational which would act as a single purpose vehicle for the trusteeship of the offshore pension plan, and then to delegate the management of that trustee company to a suitable independent professional trustee company based in the offshore territory.

While the trusteeship should be performed in the offshore territory, it is still possible to delegate some administrative functions back to the multinational's pensions department in the home territory. It would be advisable for the accounting functions to be performed in the offshore territory, but the membership administration (being the more technically complex part of the operations) can, where desired, be delegated back, though an appropriate administration agreement should be put in place to

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The general absence of complex solvency requirements for defined-benefit offshore pension plans gives welcome flexibility for the employer, but can result in some concerns about security of benefits, particularly in small plans.

demonstrate that ultimate control remains with the trustee.

Similarly, investment management need not be carried out in the offshore territory. It is increasingly common for offshore pension plans to invest in the pooled funds of major financial institutions. In the case of defined benefit plans this is because most such plans are of a size that direct investment into securities is at best only of marginal advantage relative to pooled fund investment. In the case of defined contribution schemes this is to simplify the unit-allocation process between plan members.

8. Establishment and Operation

The offshore pension plan would be established by means of a trust deed and rules (and an interim deed approach could be used where required if there is a particular urgency in the establishment timetable, with a definitive deed and rules to follow at a later date). It is normally advisable for the documentation to be reviewed by a lawyer in the offshore territory to ensure compliance with local laws. The documentation should be submitted for approval (or confirmation of exemption from local taxation, as applicable) to the offshore territory's income tax office and any other relevant regulatory body there, and the usual procedure would be to submit a draft for clearance before execution if the provisions are at all non-standard.

Before proceeding, it would also be advisable to check out the taxation and regulatory position for the offshore pension plan in each of the locations where the intended members are based. In particular, employee contributions to an offshore pension plan are not usually tax deductible, and so it is usual to make the plan non-contributory. If employer contributions would be taxable on the employee as a benefit in kind then it may be necessary for such tax to be recompensed by the employer.

Offshore pension plans will often include life assurance benefits that will require reinsurance, because of the level of cover required for the generally senior nature of the membership or the relatively small number of members involved. This can prove to be a practical problem if cover is needed in excess of the available free cover limits, as it can prove difficult to persuade hard pressed international staff to attend a medical examination. In such circumstances a degree of self-insurance or limitation of cover may be needed unless the problem can be avoided entirely by including such international staff in the group life policy of the multinational parent company.

Disability and medical benefits are not usually included in an offshore pension plan.

Member communication is important to the success of any pension plan, and is particularly important for offshore pension plans, where the members are physically remote both from head office and from the trustees and administrators. In addition to the usual member statements and scheme booklets it is therefore useful to set up other communication lines. Telephone help lines can sometimes be useful, though time-zone differences sometimes make that impractical. A more common substitute nowadays is an e-mail help line to the administrator's offices. This may well be supplemented (at least in the case of the larger offshore pension plans) by Internet access to a dedicated-plan website with secure access to membership information and (for defined contribution schemes) details of individual account balances.

9. Summary

I hope that this paper has provided a useful introduction to this specialized field, and will encourage other actuaries to explore the offshore pension-plan opportunities with their clients.

In my opinion, offshore pension plans have a continuing and expanding role in global pension programs. While the initiatives of the European Union in encouraging cross border and pan-European pension provision are to be commended, it seems unlikely that they will replace the need for well-designed and targeted offshore pension plans. It should be borne in mind that most multinational companies do not confine their operations to European Union countries, and so the adoption of the E.U. Pensions Directive is unlikely to see the demise of the offshore pension plan. In fact, the demand for such plans is expected to continue as companies increasingly find the need to conduct their businesses internationally. ☐

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New Zealand Update

by Richard J. Geisler

I may be one of the longest-serving ambassadors, having been appointed shortly after the program began. There is no excuse for not responding to your request for information about this beautiful country.

New Zealand actuarial practice is governed by the New Zealand Society of Actuaries (NZSA) with membership comprising actuaries qualified by examination by the recognized actuarial bodies around the globe. The majority of our members are either qualified through the Institute of Actuaries of Australia or the Institute/Faculty of Actuaries in the United Kingdom. There are a few members from South Africa, the United States and Canada.

As we are all aware, there is increased focus on the regulation of actuaries in many jurisdictions. There has been a similar review here through a government directed review of the Life Insurance Act. The review questioned the self-regulatory nature of the profession, comparing it in particular to the accounting profession. A new Insurance Act is likely a couple years away but will include, as a minimum, the requirement that the profession have more transparent processes with independent representation on various boards.

It is clear that our profession will need to change, to be less inward focused and demonstrate our ability to maintain public trust through our regulatory processes.

I have the privilege to be in my second term as president of the NZSA and have initiated the changes that I believe are required to continue to be self-regulated. We are currently proposing significant changes to the discipline processes to incorporate openness expected by the public and to include independent assessment of complaints. We have named a new standards committee with duties to review the principles and processes for setting practice standards and guidance notes. Likewise an independent standards board may be the result of this review.

The rapid and significant changes to reporting, valuation and general practice regulations are making it very difficult for actuarial societies of our size — we have 143 fellows and 107 students — to meet timelines for local, updated standards. It will be an interesting time ahead.

Bicycle Networking at the Conference

Our recent events included the biennial conference in the beautiful art deco city of Napier. Top speakers from government and industry covered topics on life, health, superannuation and general (P&C) insurance. Many overseas guests joined us, taking a little holiday in the warmer southern hemisphere climate in November.

Finally, I mention my employer here in Wellington. I am chief actuary for the Accident Compensation Corporation, a government entity, perhaps unique in the world. ACC is the monopoly provider of 24-hour, no fault accident cover to all New Zealanders (and guests in the country) including medical, rehabilitation and workers compensation. I invite any one interested in the scheme to contact me for information. ☐

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2004 Chinese Actuarial Club's Activities

by Mike Y. Leung

The Chinese Actuarial Club (CAC) is run by volunteers with three main objectives:

• To help members learn more about the actuarial profession and examination curriculum:
Traditionally, this is the area in which the club has received the most requests. We have college students who do not know whether this is the right profession for them; we have associates who are experiencing problems with the fellowship examinations; we have students who are looking for employment opportunities. We also receive calls from various parties, for instance recruiters who are interested in Chinese actuaries, etc.

The CAC members gather at the SOA Annual Meeting in New York.

• To provide members with opportunities to share work knowledge and career challenges:
All combined, we have a lot of expertise covering many aspects of the profession — sharing these resources would promote growth in all of us. As Chinese actuaries working in North America and other parts of the world, we also have our own unique set of challenges both in countries where actuarial practice is well developed and countries where it is just developing. The club can provide a forum in which to share these challenges and learn from each other as we develop solutions.

• Exchange actuarial principles and practices with actuaries in Asia:
With the growth in the Asian insurance markets, we need to understand and exchange our knowledge with those actuaries in Asia. Each market in Asia will have its own local features. However, compliance and business practice for staff in local and multinational companies need to converge as globalization increases.

Once a month CAC volunteers discuss club issues in a conference call. These volunteers are mainly from areas in and around New York and Chicago. The profiles of CAC volunteers and more details about the club are on the CAC website: *http://www.chinese-actuary.org*

Web Site and Discussion Forum

Since the CAC has members in Asia, North America and other parts of world, the primary method of communication between CAC members is the CAC website. The CAC sends blast e-mails to members to inform them of activities or website updates.

The website was started in 1999. Currently it has an average 2,300 visitors per month. The Web site contains many articles of interest to Chinese actuaries and accounts of past activities.

The CAC does not charge any membership fees. To help pay for the costs of running the website, the CAC accepts recruiters' advertising on the site.

The CAC also runs a discussion forum on the Internet for both members and non-members to have dialogue.

Gathering at SOA Meeting

At least once a year, CAC members find it convenient to gather, usually at the SOA Annual Meeting. This gathering usually consists of two parts, starting with a meeting with speakers in the afternoon followed by a dinner party and after-dinner chats in less formal settings.

In 2004, the gathering was held in New York City during the SOA Annual Meeting with about 30 people in attendance. Five speakers presented on different topics ranging from CAC activities, asset liability management, and career skills for actuaries. The club invited the President of the Pacific Rim Actuaries' Club of Toronto (PRACT) to speak at this meeting. Our president also plans to attend the PRACT gala Chinese New Year's banquet in Toronto in February 2005. We hope this is the start of greater collaboration between the clubs for the future.

Local Meetings

In summer of 2004, CAC held a party in the New York / New Jersey area. There were more than 50 attendees from very diverse backgrounds. The attendees ranged from college students to seasoned actuaries and actuarial science professors from both Asia (China, Korea) and North America.

SOA Elections

CAC members have successfully run for SOA office. Yuan Chang and Shirley Shao have held SOA vice president and Board member positions. Both have also been candidates for the post of SOA president-elect. Shu-Yen Liu is currently a SOA Board member. Many other members who have volunteered have been elected to section councils as well.

The Taiwan delegates gather with SOA Board member, Larry Gorski, for a group photo at the SOA office in Schaumburg, Ill.

Reception for Taiwan Delegates

A delegation of regulators from Taiwan visited the United States in 2004 to learn more about insurance regulation. This visit was coordinated by Shirley Shao, the club's president. This delegation visited Chicago on April 5 and 6 and consisted of five members from the Department of Insurance, Ministry of Finance, The Insurance Institute and Nan Shan Life Insurance Company. CAC hosted a reception for the delegates on April 6. □

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IAJ Expresses Gratitude toward SOA

by R. Thomas Herget, Maria Torres, Vince Tsang and Martha Sikaras

The Institute of Actuaries of Japan (IAJ) initiated a program for its recently qualified fellows that involved travel to North America for participation in the Society of Actuaries Annual Meeting for life, health and pension practitioners and participation in the Casualty Actuarial Society meeting for non-life practitioners. This program had been a longstanding component of the Japanese education process and had been discontinued for a number of years. The Society of Actuaries was pleased to assist in the preparations to revive this program which is designed to provide opportunities for both cultural and technical exchange. With the assistance of several SOA members, we planned a series of private lectures, which followed the meeting in New York.

The group was also given an opportunity to have a private breakfast meeting with the SOA volunteer leadership including President Neil Parmenter; President-Elect Steve Kellison; Incoming President-Elect Bob Beuerlein and Past Presidents Harry Panjer and Jim MacGinnitie. SOA Board members Bruce Schobel, Shu-yen Liu, Stuart Wason and Tom Bakos were also present along with International Section Council members David Parmee, Marc Slutzky, Rejean Besmer and Bill Horbatt. Mr. Masaaki Yoshimura also participated, as he is the past secretary general of the IAJ, now living in New York City. That evening, group leaders Hidenori Ishigaki, Otsuka Tadayoshi and Yoshiki Natsui attended the International Section Council reception at the United Nations.

Presentation by the Institute of Actuaries of Japan to the Society of Actuaries Leadership. The delegation from the IAJ expressed their gratitude by giving the SOA a hand-painted silkscreen.

From left to right: *Otsuka Tadayoshi, Hidenori Ishigaki, Masaaki Yoshimura, immediate past general secretary of the Institute of Actuaries of Japan, President Neil Parmenter, President-Elect Steve Kellison, Incoming President-Elect Bob Beuerlein*

*** (The offices listed for the SOA officers are listed as they were that day; since that meeting, Neil has become immediate past president with Steve and Bob assuming president and president-elect roles.)*

David Pelletier, past president of the Canadian Institute of Actuaries and president/CEO of RGA Life in Toronto opened the private lecture series on Thursday, October 28, with a presentation on peer review and recent developments in the actuarial profession. That afternoon, SOA Board of Governors member Tom Herget of PolySystems was joined by Maria Torres and Vincent Tsang from Ernst & Young for a presentation on U.S. GAAP. A more detailed summary of this presentation follows. On Friday, the pension practitioners in the group visited the offices of William M. Mercer while the life and health practitioners participated in a lecture given by Kevin Keith, Marc Slutzky and Kosuke Iwasaki on Universal Life, Variable Annuities and Health. That afternoon, the entire group participated in a lecture on Enterprise Risk Management given by Dave Ingram of Milliman USA while Lisa Kuklinski-Ramirez spoke to the pension practitioners.

Thursday Afternoon Session with Herget, Torres and Tsang

Vince discussed the latest developments in book guarantees for variable annuities. Because the associated equity risk is not diversifiable and the policyholder may select against insurance companies, the insurance industry is questioning the appropriateness of the typical formulaic approach to determine statutory reserves and GAAP reserves for variable annuities with book guarantees. Vince also talked about the principles of the proposed Actuarial Guideline VA CARVM and its reserve implications.

Tom then covered U.S. GAAP. After a preliminary discourse on the fundamentals of financial statements, he discussed the origins of U.S. GAAP and its subsequent evolution. He explained how it co-existed with U.S. statutory and U.S. tax. He talked about the many pronouncements that affect insurance companies. Tom illustrated how certain GAAP ratios (such as "k" factors and net to gross premium ratios) can be used to help manage the business as well as present financial condition. Tom commented on the effects of reinsurance and reinsurers on today's financial statements.

Vince then discussed the SOP 03-1. SFAS 97 was first introduced in late 1980s to provide GAAP guidance for universal life type contracts and investment contracts. Due to market innovations, SOP 03-1 was adopted in 2003 to provide supplementary GAAP guidance for nontraditional long-duration contracts. Vince covered the basic principles of SOP 03-1 and highlighted the implementation issues.

After a break, Vince returned to the lectern and addressed Regulation XXX. The advances in medical science and public awareness of the benefits of a healthy lifestyle have decreased the mortality of the general population and increased the longevity of mankind for developed countries. The reduced mortality rates have led to a reduction in premiums for term insurance. Vince talked about the reserve implications of Regulation XXX and the changes in the term insurance market before and after the adoption of Regulation XXX.

The session culminated with Maria's presentation on International Financial Reporting Standards (IFRS) for insurance. Within one year, all companies listed in the European Union will be reporting under IFRS and some European countries may extend this requirement to non-listed companies. Maria provided the audience with an overview of current developments, the objectives of the standards and the key requirements for insurers. She covered the valuation methodologies for assets, insurance and investment contract liabilities. She also illustrated the key concepts discussed with several case studies, which highlighted the major business implications of the IFRS framework.

The instructors said that it was a challenge for the participants to follow such esoteric concepts, especially in their second language. So, as a reward for their attentiveness and comprehension, a pack of baseball cards was awarded to each participant at the end of each module.

Amongst the attendees, one person was designated to write up each session (with editing assistance from the presenters) for circulation to their peers and colleagues in Japan.

The IAJ graciously honored the presenters with a lively dinner at Rockefeller Center. The presenters, senior members of the SOA and the visiting professionals all got to know each other better through the experience. ☐

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Malaysia Update

by Hassan Scott Odierno

In Malaysia the major concern for actuaries right now is the issue of risk-based capital (RBC). Current solvency margin requirements originate from the old European Union standards of a percentage of statutory reserves and a percentage of the net amount at risk. New standards are expected to include asset charges, which depend on the asset class actually invested in, as well as much more detailed liability risk charges.

As a guidepost for RBC requirements, neighboring Singapore has introduced new requirements effective January 1. The other issue of concern to actuaries in Malaysia is with respect to property, casualty insurance (called general insurance here), where IBNR reserves will be required to be calculated at a 75 percent confidence level. ☐

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Building Solid Business Relationships — A Reflection of Everyday Relationships

by Bosco L. Chan and Catherine D. Lyn

In all business, and especially in benefits and pension consulting, the key to success is relationships. How do you create them, how do you foster them, and most of all, how do you make them last? We have been in the employee benefits consulting business for many years and have seen many changes. Today's environment is highly competitive and demanding, and there are many reasons for that: some are caused by global trends, some are the usual sources of change and some are due to new forces. The bad news is that it will only get worse as each organization desires a greater market share of the business.

The world is changing, and thus we, as actuaries, need to adapt in order to survive. We need to broaden our view of business, because globalization is happening in almost all spheres of activity. We see insurance companies expanding globally; we see multinational companies appointing global actuarial consultants for their employee benefit programs. The demand for business skills will escalate as actuaries advance in existing and new markets.

The world is changing and thus we, as actuaries, need to adapt in order to survive. We need to broaden our view of business, because globalization is happening in almost all spheres of activity.

In a local context, the word competition is no longer limited to internal competition between actuaries within the firm. It includes competition amongst actuarial firms and, now, even competition from other professionals in related disciplines. The users of our work are more informed than in the past. With an increasing number of lawsuits and a trend to strengthen governance, our clients are no longer satisfied with what actuaries tell them. We see clients challenging our work on a more frequent basis. Saying, "Don't worry, trust me!" is an unacceptable answer in this day and age.

So, what about me? No matter which actuarial practice you are in now, the forces affecting the profession in general, affect you either directly or indirectly. In order to stay at the leading edge of the traditional markets and, at the same time, place a stake in the new markets, we need to prove we have the skills needed.

Without business savvy, especially communication and marketing skills, there is little chance we can convince our customers that we can add value to their business. Without communication skills, actuaries become backroom calculators providing answers for less knowledgeable presenters to receive cheers from their audience. In addition, if the trend to convert defined benefit to defined contribution pension plans and the merger and acquisition of insurance companies continues, we would expect that fewer actuaries are needed in the traditional practice areas. If we maintain the status quo, do you think we can survive the next wave of change? If the nontraditional practice area is a possible path to escape the sinking boat, we had better make sure we have this life jacket with us. If you don't have one yet, go get one.

The Society of Actuaries' Strategic Planning Committee of the Board of Governors sponsored research in 2003 to investigate ways to enhance the actuarial profession. Here are some key findings:

- Actuaries are seen as having strong quantitative skills and strong ethics. However, their leadership and business skills are seen as less effective than their competitors. In both the traditional and nontraditional markets, top positions reflect an emphasis on business and thought leadership aspects, rather than on technical skills.

- Members and employers both see a need for actuaries to improve in areas such as business communication skills, business acumen, being proactive and focusing on the big picture.

- Employers see actuaries as having greater skill than competing professions in quantitative modeling, financial assessment and reporting, industry knowledge and solving complex problems.

The findings are not surprising. We know who we are. So, after articulating our strengths and weaknesses, what is next? If good relationships are the key to business achievement, then what else is there to learn?

We propose that all these skills are an extension of those we use to find a long-term mate on a personal level. We can easily name a few similarities between business development and dating:

- Before starting, understand yourself / your products

- Search for potential mates / customers

- Establish contact

- Discover and understand each other's needs and resources

- Find a mutual fit or decide to part

- Review the relationship regularly and resolve conflicts periodically

- Make the partnership last forever

It is easy to see that the interaction between the parties should be built on a fair basis with no hidden agendas in order to form trust, which, in the long term, leads to a mutually fruitful relationship. It is also clear that transparency and trust are very important elements in strengthening the reputation of a consultant or a firm. If you have a good reputation, more business will follow.

Pacific Rim Actuaries Club of Toronto Response to Challenges Facing the Profession

Seeing a demand for change in behavior patterns, the Pacific Rim Actuaries' Club of Toronto feels that there is a need to contribute to the actuarial profession by assisting future actuaries to prepare for the changing world. As the actuarial profession finds itself operating in a more volatile business world and expands in nontraditional practice areas, future actuaries need more than just the traditional skills. Market forces are changing the way business competes in the traditional area. Our past education material shaped us to become problem solvers with strong analytical skills. However, our work environment requires us to act as a business person with abilities to communicate, interact, present, resolve conflicts, mentor juniors and deliver aggressive corporate targets. We are being squeezed from both ends.

In the fall of 2003, a few of the senior committee club members had a strategic market-positioning meeting. We wanted to position the club to increase our membership base and, at the same time, help our members meet the upcoming challenges in the actuarial profession.

We have developed the social aspect of the club, which can be demonstrated by the high attendance at our dinner events, and so decided to further expand our scope and pay special attention to other needs of our club members by offering business workshops. We believe this is a profound breakthrough for our club as we align ourselves to the new policies developed by the Society of Actuaries and other professional bodies.

Using personal predicaments as the starting point, we came up with seven workshop topics, which we will roll out in due course. These workshops address the challenges people commonly face in dating and family situations. We identified some possible problems at each stage of a typical relationship and converted them into business issues. We summarized them into the following questions:

Q: Are you reluctant to ask an attractive person for her/his phone number? We have a course called
1. How to Make a Date in 60 seconds – Breaking Barriers with Strangers

Q: Have you ever feared eye contact? We have a course called
2. Face to Face – Fearless Presentation

Q: Have you ever found it difficult to read your mate's mind? We have a course called
3. Tell Me What I Said – Communicate Effectively

Q: Have you failed to resolve disagreements with your mate? We have a course called
4. Receive What You Don't Deserve – Fundamentals of Negotiation

Q: Have you ever felt your mate's parents dislike you? We have a course called
5. Bring Your Enemies over to Your Side – Conflict Resolution

Q: Do you find your kids don't listen to you? We have a course called
6. Mission Impossible – Multicharacter Leadership

Q: Have you found it problematic in sharing housework with your family? We have a course called
7. Everybody in Action – Building a Successful Team

The first two business workshops were rolled out in June and November 2004. We must admit that at that point, we were still in the experimental stage of developing these workshops. These were new products for our club. In order to increase our resources and to fully utilize materials developed for business, we retained an instructor who holds a management position in the commercial world with qualifications including an MBA degree and academic experience.

We have formed a partnership to customize the workshop material for our profession's specific needs. The workshops turned out to be a great success. Not only did we have higher-than-expected attendance; we also received positive feedback from the attendees. Our

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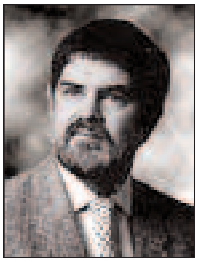
Update on the SOA International Experience Survey

by William R. Horbatt, Jack A. Luff and Ronora E. Stryker



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The Society of Actuaries International Experience Survey (IES) is into its second year and continues to evolve. The IES working group has expanded the topics being studied, from individual life insurance mortality and persistency experience, to also include agent retention and productivity. Besides increasing the number of topics studied, Phase II expands the survey's geographical reach by adding Argentina, Chile and Malaysia to the existing Phase I countries studied (Mexico, South Korea and Taiwan). Lastly, Phase II includes data updates for the 2003 experience year.

A preliminary report of IES Phase II results was presented at the Society of Actuaries Annual Meeting in New York on October 25, 2004, and the current version of the report is available on the SOA's Web site at:

http://www.soa.org/ccm/content/research-publications/experience-studies-tools/top-experience-studies/.

Data is being collected and the SOA will be updating this report as additional data is received.

Tremendous support has been received from the contributing companies, all of which are represented on the IES working group. Zurich has joined the original Phase I contributing companies, which is composed of ALICO, ING, MetLife, New York Life and Prudential Financial. In addition, the International Section Council has provided funding for visits to Brazil and Poland to meet with local companies to explore the expansion of the survey to these countries.

The local country initiatives in Brazil and Poland represent an effort to recruit local companies as well as international companies to participate in the survey. Technical support will be provided to the local companies to conduct studies of interest to themselves and the global actuarial community. This effort has also been successful at recruiting additional companies to participate in the IES. Generali, Hartford, Nationwide and Winterthur have joined the survey by agreeing to participate in Poland and/or Brazil. In addition, the SOA is talking with the Greek Actuarial Society, which is constructing new Greek mortality tables.

We will update the readers of *International News* in future issues as progress is made and new information becomes available. ☐

Building Solid Business Relationships... | from page 27

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members told us that we are heading in the right direction. By offering industry-wide workshops, we provided our members with an opportunity to learn in a team environment with other actuarial practitioners who are facing similar challenges on a daily basis. The workshop material covered the skills they need to know but that cannot be easily learnt by self-study and exam writing. These are lifetime skills that still apply even if they relocate to work in another country.

We see a storm approaching our profession. Some people already feel the wind. People may think that the sunny days have gone. We believe that with proactive preparation, we can survive the bad weather. History tells us sunshine follows storms. We believe that pattern will continue. Do you, too? ☐

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IAA Update from Sweden

Editor's Note: Photo taken by Stuart Wason, a past CIA president and SOA vice-president.

This photo was taken June 5, 2004 on a boat in Stockholm, Sweden during a dinner at the IAA June meeting in honor of the 100th anniversary of the Svenska Aktuarieforeningen (Swedish Actuarial Society).

Don't let the afternoon daylight outside the windows fool you. This was around 9PM. It gets dark after midnight that time of year — and even then it's never really that dark.

In Jan's left hand is the CIA 100th anniversary gift (a native Inuit sculpture). Both Alf and Jan are each holding a bottle of Canadian ice wine, compliments of Mike and Jacquie Lombardi. Mike Lombardi is not holding another wine bottle but a microphone that was used to announce the presentation.

Above Jean Louis' head and to the right is Luis Huerta, the 2004 IAA president. ☐

Standing left to right: *Alf Guldberg, former president of the Svenska Aktuarieforeningen and incoming IAA president in 2005, Jan Hagberg, current president of the Svenska Aktuarieforeningen, and Mike Lombardi, CIA president.*

Seated on right: *Jean-Louis Masse, CIA past president, and incoming president of IAA for 2006.*

International Section Takes a Field Trip to the United Nations

Randy Makin, past newsletter editor and section council member, joins Theresa Winer, SOA BOG member and their fellow section members for a trip to the United Nations

"All Aboard!"

More section members board the bus heading for the United Nations on October 26, 2004.

Bermuda Update

by Michael Gabon and Philip J. Bieluch

Regulations are changing in Bermuda. All insurance regulatory authorities are being reviewed as part of an international initiative on insurance regulation. The regulatory review is done through the International Association of Insurance Supervisors (IAIS) and the International Monetary Fund (IMF). Bermuda has undergone an initial review by the IMF and is in the process of making some changes and clarifications to the regulatory procedures. Under these new requirements, the Bermuda regulatory authority will become more proactive in reviewing and monitoring Bermuda insurers. The Approved Actuary's Opinion is crucial to the regulatory process, and requirements are more formal, have greater depth and breadth, and must be unqualified.

"Outlined below are companies recently forming and exiting/in run off, existing companies expanding their life reinsurance operations, and companies rumored to be forming."

Companies forming more recently:

Name	Type of Business	Approx. Initial Capital	Notes
Citi Insurance Reinsurance (Bermuda) Ltd.	unknown	unknown	unknown
Global Life Ltd.	unknown	$100 million	unknown
Catalyst Re	variable annuity guarantees	unknown	parent constitution Re/Soc Gen
Manulife	universal life product for worldwide (non-U.S.) distribution	unknown	recently established a Bermuda operation
MassMutual	unknown	unknown	recently established a Bermuda operation
NF Reinsurance Ltd.	unknown	unknown	unknown
Northstar Reinsurance Ltd.	unknown	$100 million	unknown
Quanta Life Reinsurance Ltd.	finite/structured multi-line	parent $100 million	unknown
Transamerica	annuity reinsurance	acquisition of Global Preferred Holdings Ltd.	owned by Aegon (as is Transamerica)
Wilton Re Bermuda	life reinsurance	approx. $600 million	parent (also Bermuda)

Companies exiting / in run-off:

Annuity & Life Re	in run off
Centre Re	in run off
Global Preferred Holdings Ltd.	by acquisition sold itself to Aegon/reinsured annuities written by a producer group
Hampton Re Limited	in liquidation

Insurance Admissions Committee

The Insurance Admissions Committee meets on Friday mornings to review applications for new insurance companies. The two life actuaries who sit on the committee are John Rayner of Abbott & Assoc. and Michael Smith of Wilton Re Bermuda Ltd.

Existing reinsurers expanding their life reinsurance operations in the business include:

- **Ace Tempest,** currently underwriting variable annuity guarantees reinsurance, existing company, wanting to enter new product line

- **XL, Life Reinsurance,** existing company, recently emphasizing life side

Several reinsurers are rumored to be setting up in Bermuda including:

- **Boston Re,** a subsidiary of CSFB to write variable annuity guarantee reinsurance

- **Fenimore Re** is rumored to be setting up by former Centre Re employees to reinsure blocks of Centre Re business.

- **Goldman Sachs** is rumored to be setting up a subsidiary to write VA death and living benefit guarantee reinsurance

- **Lennox Re** is looking for capital to write VA guarantee reinsurance

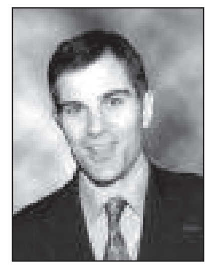
Bermuda is the venue of choice for companies setting up a reinsurer to securitize Guideline XXX business.

The following life actuaries have been named to senior positions of non-life companies:

Gregory E A Morrison
President & CEO, Platinum Underwriters (BM) *Ltd*

John F Mulholland
Co-CEO, Independence Re

Miodrag Novakovic
Vice-president, Underwriting, Catlin Insurance Co Ltd ☐



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