



INTERNATIONAL SECTION NEWS

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Chairperson's Corner

by Michelle Chong Tai-Bell

As this is my first "Chairperson's Corner" for *International Section News*, I feel it is appropriate to begin by reflecting on our Section's statement of purpose:

"To encourage and facilitate the professional development of its members in the areas of international insurance, pensions, or social security programs as well as international areas of practice. This shall be accomplished through activities such as meetings, seminars, research studies, and the exchange of information."

The scope of possible activities in pursuit of our stated purpose is extremely broad, particularly given the diverse nature of the membership, the needs of actuaries practicing in North America being quite different from our overseas membership (many of whom

continued on page 4, column 1

The International Forum of Actuarial Associations

by Chris Daykin

The International Actuarial Association (IAA) was formed in 1895 at the first International Congress of Actuaries in Brussels. Since then, international congresses have been held approximately every four years. The next is the 26th International Congress of Actuaries, to be held in Birmingham, U.K. June 6-13, 1998, celebrating the 150th anniversary of the actuarial profession in the U.K. and indeed, we might say, of the profession worldwide.

The IAA was conceived as an association of individual actuaries from around the world. The IAA's Council is made up of eminent actuaries from all the countries where there are significant numbers of actuaries, together with a couple of representatives of small associations. The ultimate governing body is the General Assembly of individual members convened on the occasion

of each international congress. Associations of actuaries can become what are known as "donating members" by paying a subscription, but there is no accreditation and they do not have any rights to control the organization.

In more recent years the IAA has expanded its scientific activities through the formation of the Actuarial Studies in Nonlife Insurance (ASTIN) section in 1957 and the Actuaries and Financial Risk (AFIR) section in 1988. These sections have organized their own meetings, known as colloquia, which are usually held each year when there is no congress (and sometimes when there is!). Individual members of the IAA can opt to pay subscriptions to belong to ASTIN, AFIR, or both.

The widespread emergence of professional issues at the top of the agenda

continued on page 5, column 2

In This Issue

	<i>page</i>		<i>page</i>		<i>page</i>
1997/1998 International Section Proposed Budget	27	Editor's Notes <i>by Kevin M. Law</i>	2	New Zealand Ambassador's Report <i>by Richard Geisler</i>	20
34th Annual International Insurance Society Seminar—Creating Success in a Global Marketplace	16	Hong Kong Ambassador's Report <i>by Dominic Lee</i>	18	Observations on a Trip to China <i>by Harold G. Ingraham Jr.</i>	22
The Actuarial Profession in Hong Kong <i>by C.F. Yam</i>	13	Hong Kong Insurance Ordinance Amendment <i>by Peter Luk</i>	16	Puebla, Mexico Actuarial Conference Report <i>by Jim Toole</i>	17
Book Commemorates SOA-Nankai 10th Anniversary	14	International Accounting Standards for the Insurance Industry <i>by Bruce D. Moore</i>	3	Recognition of Actuaries and Competition in Europe <i>by Wilhelm S. Meijer</i>	7
Call for Papers	10	International Forum of Actuarial Associations <i>by Chris Daykin</i>	1	Report on SOA Joint Subcommittee to Study Foreign Resident Issues <i>by Marina Adelsky</i>	12
Chairperson's Corner <i>by Michelle Chong Tai-Bell</i>	1	Korea Ambassador's Report <i>by Stephan Rajotte</i>	19	The Role of the Appointed Actuary in the United Kingdom	10
Columbia Ambassador's Report <i>by Luis Gabriel Caro</i>	21	Minutes of the International Section Council Meeting	25	Underwriting and Risk Classification <i>by Chris Cook and Vera Dolan</i>	14

Editor's Note

by Kevin M. Law

This issue marks the beginning of my second stint as editor of the *International Section News*, as I previously functioned in this capacity during 1992-1995. It is good to be involved with the newsletter again, and I look forward to future issues containing timely articles of interest to actuaries working in the international field.

Before reviewing the content of this issue, I would like to express my appreciation, and that of the entire International Section Council, to John Nigh for his work as editor of the newsletter during 1995-1997. A number of high-quality newsletter editions were produced under John's tenure the last two years.

I would also like to welcome Dr. Chiu-Cheng Chang and Randy Makin, as assistant editors for the *International Section News*.

Chiu-Cheng is Professor and Head of Business Administration at Chang Gung Medical and Engineering College in Taiwan, and Randy is Vice President and Reinsurance Actuary at Business Men's Assurance Company in Kansas City. The job of editor does involve a time commitment, which is a primary reason for the periodic rotation of this responsibility, and I look forward to

Chiu-Cheng's and Randy's contributions and assistance.

Due to the change in the editor's position, International Section members are receiving a larger newsletter edition consisting of John Nigh's last issue and my first edition.

Our lead article by Chris Daykin is an informative overview and update on the International Forum of Actuarial Associations. Chris has been actively involved in a leadership role since the beginning of the IFAA several years ago and completed a term as Chairman of the IFAA in 1997.

One of the IFAA subcommittees described by Chris has the responsibility of providing input to the International Accounting Standards Committee (IASC) with respect to an accounting standard for the insurance industry to be promulgated by the IASC. This activity is described by Bruce Moore in his article "International Accounting Standards for the Insurance Industry."

There are two articles on Hong Kong included, plus a report from our Ambassador in Hong Kong. C.F. Yam provides an overview of the actuarial profession in Hong Kong, also touching on the current insurance industry and pension/social insurance status and developments, while Peter Luk

describes the components of a 1997 ordinance passed in Hong Kong that affects the insurance industry. The Hong Kong Ambassador's report, prepared by Dominic Lee, focuses primarily on his work activities during the last several years in promoting actuarial science and education in China.

We are pleased to include material from several other Ambassadors in this edition: Jim Toole, Mexico; Stephan Rajotte, Korea; Luis Caro, Colombia; Richard Geisler, New Zealand.

Contributions of articles from the International Section membership are encouraged. We welcome assistance in compiling articles for newsletter editions. Many of our readers have international experience and knowledge that would be informative and interesting to share with Section members. Newsletter material can be submitted directly to me, Chiu-Cheng Chang, Randy Makin or to Sue Martz at the SOA office.

Thanks for your help.

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This newsletter is free to Section members. A subscription is \$10.00 for nonmembers. Current-year issues are available from the Communications Department. Back issues of Section newsletters have been placed in the Society library. Photocopies of back issues may be requested for a nominal fee.

Expressions of opinion stated herein are, unless expressly stated to the contrary, not the opinion or position of the Society of Actuaries, its Sections, its Committees, or the employers of the authors.

The Society assumes no responsibility for statements made or opinions expressed in the articles, criticisms, and discussions contained in this publication.

International Accounting Standards for the Insurance Industry

by Bruce D. Moore

International Accounting Standards (IASs) have played an increasingly important role in recent years, a role that is likely to increase in the future. For the insurance industry, however, they have not yet played a significant role. Standards have not yet been developed for major items such as policy reserves and deferred acquisition cost assets. However, this is about to change. The International Accounting Standards Committee is beginning to work on developing standards for the insurance industry. This is a development that actuaries involved in financial reporting or international operations should follow.

IASs are developed by the International Accounting Standards Committee (IASC). The IASC is a body similar in role and operation to the FASB in the U.S., and several similar bodies in other countries. The IASC has part-time board representatives from the accounting profession, industry, accounting, education, and financial analysis from around the world. Their process of standards development is in many ways similar to that of the FASB, with development of exposure drafts and distribution of those for comments before taking a final position. However, they operate with a much smaller staff.

The increase in corporate financing across borders in recent years has increased the importance of IASs. Companies seeking to raise capital in multiple national capital markets now potentially face the burden of preparing financial statements based on several different national accounting standards bases. To avoid the additional cost and inconvenience of this burden, there is a desire to have IASs be generally accepted by securities regulators around the world for financial statements of companies raising capital in their countries. There is also pressure from the financial analyst community to have more meaningful IASs.

This has led to a push to fill perceived gaps in the existing IASs, to provide a solid foundation for reporting results internationally. The current work on a new IAS pension standard, which many of you may be aware of, is part of that process. The current target is for core standards generally applicable to all industries to be in place by the spring of

1998. At that point there will be an effort to forge a general agreement among international securities regulators that these should be for foreign companies raising capital in the future. Securities regulators will undoubtedly retain the right to review each case going forward but, hopefully, with a strong inclination to accept IASs.

In addition to the standards generally acceptable to all industries, the IASC will be pursuing industry-specific standards, including standards for the insurance industry.

Insurance has been given a high priority, but with the understanding that the IASC will not have time to devote to it until after the March 1998 target for the more broadly applicable standards. The current plan is to have IASC staff begin working on these standards now, with IASC consideration of them to begin some time in 1998 aiming for final approval to take place in early 1999.

The actuarial profession has begun to organize to participate in this process. The International Forum of Actuarial Associations (IFAA) has formed a subcommittee chaired by Sam Gutterman. Other North American members include Ed Bonach, Dick Robertson, Bruce Moore, and Mo Chambers. The American Academy of Actuaries has also formed a working group to support this review process, providing its input to the IFAA comment process. It is chaired by Bruce Moore, with other members including Ed Bonach and Dick Robertson (also on the IFAA subcommittee), Dan Kunesh, Jan Lommele, and Cynthia Miller. Lauren Bloom provides Academy staff support.

While the initial IASC staff paper on insurance standards has not yet been released, another important document in this process was recently released by the IASC. This was a discussion paper on accounting for financial assets and financial liabilities. It was published in March 1997, with a comment deadline of July 1997. It is intended to apply to insurance enterprises as well as others. It takes the position that "fair value" is the appropriate basis for valuing financial assets and

liabilities, including insurance and reinsurance obligations. It concedes that further work needs to be done to determine how to apply those principles to insurance, reinsurance, and pension obligations, but asserts that those are the basic principles that should be followed. That discussion draft is lengthy—more than 200 pages—with extensive discussions of issues of less immediate concern to actuaries as well. However, those strongly interested in IAS for insurance may find it interesting reading. It can be ordered from the International Accounting Standards Committee offices in London (phone 44-171-353-0565, or fax 44-171-353-0562).

IASs are not intended to replace U.S. GAAP for U.S. companies. However, many U.S. actuaries work for subsidiaries of large foreign insurers that have shown

"The current target is for core standards generally applicable to all industries to be in place by the spring of 1998."

interest in raising capital in U.S. markets, and some have even converted to U.S. GAAP for that purpose. This development will be of special interest for them.

Furthermore, to the extent that the IASC develops standards for insurance significantly different from U.S. GAAP, that will create an uneven playing field in the capital markets and ultimately in the insurance markets. This may well lead to pressure on FASB to reconsider its insurance standards. Consequently, this process could have important implications for all financial reporting actuaries.

Bruce D. Moore, FSA, is a partner at Ernst & Young LLP in New York, New York and Vice-Chairperson of the International Section Council.

Chairperson's Corner*continued from page 1*

practice in relatively undeveloped insurance markets). This was gleaned from the results of the survey of our membership included in the April 1996 edition of this newsletter.

Only 91 surveys were returned; individual comments varied quite extensively. A common theme, however, was the need for easy access to information relating to international areas of practice. Most commonly requested was information on the following:

- List of actuarial organizations in various countries
- Index of papers published in foreign actuarial journals
- Directory of actuaries in other countries that are not SOA members
- List of foreign actuarial meetings
- Online copies of newsletters, publications, and studies of other actuarial organizations
- Listing of actuarial job opportunities in other countries
- Library of data sources containing statistics of interest to actuaries who practice internationally
- Insurance and pension information (for example, products, regulations, practices) in various countries.

The newsletter, first published in October 1992, has been one of the primary instruments of communication of the Section, keeping you informed of events on the international scene. In 1997; the step was taken to publish recent editions of this newsletter on the SOA's website. We see the internet playing an increasingly important part in meeting the information and communication needs of our membership, particularly in the areas listed above.

In this regard, Rick Geisler, one of our Council members, has been charged with the responsibility of pursuing avenues for the use of technology, particularly the internet, in meeting our members' needs. He is currently working with SOA staff on our International Section website. We intend to publish relevant internet addresses in future newsletters and/or the website (with "hotlinks" established, if feasible). Kindly communicate known useful website addresses to Rick and/or myself at our *Directory* addresses.

One other major Section activity is our sponsorship of sessions at Society meetings. Our focus on timely and relevant topics is aimed at providing significant value to our membership. In keeping with your feedback at these meetings, our 1998 programs are being developed to provide more detail and specifics on the various topics as opposed to a general orientation. These meetings provide an opportunity not only for sharing information and ideas but also for meaningful networking, which is so important to the development of an international capability.

Since the Section's inception in 1992, the Society has added new organizational capability in pursuit of its international policy:

- Expansion of the terms of reference of the Committee on International Relations, now the Committee on International Issues
- Founding member of the IFAA, established in 1995
- The Ambassador program, launched in 1994
- The *North American Actuarial Journal*, first published in 1997
- The Asia Committee, approved by the Board in January 1997.

The Committee on International Issues, chaired by Bob Collett, enhances and encourages the education of SOA membership on international subjects and facilitates the worldwide communication of actuarial ideas. Additionally, the Committee encourages the development of actuarial science throughout the world. The Committee facilitates the SOA's good relations with actuarial organizations domiciled outside the U.S. and Canada.

The Society is a founding member of the International Forum of Actuarial Associations (IFAA), a section of the International Actuarial Association (IAA). The IFAA's main objective is to promote professionalism of the international actuarial community by requiring its member organizations to adopt a code of professional conduct, standards of practice, and a disciplinary process.

The Ambassador program is administered by the Section with SOA staff support provided by Lela Long. Ambassadors serve as liaisons for the SOA in a foreign country to:

- Ensure that the Society is knowledgeable about the needs of its members in the country
- Assist the SOA in administering its programs
- Help the actuarial profession grow in underdeveloped areas
- Facilitate communication of international issues
- Function as a link to national actuarial organizations.

I also believe that the Ambassador program has the potential for being the base of a valuable people-to-people international actuarial network.

The *North American Actuarial Journal* was launched with the objective of becoming the preeminent actuarial journal worldwide. It is being aggressively marketed internationally within the academic community and to allied professions. The Section intends to provide any required support in meeting this objective, possibly through involvement of our Ambassadors.

The SOA now has over 600 members in Asia. The Board of Governors voted at its January 1997 meeting to increase the SOA's outreach to these members by establishing the Asia Committee. Chaired by Yuan Chang, the Committee's mandates are:

- To represent the SOA in promoting actuarial education in Asia
- To promote services to the SOA members in Asia
- To build the image and awareness of the actuarial profession in Asia.

It is evident that the Society's leadership in implementing its International Policy has recognized the profession's need to proactively respond to the challenges of globalization. I believe that the International Section, now in existence for six years, is well placed to play its part and to meaningfully support all of the Society's international initiatives.

Coordinating Section activities on behalf of our membership is your Council. The members and their responsibilities for the coming year are shown in the masthead on page 2.

The Council has co-opted the able assistance of Mike Gabon and Bob Lyle as program representatives and Dr.

continued on page 5, column 1

Chairperson's Corner*continued from page 5*

Chiu-Cheng Chang and Randy Makin as assistant newsletter editors. Sincere thanks are owed to John Nigh for his fine work as newsletter editor over the past two years.

The Section also owes a debt of gratitude to Bill Bugg, Bob Katz, and Margarita Davis, whose terms on the Section Council expired in 1997. Bill has dedicated much time and effort to Section activities during his term, doing a creditable job at chairing the Section Council in 1997 and serving as Secretary/Treasurer and Program Representative in the past. Bob and Margarita have both made meaningful contributions to the coordination of International Section sessions at SOA meetings. Bob is particularly noted for his contribution toward expansion of awareness of international social security and pension issues, and he continues to do this through his participation in the 1998 meeting efforts. Bob also served as Vice-Chairperson in 1996.

I have said that the Section can play an integral part in promoting the Society's international initiatives. Our activities will only take on meaning, however, to the extent that they are seen as adding value to our membership. This requires feedback from you. I urge you to proactively communicate your ideas, comments, and suggestions to us. Write to us; give us a call; send us an e-mail message—your Council is at your disposal.

Michelle Chong Tai-Bell, is Executive Director, Individual Insurance, Maritime Life (Caribbean) Ltd., in Trinidad, and is Chairperson of the International Section Council.



"No, we don't offer frequent-lost-luggage discounts to the Caribbean."

IFAA*continued from page 1*

for actuarial associations all around the world was one of the main factors leading to the formation in September 1995, at the 25th International Congress of Actuaries in Brussels, of a further section of the IAA, the IFAA. Discussions leading to this began in Montreal in 1992, at the previous congress, under the leadership and inspiration of Paul McCrossan, then President of the Canadian Institute of Actuaries.

Unlike the other sections of the IAA, membership of the IFAA is limited to associations of actuaries, and only professional bodies can be accredited as full members. The IFAA was established with objectives relating to professionalism, education, qualification standards, mutual recognition, representation of the profession's interests internationally, and public interface issues.

The overall direction of the IFAA is encapsulated in its statement of purpose, which is "to encourage the development of a global profession, acknowledged as technically competent and professionally reliable, which will ensure that the public interest is served."

The IFAA offers significant benefits to member associations, including accreditation as members of a recognized international body, support from other actuarial associations, access to information and reports on the experiences of others, the possibility of sharing resources with other associations in tackling issues which have common threads internationally, and a common voice for actuaries at a global level.

With professionalism being at the heart of the IFAA's role, the first criterion for full membership (and initially the only one, apart from being a Donating Member A of the IAA and undertaking to pay the annual fees) is to have in place a code of conduct at least equivalent to that adopted in 1990 by the member associations of the Groupe Consulatif des Associations d'Actuaires dans les Pays des Communautés Européennes (the umbrella body for the actuarial associations in the countries of the European Union). This code is very similar to those adopted by the North American actuarial associations.

Full members must have a formal disciplinary process and must also undertake that, before they issue any standards of practice, they must have in place a

proper due process for developing and approving such standards. There is also a commitment to study what minimum educational requirements should be (by 1998) recommended to Full Members of the IFAA for all newly qualified actuaries after 2005.

Organization of the IFAA

The IFAA is governed by a Committee, to which each member association is entitled to send a representative. Committee members carry votes on behalf of their associations and are expected to come mandated to express the views of that association and, if required, cast the votes held by the association. A weighted voting system provides for at least one vote per association and up to four votes for the largest associations, such as the Society of Actuaries and the American Academy of Actuaries. This is intended to give all member associations a reasonable say in the affairs of the IFAA, without the smaller associations being swamped by the larger ones, although dues are based on numbers of individual full members in each association.

Much of the work of the IFAA is expected to be carried out by subcommittees, such as those dealing with accreditation, education, nominations, employee benefits accounting standards, insurance accounting standards, and social security. At the next meeting it is expected that an Insurance Regulation Subcommittee will be established.

The Accreditation Subcommittee determines whether associations meet the criteria for the different membership categories. With 37 associations now admitted as full members, one as an associate member, and four as observer members, a large proportion of the world's actuaries are already included, but there remain a number of other potential members.

The Public Statements Subcommittee was charged with developing guidelines for due process in the event that the IFAA might wish to make a public pronouncement. The first public pronouncement of the IFAA was made early in 1997, having been through the required due process. It took the form of a formal submission to the International Accounting Standards Committee

continued on page 6, column 1

IFAA*continued from page 5*

(IASC) on the draft international standard on accounting for employee benefit costs in company accounts (E54). The process of preparing a public pronouncement is intended to be as open as possible, with all member associations being invited to participate. The aim is to produce a consensus view, so that all associations will be able to support it. Some associations may not be able to give formal endorsement, since their constitutions preclude them from making any public pronouncements, unless they receive overwhelming support from their membership, which is unlikely to be achievable in practice, particularly in a limited time frame. Pronouncements are described as formal statements of the IFAA, with all the member associations listed, and a further list is given of those associations which participated on the subcommittee which prepared the statement.

The Employee Benefits Accounting Standards Subcommittee was established in response to steps being taken by the IASC to develop a new international standard on accounting for employee benefit costs in company accounts (an updated version of IAS19). The IASC is working to complete a series of new international accounting standards by 1998, in the expectation that they will be endorsed by the International Organization of Securities Commissioners (IOSCO), as required of companies wishing to be quoted on stock exchanges internationally. The new IFAA subcommittee has provided input to the IASC through attendance of representatives at Steering Committee and Board meetings, as well as through a formal submission and follow-up letters. The IFAA still has a number of concerns about the proposals, particularly with regard to the requirement to use corporate bond yields for discounting accrued pension liabilities, regardless of whether or not bonds are an appropriate investment to match the liabilities, and the corridor proposal for recognition of actuarial surpluses and deficits.

An Insurance Accounting Standards Subcommittee has also been established, since the IASC has now started work on an insurance accounting standard. At the request of the IASC, the IFAA has nominated an actuary to the Steering Committee for this standard (Paul McCrossan has agreed to take this role). The new IFAA subcommittee has already been very active, including preparing a submission to

the IASC on a discussion paper on Accounting for Financial Assets and Financial Liabilities and a submission on exposure draft E55 (Impairment of Assets).

The Education Subcommittee is charged with developing guidelines on an agreed common core syllabus for basic actuarial training by 1998, with a view to associations being required to implement them for newly qualified actuaries after 2005.

Substantial agreement has been reached on these guidelines, particularly the foundation actuarial subjects. Some flexibility will be allowed to member associations in implementing them, particularly the weight given to different topics, in order to accommodate different traditions, and the greater degree of practice area specialization inherent in some actuarial qualifications. There is still some work to be done on defining the content at the right level of detail. Ensuring that the core can be interpreted to produce comparable standards in each country is likely to present a challenge.

Links with Other International Bodies

The IFAA has been working hard to develop contacts with a number of other relevant organizations at the international level. The International Association of Insurance Supervisors (IAIS) is itself in the process of establishing its role, and is setting up a permanent secretariat in Basel alongside the Bank of International Settlements.

A session on the role of the actuary was held at the IAIS Annual Meeting in Sydney in September 1997, and further activity is expected to assist the IAIS in the development of common international standards of insurance supervision, including a common approach to recognition of the role of the actuary.

The International Social Security Association (ISSA) has long enjoyed formal relations with the IAA. As it moves to embrace a wider concept of social security, including associated private sector vehicles, and seeks to develop a global debate on the issues surrounding pension reform, opportunities clearly exist for the IFAA to become involved in the dialogue. The IFAA

established a Social Security Subcommittee in August 1997, to take this relationship forward and, in particular, to work with the ISSA to develop a standard of practice for social security actuaries.

Looking to the Future

Consideration is being given by the IAA Council to the future structure of the IAA, with the intention that the IAA itself may become an association of associations. The IAA Council would then take over the role of the IFAA Committee, with a committee structure to carry on the work of the IFAA subcommittees, in addition to functions relating to the scientific sections and the organization of congresses. It is intended to seek approval to the necessary constitutional changes at a General Assembly of the IAA, to be held during the International Congress of Actuaries in Birmingham. The IAA and the IFAA already have a joint secretariat, operated since September 1997 by the Canadian Institute of Actuaries, under International Director Nicole Sèguin.

It is important that the future of the profession at the international level be under the direct control of the actuarial associations.

Actuaries could become the first profession to organize themselves truly on a global basis, with internationally agreed qualification standards, international framework standards of practice, and an international voice. This should facilitate the process of recognition of the profession in countries where this has not yet been achieved.

It is too early to tell what other opportunities may arise. The IFAA has already expanded its role well beyond the scope which could have been envisaged at the time of its founding. It appears that the establishment of the IFAA was not a moment too early. The IAA really came of age at the time of its centenary with the switch in focus represented by the formation of the IFAA. With the proposed changes to the IAA, this professional emphasis will be at the center of the profession's international activities, but without neglecting the interests of individual actuaries and the

continued on page 7, column 1

IFAA

continued from page 6

need to push forward the boundaries of actuarial science.

Indeed, the new structure may provide the impetus and the opportunity for further expansion and deepening of the IAA's program of activities for individuals' continuing professional development,

for example, through the creation of new scientific sections for life and health insurance actuaries and for social security and complementary pension scheme actuaries. One way and another, the actuarial profession is now set on course for strong development at the international level.

Chris Daykin, ASA, is the Government Actuary of the United Kingdom. He was President of the Institute of Actuaries from 1994 to 1996 and Chairman of the IFAA from 1996 to 1997.

Recognition of Actuaries and Competition in Europe

by Wilhelm S. Meijer

Editor's Note: *Wilhelm S. Meijer, AAG, presented this paper on April 21, 1997 in Zeist, The Netherlands.*



In 1991 the actuarial associations in countries that were members of the European Community decided to implement a mutual agreement to recognize the full members of their associations as colleagues and competitors in the various "home markets" of the EC.

And although there are many complaints about the slowly maneuvering Brussels bureaucrats, this time the actuaries' initiative resulted from steps taken by the EC Council of Ministers, based on the work of those bureaucrats.

In 1989 the EC Council adopted a "Directive on a general system for the recognition of higher education diplomas awarded on completion of professional education and training of at least three years' duration." Let us call the thing the "EC Diploma Directive" or by its abbreviated name "RAS."

In the words (English text) of our Dutch Ministry of Education and Science:

"The aim of the RAS is to protect the rights of people who have followed a course of education or training for a particular profession to enable them to practice the profession in all European Community countries. This means that citizens who have been trained (under comparable conditions) to practice a particular regulated profession in one member state, will also be able to enter that profession in another EC country. The inten-

tion of this directive is to ensure within a short period of time that a person who holds an appropriate higher education diploma from one member state cannot be refused entry to a regulated profession in another Member State on the grounds that he or she does not hold a certificate from the Member State where he or she wishes to work."

In my own words: it is no longer permitted to refuse a citizen of any EC country access to a "regulated profession" in another EC country where he or she wishes to work, if the professional involved has been educated and trained appropriately.

About the concept "regulated profession" our Ministry made the following remark:

"The directive applies to those professions known as regulated professions. In the Netherlands this means those professions for which a higher education diploma is required by or subject to law to gain admittance. Regulation in the Netherlands takes place only by statutory means. Conversely, in the United Kingdom and Ireland regulation of the professions is generally left to the 'Chartered Bodies.'

These are private professional institutions recognized by the government which set the standards for admittance to the professional group."

The aim of RAS is obvious: to promote the free flow of professional human capital over the borders between the vari-

ous member states, taking away any obstacles to fair competition.

The actuaries thought it wise to help the European authorities somewhat by making clear which colleagues in other countries of Europe they themselves considered as really equivalent. They thought that it might be better to lay down an implicit definition of "actuary" before some European civil servant might design a lengthy, precise but unworkable formula for "actuary ..."

However, the legal position was not the same in all countries involved. All member states developed their own mix of laws and customs. Some countries do not possess a written constitution but happen to have detailed charters for regulated professions. Other nation states have lengthy written constitutions, spelling out in detail every citizen's rights, but fail to define the borders of competence for all professions that might have been regulated. So in some countries the definition of an actuary is quite clear: in the United Kingdom such a man or woman simply has to be a Fellow of the Institute of Actuaries or the Faculty of Actuaries.

In the Netherlands the formal definition is somewhat vague, although in practice the actuary is easily recognized: with 99% probability a member of the "Actuarieel Genootschap." In our country the Regulatory Supervisor has

continued on page 8, column 1

Recognition of Actuaries

continued from page 7

the last word in recognizing somebody as “actuary” or in rejecting him or her as such.

That is, in so far as the certifying of annual accounts of insurance institutions and the passing of actuarial judgments, required by law are concerned. In practice the Supervisor will be alarmed by an effort of a nonmember of AG to act as an “actuary.” But according to Dutch law it could decide not to raise objections in such a case, based on the conviction that the individual involved has the skills and experience needed. That exceptional approval might be granted if an econometrician, well-versed in non-life actuarial methods, decides—after many years of experience—to sign actuarial statements for a company, or if an experienced but quarrelsome actuary decided to withdraw from the professional association.

So in the strict sense of the word the Dutch actuarial profession is not a regulated one: everybody from outside our country is entitled to work here and sign official documents, requiring an actuary’s signature unless the Supervisor objects to his or her activities.

At the same time, it is clear that in both examples given here, the U.K. and The Netherlands, membership in the relevant professional bodies (Institute or Faculty overseas and AG here) is an important asset and is more or less the proof that an actuary is recognized as being competent, whatsoever the country of origin and actuarial education.

Aware of the different legal environments of the profession in the various member states, the actuarial associations decided to design a procedure for mutual recognition of their respective members, in order to remove obstacles to entry in the respective marketplaces, maintaining some safety guarantees with regard to the professional qualities and attitudes of those working in a “host member state.”

The general ideas behind the agreement were simple and straightforward:

- Do not focus on differences between actuarial education in the various countries, instead assume that all European actuaries have reached roughly the same level of professional knowledge and expertise.
- Recognize the fact that an actuary from country A might not be aware of the details of the legislation in country B, and that he or she might lack some knowledge about the mar-

ket and the local customs in country B.

- Accept the European “principle” of the desirability of free flow of goods and services, so that there should not be any artificial barriers putting obstacles in the way of such flows; actuaries of all member countries should have access to the whole European internal market.

One might say that these had a solid base in actuarial thinking: a delicate balance between expected gains (equal and relatively easy access to the various national markets) on the one hand and “risk” (the possibility that damages might be caused by a foreign actuary practicing in a weak area of his professional expertise, due to differences in actuarial education between countries A and B) on the other hand.

So the actuaries active in the Groupe Consulatif, the organization of actuarial associations in the countries of the European Union, and their colleagues in their associations who proved to be willing to sign the Agreement were not the “risk averse” kind. A surprising attitude perhaps, in the eyes of the general public. However, one should not forget that at the time the gradual “convergence” in the actuarial profession in Europe was on its way: the Groupe Consulatif has been in existence for about twenty years and contacts between colleagues from various countries were growing. And so was the conviction that most “local” actuarial associations could be trusted in their sincere efforts to guarantee the minimum professional knowledge of their individual members. The progress being made in developing a common standard for actuarial education illustrates that this long-term optimism is well founded.

Of course there are differences. If I am confronted with a difficult mathematical problem and I can choose between a Swiss or Scandinavian colleague and English colleague I might be tempted to seek the advice of the former. And if the problem is related to managing assets and liabilities, I probably might call the UK colleague.

But these differences of focus and specialized interest do not contradict the fact that the basic techniques—both in nature and level—will be familiar to all.

So in 1991 Belgians, Britons, Danes, Dutch, French, Germans, Greeks, Irish, Italians, Portuguese, and Spaniards cre-

ated the Agreement for Mutual Recognition, which included 13 associations of actuaries in total. The numbers seem to be somewhat confusing. At the time the European Communities contained 12 countries, consisting of those mentioned above, plus Luxemburg, which did not have an actuarial association of its own ... then. Now it has. So there were 11 countries in 1991 represented by 13 associations and one small country not yet represented at all.

Now in 1997, a renewed agreement is on the table, with a new list of participating associations. New members include: Austria, Finland, Luxemburg, Sweden, Norway, and Iceland. At the moment the associations are accepted by the Groupe, as new affiliates, from countries that signed a treaty for (immediate or later) entry into the European Union, or that belong to the non-EU part of the so called European Economic Space.

Back to the contents of the agreement itself. What do we, as “native” associations, promise to our colleagues? In short:

- To designate a class of members who can be regarded as “full members” and to maintain a list of such members.
- To provide for admission as “full member” any actuary who is a full member in another state who wishes to “pursue actively the profession of actuary” and in a host state who applies for a membership, with the following conditions:
 - a. No further requirements as to training or examinations except ...
 - b. Either an adaption period not longer than one year or an “aptitude test” regarding legislative requirements and commercial practice in the “host country,” whereas
 - c. All rights, duties, obligations and subscriptions shall be the same (in particular the same Code of Conduct will apply)

continued on page 9, column 1

Recognition of Actuaries*continued from page 8*

- To impose on all full members:
 - a. To apply for membership of the "host association" if being employed in another member state, and
 - b. Not to undertake duties for which the relevant current knowledge and experience is lacking (in particular, related to law and commercial practice).

The last point is an echo—or better, a precursor, forerunner—of one particular obligation from the more elaborate Code of Conduct, signed in 1993 by the same set of actuarial associations affiliated to the Groupe Consulatif, and since then adopted as the standard code of conduct by the International Forum of Actuarial Associations (founded in 1995).

Of course the personal self restriction required—not to undertake any professional activity for which knowledge or experience are not up to the level needed—is a key element. It is related directly to professional integrity.

Both the European Code of Conduct and Agreement are "law" for all members of any actuarial association. In the case of the AG this is illustrated by the fact that these rules have been accepted formally in the AG Members' Meetings in April 1993 and February 1991, respectively.

So all problems related to mutual recognition have been solved? No difficulties left? Actuaries, statisticians, and even human beings in general do know that "stochastic" plays a role in life. And so it is in the practice of the relationship between the actuarial associations.

"Panta rhei," everything flows, some Greek philosopher said. This rule even applies to actuaries and their tastes.

However, there is an alternative hypothesis possible: individuals have to cope with memory deficiencies, and collective sets of individuals—such as actuarial associations—have the same difficulty, perhaps even to a larger extent. New presidents, new boards, new "membres titulaires" and all that.

What Is the Case?

A renewed discussion about the use of professional titles (such as the abbreviations FIA, FFA, AAG) by actuaries admitted as full members by force of the Agreement is taking place. An exchange of thoughts that sometimes takes the shape of a new Anglo-Dutch War (number five, after a long pause). The Dutch position now, however, is better than in the 17th and 18th centuries—we are supported by other forces from continental Europe and I cannot escape the impression that the English side of the front shows some division lines. And to the north of Hadrian's wall, the Scots seem to sympathize with the continental actuaries.

As I described earlier, the Agreement has been the result of a combination of the EC conviction that obstacles to free competition should be removed and the associations' willingness to incur a risk with regard to the assumed equality of vocational training of actuaries throughout Europe.

The first principle, free competition, resulted quite logically in this clause of the Agreement:

"The rights, duties, obligations and subscriptions of members admitted under (a) shall be the same as those of other full members, and in particular they shall be subject to the same code of conduct as full members of the association to which they are admitted under this Article."

In my view, these words cannot be misunderstood easily; discrimination in any form between the "highest level" subset of professional people, the "full members" to be listed by the Associations, is ruled out as contradictory to the spirit of free competition and free access to national markets.

So, if a national association has arranged for the use of titles such as AAG or FIA, the natives will have to grant this privilege to all members, the invaders from overseas included—a matter of principle, not of convenience, perhaps. Competition means either no privileges to anyone or the same privileges to all, assuming a more or less "homogeneous set" of competitors. And that is exactly the core assumption of the agreement.

Of course I understand the bitter rivalries between English actuary A passing all the Institute exams and becoming an FIA just before mid-life crisis, and the continental colleague B who moved from Cologne to London as an actuary around age 30 and to whom the title FIA will be granted after one year or so.

The situation becomes even worse if the British government decides to adopt Maastricht's Social Chapter, so that even a compensating lower wage is no longer possible. Competition on equal terms for all, again. If we are to play the capitalist-free competition game—then a level playing field is the least we may hope for.

During the April 1997 meeting of the Consulatif Group's "Freedom and General Purposes Committee," it was decided that a small subcommittee will try to find

"Both the European Code of Conduct and Agreement are 'law' for all members of any actuarial association."

a way out, reassuring the English without annoying the continentals and their friends. These words must have given you an impression of the standpoint I am going to defend as a member of that subcommittee.

Am I saying that the cooperation between the European Actuarial Associations is now at stake, just because of the use of those silly three-letter abbreviations? Of course not.

Do I deny the important contribution made by the Institute (and Faculty) to the development of the European actuarial profession and its institutions? Do I tend to forget their generosity in subsidizing the Groupe's activities (until this year, when there will be a balanced budget at last)? Again, of course not.

But free competition means removing all redundant or less relevant differences between competitors, in so far as

continued on page 10, column 1

Recognition of Actuaries *continued from page 9*

possible. Some differences will remain, and one of those will certainly favor the native speakers of English. Actuaries in continental Europe, and in many other countries worldwide, will have to live with the fact that the Anglo Saxons have won at least the language part of the competition.

Actuaries of the world compete for jobs and assignments in all states and regions. In Rome, do as the Romans do. In London, stick to the customs of the English tribe, the use of their abbreviated titles included. We will find a solution to that small, but important, problem, as we did in the case of other even more difficult questions.

Wilhelm S. Meijer is Past President of Het Actuarial Genootschap (HAG) (the Actuarial Society of Netherlands).



A Call for Papers

Actuaries are invited to submit papers for possible publication in the *Journal of Actuarial Practice*, an international refereed journal. Papers may be on *any* subject related to actuarial science or insurance; they do not have to contain original ideas. Preference will be given to those papers intended to educate actuaries on the methodologies, techniques, or ideas used (or can be used) in current actuarial practice. The journal also accepts technical papers, commentaries, and book reviews. However, all articles must have some relevance to actuarial practice.

Please send an abstract of the paper by Friday, May 1, 1998 and five (5) copies of the completed paper by Friday, June 19, 1998 to:

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The Role of the Appointed Actuary in the United Kingdom

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This article provides a broad overview, in nontechnical language, of the special role of the Appointed Actuary in U.K. life companies, that is, insurance companies which transact long-term business.

U.K. legislation requires every life company to appoint an actuary, known as the Appointed Actuary, to undertake certain duties. This requirement covers not only companies based in the U.K. but also U.K. branches of companies established outside the European Union. Although the detailed legislation is somewhat different, the main elements of the Appointed Actuary system also apply to the larger Friendly Societies.

The Appointed Actuary and the Supervision of Life Companies

U.K. legislation requires that an investigation shall be made into the financial condition of a life company each year by its Appointed Actuary. The Appointed Actuary will report to the Directors of the Company on his or her findings and an abstract of the Report, prepared in a prescribed format, will be included in the Company's statutory Annual Returns to the Department of Trade and Industry (DTI), which is the governmental department responsible for the supervision of life companies. The returns will give particulars of the valuation methods and assumptions used and will include a certificate in which the Appointed Actuary certifies:

- that the data used were adequate for the valuation of the Company's liabilities
- that the actuarial value placed on the liabilities under the Company's policies is adequate
- the amount of the minimum solvency margin which the Company is required to maintain
- the adequacy of the premium rates on which new business is transacted

- that relevant guidance issued by the Faculty of Actuaries and Institute of Actuaries has been complied with.

If the certificate cannot be given without qualifications, these must be stated and explained.

The process of valuation, reporting, and certification by the Appointed Actuary enables the DTI to monitor the Company's financial progress without carrying out its own detailed investigations.

Although the annual investigation forms one of the Appointed Actuary's main statutory duties, the role is much broader in practice. In its widest sense the Appointed Actuary's role is to monitor the ongoing financial well-being of the Company on behalf of the Board of Directors and, in particular, to satisfy himself or herself as to the solvency of the Company at all times and to advise the board of any points of potential concern that may arise and how they might be addressed. As it has developed this wider role has come to be regarded by the supervisory authorities as one of the control features of the prudential supervision of life companies.

In recognition of the Appointed Actuary's wider responsibilities, therefore, he or she is supported by the authorities and the Profession in a number of ways. For example, the Appointed Actuary is entitled to consult the DTI or its advisors, the Government Actuary's Department. Equally, these departments may raise with the Appointed Actuary points arising from his or her Valuation Reports.

The Appointed Actuary and Professional Conduct

The Faculty of Actuaries and the Institute of Actuaries require all members to conform to their Memorandum and Advice on Professional Conduct, which is backed by disciplinary procedures.

Before assuming the relevant duties, a prospective Appointed Actuary must obtain from the Faculty or Institute a certificate authorizing him or her to act in this capacity. Certificates are issued

continued on page 11, column 1

The Role of the Appointed Actuary

continued from page 10

to applicants only if they are able to demonstrate to the Faculty of or Institute that they have the relevant experience to undertake the duties of the Appointed Actuary, that they have followed the Faculty and Institute's scheme of continuing professional development, including matters relevant to the Appointed Actuary role, and, more generally, that they are fit and proper persons to act as Appointed Actuaries. These practicing certificates are renewable annually; renewal is dependent, in particular, on the Appointed Actuary keeping abreast with relevant developments through ongoing participation in the scheme of professional development.

The Faculty and Institute have issued a series of Guidance Notes dealing with various aspects of actuarial principles. Certain of these Guidance Notes are specifically related to the work of Appointed Actuaries. The DTI requires the Appointed Actuary to list annually the guidance which has been complied with and expects the most relevant Guidance Notes to be listed.

Any actuary requiring advice on professional conduct or on the interpretation of Guidance Notes can obtain this in confidence from the Faculty or Institute.

The Appointed Actuary and the Board of Directors

The Directors of the Company are the Appointed Actuary's principal in the professional sense. The normal professional relationship of confidentiality and independence of advice applies, whether the Appointed Actuary is an employee or an external consultant.

It is important that the Board should allow the Appointed Actuary access to its meetings to present his or her advice directly and to respond to any questions which may arise. If the Company is part of a group of Companies with a number of Boards, then access should be to the Board which exercises effective control of the relevant insurance business.

It is equally important that the Appointed Actuary should be consulted about, and given the opportunity to comment on, any significant proposals at an early stage so that he or she can advise the Directors on the likely effects of proposed courses of action on the financial development of the Company. This includes, for example, proposed changes in investment policy, proposed sales and

marketing initiatives and material proposed items of expenditure.

The Appointed Actuary, as such, has no executive powers. It is his or her duty to advise the board of directors. However, many Appointed Actuaries also hold senior executive positions within life companies, often as the Chief Financial Officer and/or as a Director. This is regarded as desirable in many ways as it ensures that the Appointed Actuary is able to keep in close contact with the Company's operations. Having said this, it is important that the Board should be clear about when the individual is giving advice formally as the Appointed Actuary and when he or she is acting in another capacity.

While the presence of another actuary on the board can be helpful to all parties, it does not lessen the Appointed Actuary's special role and responsibilities in any way.

Many companies following a working arrangement under which the Appointed Actuary receives all Board papers and has a standing invitation to attend all board meetings where the Company's insurance activities are under discussion. This may be regarded as best practice if the Appointed Actuary is not also a Director.

The Appointed Actuary will normally discuss his or her recommendations with the company's Chief Executive and senior management before submission to the board. Circumstances sometimes arise where the commercial judgment of the management and board causes the recommendations to be modified with the Appointed Actuary's approval. One cannot exclude the possibility that the Board and the Appointed Actuary might be unable to reach agreement on a material issue. In such circumstances the DTI might be approached for assistance in resolving matters.

The Appointed Actuary and the Financial Management of the Company

The Appointed Actuary is responsible for determining the value to be placed on the company's liabilities for the purpose of comparison with its assets: this value is referred to in insurance legislation as "mathematical reserves." In order to undertake this work, the Appointed Actuary will need particulars of the Company's portfolio of business, information regarding its recent history and detail of

its assets, including its policy regarding the use and control of derivative instruments, where appropriate.

Among other things he or she will need to have due regard to the potential effects of guarantees and options under the company's policies, the level of management, expenses being incurred, the Company's tax position, any reinsurance arrangements and the suitability of the investments to support the Company's obligations to policyholders.

On taking up an appointment the Appointed Actuary will wish to be satisfied that the need for such information is fully understood by the Company's Board and management, and that appropriate arrangements are in place to ensure that the information is provided.

The Appointed Actuary will also be consulted on the design of the Company's products and the terms on which it writes new business.

The Appointed Actuary and the Policyholders

The relationship between the Appointed Actuary and the policyholders is an indirect but important one. The DTI expects Companies to fulfill their "policyholders' reasonable expectations." Although this expression is not formally defined, over time the Actuarial Profession has developed a working understanding of how the concept should be interpreted.

There are three main areas where the policyholders' reasonable expectations are relevant in the day-to-day operations of a typical life company. These are the treatment of with-profit policyholders through bonus declarations, the bases on which unit prices are determined for unit-linked business and the exercise of any discretion the Company may have to alter the terms and conditions applicable to existing policies, especially in the area of charges under unit-linked policies. The Appointed Actuary would be expected to advise the Board in these areas.

More generally, it is the Appointed Actuary's duty to advise the Company of his or her interpretation of its policyholders' reasonable expectations, having due regard to the broad nature of the

continued on page 12, column 1

The Role of the Appointed Actuary *continued from page 11*

Company and its business and its approach to the treatment of policyholders, both individually and (where appropriate) collectively vis-à-vis shareholders. It is also incumbent on the Appointed Actuary to take steps to ensure that prospective policyholders are not misled as to their expectations; the supervisory authorities require the Company to consult its Appointed Actuary about various aspects of the information to be disclosed in respect of new policies, including the level of expenses and other charges to be allowed for when giving projections of possible policy benefits.

It is particularly important that the Appointed Actuary is closely involved at every stage if changes to the Company's structure, which could impact on the policyholders' rights and expectations, are under consideration.

Summary

The Appointed Actuary system is central to the financial soundness of life companies in the U.K..

The Appointed Actuary has responsibilities to the Company's Board of Directors, to its policyholders, and to the DTI

for monitoring and reporting on the Company's financial progress. It is his or her duty to assess the implications for the Company's financial condition of external events and the Company's own actions, and to advise the Company accordingly.

By providing sound advice and well-presented information, the Appointed Actuary can assist the Company to operate on a sound financial footing, to avoid any potential pitfalls which it may encounter and to meet the reasonable expectations of its policyholders.

Report on SOA Joint Subcommittee to Study Foreign Resident Issues

by Marina Adelsky

At the 1996 SOA Annual Meeting in Orlando, Florida the Joint Subcommittee to Study Foreign Resident Issues was formed from two Society Committees: the Committee on International Issues (CII) and the Education and Examination Committee (E&E). I was asked to chair this subcommittee, which was charged with the objective of promoting the development of SOA members and actuarial science throughout the world.

The subcommittee started by developing a proposal to the Board of Governors to waive the exam fee and study notes surcharges for candidates residing outside North America. Additional exam fee charges resulted in approximately \$125,000 (about 3% of total exam fees) in revenue to the SOA per year. The decision to waive charges was made at the Board meeting in March 1997.

The second project was to develop a system to help the candidates from the countries identified as being low income that cannot afford the examination fees/cost of study materials even after surcharges were eliminated. The subcommittee built on the work that was

done by the CII prior to the forming of the subcommittee in investigating the possibility of having U.S./Canadian companies assist these students. There were several corporations that had expressed interest in sponsoring one or more candidates from foreign countries. However, in the absence of a matching structure (sponsor/candidate), the process could not function in a fair and equitable manner. The subcommittee developed a clearing house proposal and presented it to the Finance Committee. The proposal went through that committee and will soon be presented to the Board.

The clearing house structure specifies the eligibility for applications, application format, selection process, monitoring function, and standards necessary to retain eligibility for assistance. It also establishes a procedure for creating an emergency fund if no sponsor match is found for a candidate.

Briefly, this is how the process will work. The clearing house small committee (two volunteers and a part-time SOA staff assistant) will examine the applications and forward them to one of the companies that expressed interest in spon-

sorship. The company would be asked to issue a commitment letter. The SOA staff member would notify the selected candidate and inform the SOA office, which will mail the exam fees and exam materials invoices to the company-sponsor for each exam session while the candidate remains eligible. If no sponsor is found prior to the general deadline for the exam session, the emergency fund may be used.

The subcommittee will be happy to forward the complete proposal to anybody who is interested in reviewing the details of how the clearing house will work or anyone willing to become a sponsor. Please contact me at: Marina Adelsky@notes.pw.com to receive this information.

Finally the subcommittee is now exploring a possibility to organize a program that would match actuarial employers with actuaries in other countries and offer them an opportunity of internship in the US.

Marina Adelsky, FSA, is with Price Waterhouse in New York, New York.

The Actuarial Profession in Hong Kong

by C. F. Yam

On June 30, 1997, the sovereignty of Hong Kong reverted from the United Kingdom back to the People's Republic of China.

Hong Kong is now a Special Administrative Region of the People's Republic of China and has started its new chapter.

In the late 1950s and early 1960s, Hong Kong experienced an influx of immigrants from its motherland as well as a post-war baby boom. These have led to a swollen group of population at ages 30 to 40 in the 1990s. This demographic profile, undoubtedly, has had an impact on housing, life insurance protection and later on retirement savings in Hong Kong.

Hong Kong has been changing from a manufacturing place into a servicing port and now as a financial center. These structural changes have naturally created inflationary pressure. The CPI index surged more than 150% over the last ten years. On the other hand, Hong Kong has benefited from these changes. The Hang Seng Index soared by more than 30 times over the last 20 years. Per capita income now exceeds US\$25,000 per annum.

As of the end of 1996, there were 46 authorized long-term insurers and 19 composite insurers in Hong Kong. Over the last seven years, the number of individual life policies in force increased from less than 1 million to more than 3 million. These can be compared against the total population in Hong Kong of 6.3 million. The individual office premiums in force totaled HK\$20 billion, representing some 1.5% of Hong Kong's Gross Domestic Product. Most of the policies sold have been non-linked in nature. However, linked business has seen an increasing trend and now accounts for more than 10% of new individual business.

With regards to occupational retirement schemes, there were more than 300,000 companies in Hong Kong last year. Out of these, less than 2,000 were of size of 100 employees or more which would have the financial strength to provide defined benefit-type retirement scheme benefits. According to the Registrar's Annual Report 1996, a total of 1,418 defined-benefit schemes and 15,364 defined-contribution schemes were in force last year. A total of 860 defined-benefit schemes were exempted schemes which were mainly overseas schemes

covering expatriate secondees in Hong Kong. The balance of 558 registered defined-benefit schemes covered a total workforce of 297,658 employees. In total, about 850,000 employees in the private sector are now covered by occupational retirement schemes, with estimated assets of approximately HK\$250 billion (US\$30 billion).

Turning to the actuarial profession, the Actuarial Society of Hong Kong was incorporated in January 1994 as the local actuarial professional body. It was evolved from the Actuarial Association of Hong Kong which was formed in 1968.

Hong Kong has adopted an Appointed Actuary system. Life insurance companies and occupational retirement schemes are required to appoint qualified actuaries to look after and certify their solvency.

There are currently 127 qualified actuaries in Hong Kong plus some 180 associates and students. These qualified actuaries are also fellow members of at least one of the following world professional bodies:

- Society of Actuaries, U.S.
- Institute of Actuaries, England
- Faculty of Actuaries, Scotland
- Institute of Actuaries of Australia

At present, 70% of the actuaries in Hong Kong are employed by insurance or reinsurance companies. More than 20% are engaged in consulting business. The remainder, constituting less than 10%, are involved in other areas including investment firms and the government.

As can be seen, actuaries have not been visible in other financial businesses in Hong Kong. The current situation is due to the prior shortage of supply of actuaries and actuarial students in the territory. All available actuarial resources were readily absorbed by the strong demand in these two areas. With the University of Hong Kong and possibly next year the Hong Kong University of Science and Technology offering degree courses in actuarial science, the shortage situation is likely to be turned around.

Hong Kong will be introducing its Mandatory Provident Fund Schemes sys-

tem in the next two years, which will require all employers, including the self-employed, to set up provident-fund-type defined-contribution schemes for their employees. Contributions will be at 5% each by the employer and the employee. Benefits are to be fully vested, portable and preserved to age 65.

The MPF would likely hinder the growth of defined-benefit schemes in the territory. In addition, according to the Australian experiences it could accelerate the blur of the local banking, unit trust and life insurance industries. All these would have an impact on the demand for traditional actuarial services in Hong Kong.

It appears that now is the time for the profession in Hong Kong to prepare and develop its expertise further into other nontraditional practice areas; for example,

"... now is the time for the profession in Hong Kong to prepare and develop its expertise further ..."

investment and derivative management, risk management in banking or general insurance industries. In addition, the increase in supply of actuarial practitioners from the actuarial programs offered or to be offered by the two universities in Hong Kong would likely speed up the pace of fellow actuaries permeating into the wider financial risk management field.

In order to make actuaries more prominent in other financial management areas, it is important for the profession as well as academic institutions in Hong Kong to change the public image of actuaries from experts who calculate insurance premiums (that is the definition you may find in English dictionaries if you know nothing about actuaries) to professionals in the practical application of financial modelling and assessment

continued on page 14, column 1

The Actuarial Profession

continued from page 13

of financial risks as well as experts in financial risk management.

In general, the challenges that actuaries in Hong Kong would be facing in the coming years would not be dissimilar from what has happened in other western countries. The profession in Hong Kong, however, has the advantage to borrow the overseas experiences and make appropriate changes and update of skills earlier so that the prosperity of the profession not only will be maintained, but also will flourish further.

In addition, the in-depth experiences and multinational skills that Hong Kong has accumulated in the traditional actuarial areas will no doubt be a very valuable asset to its motherland, Mainland China. Transfer of skills and knowledge amongst professional and academic actuarial institutes between the two places is expected.

C F Yam, FSA, is Finance Director of CMG Asia Life Assurance Ltd, in Wanchai, Hong Kong



Book Commemorates SOA-Nankai 10th Anniversary

A limited number of copies of the SOA-Nankai University Actuarial Program 10th anniversary commemorative book, *The Emergence of the Actuarial Study and Profession in China*, are now available. This collection contains congratulatory messages from past presidents of the SOA involved in the program along with insightful recollections from prior faculty members and others. For a copy, contact Paulette Haberstroh at the SOA office at (847) 706-3584, or e-mail at phaberstroh@soa.org.

Underwriting and Risk Classification

by Chris Cook and Vera Dolan

In justifying why any insurer would want to do business in Eastern Europe, Dr. Ostaszewski said, "Why not? The world will be very different twenty years from now. These countries offer opportunities for growth. Many of these countries are close to major business and metropolitan centers in western Europe, which should get your attention. I recommend that you strongly consider starting with joint ventures, which will mix knowledge of the local culture with bringing in your goals. If you hire local people and let them do what they do, they will do what they have done until now. If you bring in a foreign team, the team will be lost. Former immigrants seem to succeed very well."

Underwriting and Risk Classification

The contrast and comparison of underwriting practices in different countries were discussed by a panel which included David Van Der Beek, assistant vice president and regional chief underwriter of Cologne Re; Iris Stolle, medical director at Agrippina Rückversicherung; and John Krinik, editor of *Underwriter Alert*.

Underwriting practices in the U.S. were reviewed by Mr. Van Der Beek. "The total amount of ordinary life policies in force in the U.S. in 1985 was \$3.2 trillion; in 1995 it was \$7.5 trillion. In 1995, the face amount of new life insurance purchased was \$1.1 trillion. In 1995, the average size of newly purchased insurance policies was \$79,700 and 73% of these policies were some combination of whole life plans. In 1985 there were 2,261 insurers in the U.S., but the still ongoing trend in mergers and acquisitions reduced this number to 1,715 in 1995," said Mr. Van Der Beek.

"In addition to the typical application and examination forms, the underwriter has access to the MIB (which is a database of coded information on those who have applied for life insurance), inspection reports, home office urine specimens and blood chemistry profiles (provided by laboratories that specialize in insurance reporting), personal and

business financial statement (which we have greater access to compared with other countries), tax returns, and detailed attending physician statements. Today, 96% of the Americans who apply for life insurance are able to obtain coverage, 91% at standard rates," Mr. Van Der Beek stated.

"In the U.S., there is no one national or local agency that governs our industry. Each state has its own insurance commissioner who regulates activities in that state, including market conduct guidelines, procedures, and regulations regarding different types of testing, and approval of the various forms required to obtain life insurance. Many of the states adopt similar practices and use similar forms. But there are, however, almost 30 different jurisdictional regulations relative to HIV testing, with protocols and laws differing from state to state. Most states agree on a doctor-to-doctor notification of a positive HIV result," explained Mr. Van Der Beek.

"With more competition in the life business, from different insurance companies, banks, financial institutions, and the Internet, underwriter training is becoming more important. The successful companies are, and will, invest significantly more in employee training than they have in the past. Several organizations that provide additional advanced training and education include the Academy of Life Underwriting and the Life Office Management Association. Designations which indicate further accomplishment in the life insurance field also include the Chartered Life Underwriter (CLU) and Chartered Financial Consultant (ChFC)," said Mr. Van Der Beek.

Dr. Stolle discussed the practice of life underwriting in Germany, U.K., France, Italy, and eastern Europe. "As of July 1, 1994, the Third Life Directive enabled insurers to do business in the whole of Europe with the filing of a single license in the home country. The focus of regulation is on solvency control, with the insurer's home country responsible for supervision. There are

continued on page 15, column 1

Underwriting and Risk Classification

continued from page 14

Appointed Actuaries who oversee the conduct of insurance business in each country. The approval of maximum interest rates and mortality tables is done at the discretion of the home country supervisory authority."

"There are still remaining problems in achieving a single insurance market within the European Union. Different legal environments in each country require different policy wording, exclusions, and contestability criteria. There are different tax regulations, with a 2.5% premium tax in Italy, a 4.4% premium tax in Belgium, but no premium tax in most of the other countries." With regard to requirements, Dr. Stolle indicated that, in general, medical questionnaires and medical examiners reports are used, mostly with a free choice of doctors. In the U.K., paramedical exams are available.

Financial underwriting requirements in general include: a financial questionnaire; an independent financial questionnaire which is approved by an independent third party; an earning statement that includes annual accounts and a salary specification; bank statements; copies of loan documents, and investigative reports. In the U.K., a moral risk report known as Fact Finders is obtained, in which the applicant is interviewed. Also in the U.K., underwriters use Press Cuts, a service that provides press information about prominent and important people.

"In 1994, there were 120 life insurance companies in Germany. The type of products sold include individual term life (10%), endowment policies (75%), and group life (10%). Disability insurance is available as a stand-alone policy or as a rider. The applicant's own occupation is always insured. In the U.K., 130 life insurers were doing business in 1994. Over 50% of the U.K. market involves single-premium policies, and dread disease products are very common. Disability insurance is for own or any occupation, with an exclusion clause for AIDS and AIDS-related claims," Dr. Stolle observed.

"In France, in 1994, there were 140 life insurance companies. About 40% of the market is group life, and 25% is capitalization insurance (which are single-premium, tax-deferred savings products). Disability insurance is usually a rider to life insurance, with daily

payment in case of temporary total disability and monthly annuities in case of permanent total disability. Policies that are medically underwritten have a duration of five years, requiring the applicant to be underwritten every five years. In Italy, over 65% of the products are linked to economic indexes. Marketshare is 70% endowment, 20% pension, and 10% term life. Single premium policies compose 15% of the market," said Dr. Stolle.

The total premium of all lines of insurance written in eastern Europe is 0.8% of the premium written in the European Union. The market is underdeveloped and undercapitalized, but Dr. Stolle believes the outlook is good if more support through education, training, and technical systems is made available. Special underwriting problems in eastern Europe include money laundering, threat, and violence among the higher income groups, and high homicide rates in Russia.

Training for underwriters in Germany includes on-the-job training with their own companies and reinsurers. The designation of Peripert (Personen-Risiko-Experte) is given after a 1-½ year training program by the *Verein für Berufsfachbildung*, with a final exam offered in several cities in Germany. There is a medical insurance journal published every two months, the *Zeitschrift für Versicherungsmedizin*, and a general insurance journal that occasionally has underwriting-associated journals, the *Zeitschrift für Versicherungs-wirtschaft*.

Training for underwriters in the U.K. includes on-the-job training and a 1½ year degree program offered by the Chartered Insurance Institute. Publications serving the life industry in the U.K. include the Insurance Medical Society reports, which is a monthly health and claims letter, and circulars from the Association of British Insurers. "In all countries, publications of the 'big' reinsurers on the latest important topics are available," remarked Dr. Stolle.

Emerging critical issues facing all life underwriters worldwide were discussed by Mr. Krinik. "Underwriting using generic test information is in jeopardy, and underwriters must take action to preserve their access to all medical records, and to test for nonspecific gene product or expression (like cholesterol,

glucose, etc.). Insurers need to establish a code of conduct that will guide them and, at the same time, assure the public that insurers will maintain and utilize genetic information confidentially, fairly, and with informed judgment. They need to base their classifications solely on sound actuarial principles and reasonably anticipated experience, which should be no different than any previous underwriting decisions made on the basis of the information "available," Mr. Krinik pointed out.

"The new wave in geriatric insurance sales brings up issues in the suitability of financial product purchases for this group and their vulnerability to sales pressure. Underwriters need to become more educated and aware of the different types of risks seen among the older ages so they will not be averse to them. More approvals of applications 'as applied for' are needed, with underwriters giving more positive factor credit to the performance of activities of daily living and participation in physical and social activities. Elderly people who are 'making plans' are better mortality and morbidity risks. Insurers also need to be sure that their basic pricing of products for this group is adequate," advised Mr. Krinik.

"Distribution systems are undergoing tremendous change, with trends away from agents toward direct response and third party sales. The Internet, direct mail, telemarketing, and banks increase the likelihood of fraud because of the absence of an agent. Countermeasures include the use of photo identification and fingerprinting. Warnings about fraud should be marked on all applications," Mr. Krinik stated.

"Teleunderwriting, wherein agents no longer ask any risk-related questions in favor of direct telephone interviews of applicants by underwriters, is in its infancy. The technology facilitating this includes software application interview scripts, with reflexive question structures specific to the answers given. The underwriter-interviewer also verifies customer understanding of sales concepts and products purchased, along with other compliance topics. What this will mean for the underwriter of the future is

continued on page 16, column 1

Underwriting and Risk Classification *continued from page 15*

greater emphasis on communication skills and much broader insurance law and marketing knowledge," predicted Mr. Krinik.

"The issue of market conduct requires underwriters to learn that risk classification is viewed as simply a trade practice, and that practices perceived as unfair can be prohibited. Consumerism is growing worldwide because of the influence of global media, and buyer attitudes that used to be peculiar to North America are spreading. Most likely, the regulation of insurers will become more standardized as the International Association of Insurance Supervisors works more closely with the U.S. National Association of Insurance Commissioners (NAIC). It may surprise some to learn that regulators do not view underwriting as a 'solvency' issue—they view it as a 'market conduct' issue," observed Mr. Krinik.

Vera Dolan, is President of VFD Consulting in Ukiah, California. Chris Cook, is Regional Director of Underwriting at Aetna in Hartford, Connecticut.

Hong Kong Insurance Ordinance Amendment

by Peter Luk

The small island in South East Asia called "Hong Kong" has recently acquired international fame owing to its "handover" from the British to China on June 30. For those actuaries who take an interest in this place, a small change in the insurance regulations that took place last year might be worth mentioning.

On May 2, 1997, the Insurance Companies Ordinance (the only ordinance that exclusively regulates the conduct of insurance business) was amended as follows:

Captive Insurance Business

In order to encourage the establishment of captive insurance companies in Hong Kong, the regulation reduces the required capital from 20% of net premium to 5% (with a minimum of HK\$2 million). While a licensed non-life insurer is required to maintain assets in Hong Kong, a captive insurer is now exempted. Moreover, a captive insurer is also exempted from valuing its assets in accordance with the valuation regulations of the Ordinance.

Juvenile Insurable Interest

SOA members may find this puzzling. In North America, a parent is always considered to have an insurable interest

in his or her children. As the development of the life insurance industry in Hong Kong over the past 50 years has been following the North American practice, hundreds of thousands of juvenile policies were sold in the past until someone pointed out that such an insurable interest does not exist under the British legal system, which Hong Kong has been subject to over the last 150 years. This means that the hundreds of thousands of juvenile policies sold in the past are legally invalid and unenforceable. The latest amendment, which introduces into Hong Kong's legal system the recognition of such an insurable interest, is an attempt to rectify this unsatisfactory situation.

Professional Standards for Appointed Actuaries

There has been an ongoing discussion to bring U.K.'s actuarial bodies' Guidance Notes to Hong Kong. This amendment now empowers the Insurance Authority to make regulations specifying the professional standards to be complied with by the appointed actuary of an insurer.

Peter Luk, FSA, is Executive Director of Top Glory Insurance Company (Bermuda) Ltd. in Hong Kong and a member of the International Section Council.

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Puebla, Mexico Actuarial Conference Report

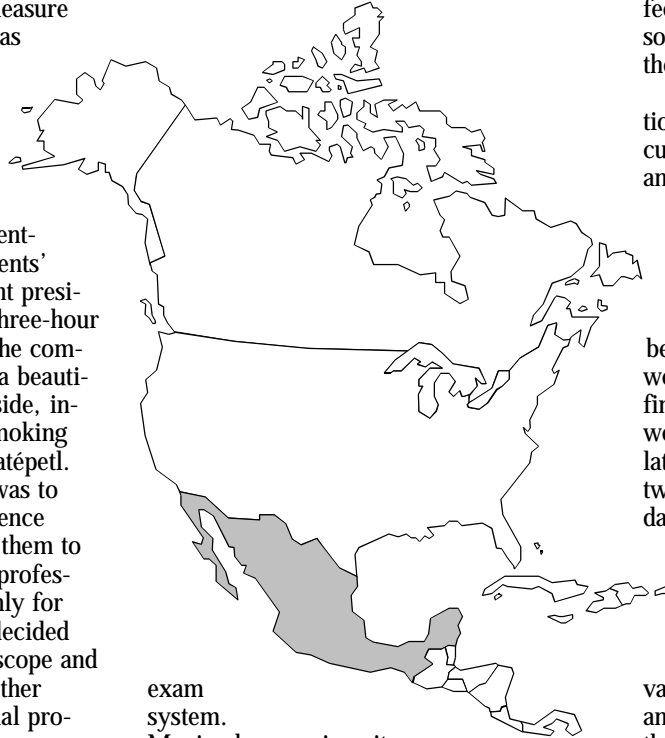
by Jim Toole

In March of 1997 I had the pleasure of visiting Universidad De Las Americas (UDLA) in Puebla, Mexico, for the 11th annual actuarial student congress. After meeting Sam Gutterman in Mexico City, we were accompanied by Francisco "Paco" Chong (president-elect of the UDLA actuarial students' association), Jorge Rueda (current president), and Kathia Pozos for the three-hour ride into Puebla. In addition to the company, Sam and I were treated to a beautiful view of the Mexican countryside, interrupted by the snow-capped, smoking crown of the pre-eruption Popocatepetl.

The goal of the conference was to integrate students of actuarial science from around Mexico and expose them to different aspects of their chosen profession. Originally a symposium only for UDLA students, the organizers decided three years ago to broaden their scope and invite their colleagues from the other Mexican universities with actuarial programs.

The idea was a success, and recognizing the increasing opportunities arising from NAFTA, the organizers decided the time was right to invite speakers from the SOA and make it an international conference. Those of us who were fortunate enough to attend (over 170 students and speakers representing six universities and three countries) could not agree more.

Because this conference was the students' first contact with representatives from the SOA, it was appropriate for my first activity as the Society of Actuaries Ambassador in Mexico. While Sam provided a global overview of the profession, I tried to shed some light on the mysteries of the SOA



exam system.

Mexico has a university-based system for actuarial certification, the final step being the completion and defense of a weighty thesis. The students were very eager to learn about the SOA exam process, and they hope to open an examination center in Puebla this fall. Other topics presented ranged from consulting issues to stochastic simulations and were often quite technical. The presentation by Dr. Herman Sabua on derivative products was very popular.

As you might expect, it was not all work and no play. The parties after the seminar were very well attended by students and speakers alike, the most memorable being a trip to what appeared to be a converted wine cellar attached to a hotel in nearby Cholula. A youthful Puebla "trova" singer (balladeer) provided entertainment which had the entire room on its

feet in seconds, dancing and singing songs to which everyone seemed to know the words and the steps.

The UDLA actuarial student association is responsible for planning and executing the event, which takes a lot of time and effort. They must remain in contact with the other student organizations, plan the activities, and, of course, coordinate all the speakers and programs. In an impressive feat of "just in time" capabilities, the weekend before the meeting, program updates were solicited and incorporated into the final programs. Amazingly, students were even responsible for real time translation of the English presentations! Between the myriad of details (the badges, day planners, speaker gifts, the list goes on) and the quality of the program, I was very impressed by the capabilities of these young actuaries.

Although the conference is not a money-making venture, it does give valuable experience to both the organizers and the attendees, as they are exposed to the complexities of professional practice and the logistical details of organizing an event of this scope and magnitude. For the next conference in March 1998, they hope to bring students from the University of Waterloo and promote exchange programs with other universities in the U.S. For further information about attending or being a speaker, you can contact Linden Cole at the Society or Francisco Chong at 098091@udlapvms.pue.udlap.mx.

Jim Toole, FSA, is with Tillinghast-Towers Perrin in Mexico, DF, Mexico.

1997 Hong Kong Ambassador's Report

by Dominic Lee

As of July 1, 1997, Hong Kong's sovereignty reverted to China. Hong Kong and China are now one entity under the "one country, two systems" policy. Hence, the distinction between Hong Kong and China has become blurred.

In anticipation of this change, my work in the past several years has mainly focused on China. On the other hand, given that the level of actuarial development in Hong Kong is much more advanced than that in China, I see the justification for my action plans.

Following are some of the activities in which I have gotten involved, in an attempt to fulfill my role as an ambassador of the SOA.

In 1993, the American International Company (AIA) obtained a license to operate in Shanghai. At that time, we had one staff person who had the background to attempt to enter the actuarial professional. To fulfill the pledge given to the Chinese government that AIA would strive to promote actuarial science in China, I applied to the SOA to set up an examination center in Shanghai, in anticipation that there would be an increasing number of students taking the SOA examinations through the AIA's promotion. After approval by the examination center, I wrote to the insurance regulatory body, the People's Bank of China (PBOC), and the largest insurance company in China, the People's Insurance Company of China (PICC), to invite them to send students to take the SOA examinations. However, there was no reply from these organizations. Hence, in the first examination conducted in November 1993, there was only one candidate—the one from AIA.

Because those in the regulatory body and those in the insurance industry did not have a keen interest in taking SOA exams, I switched my focus to the students in the universities. In 1994, AIA teamed up with Fudan University in Shanghai to set up the AIA-Fudan Actuarial Center. Two supervisory positions were established for this center, one from AIA and one from Fudan University I acted as the supervisor from AIA. Courses were given to the students on SOA associateship exam subjects free of charge. Students enrolling in these courses would have their examination fees reimbursed on passing the exams. AIA

was responsible for financing and Fudan University was responsible for teaching.

The students performed very well on the SOA exams. The passing rates were consistently higher than 90%, with several students being awarded prizes for their outstanding performance in Course 100. Before 1993, there had been no one in Shanghai who had passed or was planning to take SOA exams. Now there are more than 100 students taking exams, with more than 20 people attaining 200 credits (equivalent to the ASA in the old system) or more.

To encourage students to continue their education after securing 200 credits, AIA has announced that it would continue to grant reimbursement of examination fees for the fellowship courses for those subjects that are passed.

This year, to cope with the demand for assistance and sponsorship from students outside Shanghai, the AIA-Fudan Actuarial Center expanded its program to include a correspondence course for these students.

In 1995, AIA was given another licence to operate in Guangzhou. Given its successful experience in Shanghai, AIA applied to the SOA to set up another examination center there. So far, two examinations have been conducted. There were approximately 30 students taking examinations and five of them were awarded the cash prize for their good performance in Course 100.

In 1996, I enrolled in the Education Subcommittee of the Actuarial Society of Hong Kong. Ideas were discussed to organize actuarial seminars or talks in Hong Kong that would satisfy the SOA standard for granting credits to those participating candidates under the new curriculum that will become effective in the year 2000.

In 1996, under the leadership of Yuan Chang, a Vice President of the SOA, the Asia Committee was set up in Hong Kong with the objective of promoting actuarial education in the Far East, especially China, and also the presence of the SOA. I participated in this committee as the Chairperson for the Education Subcommittee. Action plans have been drafted to fulfill this goal. These include

donations of actuarial examination textbooks and study materials to universities, the sponsorship of examination fees for students, and the arrangement of professors in universities teaching actuarial courses to go to Hong Kong insurance companies for internships. The committee is awaiting approval from the SOA to allocate funds to finance these projects.

In spring 1997, at the request of the university, I visited Ke Ji University in He Fei. This university has expressed keen interest in having its students take SOA exams. The problem is that students will find the examination fees prohibitive. Also, they lack the funds to purchase the textbooks and study materials. I have advanced \$2,000 (U.S.) for this purpose so as to enable 11 students from this university to take the Spring SOA exams at the Shanghai examination cen-

"The students performed very well on the SOA exams. The passing rates were consistently higher than 90% ... "

ter. I plan to get reimbursement of this money either through the SOA or from the education fund set up by my company. The results achieved by these students are remarkable: two of them won the \$200 (U.S.) Prize for their excellent performance in the Course 100 exam.

In September 1997, I applied to the SOA to set up another examination center in He Fei because the number of students taking examination in that city is likely to increase. As before, I have promised to finance the students' exam fees on the condition that they pass the examinations.

In June 1997, Dave Holland, the President of the SOA, and several ex-Presidents of the SOA, took a trip to China, visiting Tian Jin, Beijing, and

continued on page 19, column 1

1997 Hong Kong Ambassador's Report

continued from page 18

Shanghai. Their activities included officiating at the contract-signing ceremony in Tian Jin and delivering talks at an actuarial seminar in Shanghai. I went to Tian Jin and Shanghai to meet with Dave Holland to show my support of his activities in China. At the actuarial seminar in Shanghai, Dave Holland, Yuan Chang, and I chaired a discussion session. Dur-

ing his stay in Shanghai, the AIA also provided logistic support.

In September 1997, Howard Bolnick visited Hong Kong. He encouraged the Asia Committee to promote actuarial education and to expand the presence of the SOA in the Far East, especially in China. I, as the Ambassador to Hong Kong and a member of the Asia Committee, will plan

my future activities in accordance with Mr. Bolnick's guidelines.

Dominic Lee, FSA, is Senior Vice President and Chief Actuary at the American International Assurance Company, Ltd., in Hong Kong and SOA Ambassador to Hong Kong.

Korea Ambassador's Report—June 1997

by Stephan Rajotte

The SOA members in Korea (total of 14) have met on a bi-monthly basis since the beginning of this year. The average number of attendees has been eight members. The discussions are mostly social and about recent happenings in the insurance industry.

- At the last meeting, I did a verbal survey of members requesting them to suggest activities, events, and other ideas where the SOA can provide support in Korea. The response was that not much else can be done due to the language situation in Korea.
- Jack Taylor (Prudential) suggested organizing a seminar for government actuaries sponsored by the SOA and consulting firms. The purpose would be to "train" local actuaries on new products, reserves, and solvency issues in North America. Jack and I have not had time to pursue this idea further. We would be interested in receiving SOA support with this activity.
- I made a presentation to the annual meeting of the Korean Association of Actuaries. About 200 people were present. Following my presentation, the president of the Association asked me (and the SOA if possible) for

support in planning the organization of the Asian Actuarial Society bi-annual meeting in 1999, which will be held in Seoul.

- I believe this meeting, even though still far away, could be a good opportunity for the Society of Actuaries to show good support to the development of Asia's Society of Actuaries.
- During my presentation, I emphasized the importance of joining the SOA through correspondence status.
- We also administered for the first time CAS exams in Korea this year. The non-life industry is also very important in Korea.
- The main priorities will be:
 - To continue supporting existing members to share ideas through informal meetings,
 - To continue administration of exams
 - To consider a seminar focused on product development and solvency issues.

Status of Industry— Summary of Current Issues

- Solvency continues to be on the top of the agenda.

- The Financial Reform Committee is planning to bring down many "walls" between financial institutions, that is, banks, securities, and insurance (life and non-life companies).
- An important "power" struggle is going on between different regulatory bodies. At this time, we cannot predict the final outcome. The only certainty is that there will be some changes.
- Many believe that President Kim has lost power to make meaningful changes and that real changes will be made following the election of a new president in late 1997.
- The government is mentioning that it may approve more liberalization in product development in 1998. Independent agency systems will be allowed in April 1998.
- The government is showing strong signs of impatience with regard to lax management of insurance companies and lack of improvement of the solvency problems. Mergers and acquisitions are now openly encouraged by the government.

Stephan Rajotte, FSA, is Senior Vice President, Marketing at Netherlands Life Insurance in Seoul, Korea.

New Zealand Ambassador's Report

by Richard Geisler

There are three industry-related issues included in this report: taxation, compulsory superannuation, and insurance disclosure.

Taxation

The taxation of life insurance and superannuation fund savings is being examined with the objective of taxing earnings on savings at a rate appropriate to each individual saver, rather than the current flat, top marginal rate of 33%.

Three methods were offered by a working group to the Treasury having different levels of complexity and different degrees of parity between low- and high-tax-rate individuals. The Treasury prefers the "tax credit" option over a reduced, flat "proxy rate" option and the more familiar "imputation credit" option.

The tax credit option gives low-tax-rate payers a credit on their policy equivalent to the tax credit returned to the company by the IRD for that taxpayer. The regulation would be written to give companies the option of adopting "tax credits" for none, some or all blocks of business. Competition will force companies to offer it as broadly as possible.

To adopt "tax credits" for a block of business, the company would require those policyholders to specify the tax rate applicable to them. This would be used by the insurer to file for a tax credit and also to apply the tax credit to the individual's policy. The individual would settle any differences in final tax in the annual return.

The industry has been invited to comment on the proposal. Important issues are how credits would be administered, in particular, how credits are attached to conventional policies as cash refunds are not permitted. Defined-benefit superannuation plans have the further problem of how to use the tax credit arising from some but not all members.

The government is looking for a workable solution for the year commencing April 1, 1998.

Compulsory Superannuation

The national superannuation scheme is targeted to provide about 33% of the average wage at retirement. In 1994, a political accord was reached to support a campaign to increase voluntary savings to supplement the tax-funded retirement scheme. In July of this year, a review by a select committee concluded that although the current tax-funded retirement scheme is not sustainable in its present form, it is not in danger until 2015 and can become sustainable with some adjustments to retirement ages and or benefits.

The new government this year initiated debate on sustainability of benefits under the accord of 1994 and proposed a compulsory savings scheme.

Highlights of the compulsory scheme were that individuals, not companies, were required to contribute to their personal superannuation account. An individual could choose any of a number of qualified investment funds and would own their account balances. Although tax cuts were planned to offset mandatory contributions, there would continue to be no other tax incentives for contributing to retirement plans.

Once the minimum savings target was reached the individual could stop contributing. If a retiree did not reach the minimum savings, the government would top up to the minimum. Lump sums at retirement would be converted to annuities and women's sums would be topped up to provide the same benefit as for men.

The main issues were:

- Had the current voluntary scheme been given enough time to take effect?
- Would the cost of administering small, frequent contributions outstrip any investment income for several years?
- Could the tax cuts offered to help offset the mandatory contributions be affordable long term?

The compulsory scheme proposal was overwhelmingly defeated in a national referendum in September. The issue will remain unsettled, and we can expect more attempts to deal with the future escalating costs of retirement benefits and health care for the aging population.

Insurance Disclosure

The Investment Advisers (Disclosure) Act of 1996 has an impact on the financial services industry and ancillary services. The definition of an investment adviser is broad and includes anyone who gives investment advice to the public in relation to buying or selling a security. Life insurance policies (other than term) are included as a security along with superannuation schemes, unit trusts and group investment funds.

There are two types of disclosure for advisers. *Mandatory* relates to convictions or bankruptcy of advisers and their money-handling procedures. *Mandatory* disclosure must be made before money is received. *Request* is at the option of the client, covering qualifications, experience and compensation of the adviser. The request disclosure, which must be fulfilled in five working days, must specify whether the adviser has any direct or indirect pecuniary interest in giving the advice and provide details of amounts or rates of remuneration.

Four other acts also have been amended to coincide with the above act. These relate primarily to product disclosure, requiring prospectus-like documents and investment statements for life insurance, unit trusts, superannuation schemes, and GIFs.

Companies and advisers have six months to comply starting October 1, 1997.

Richard Geisler, FSA, is Manager, Actuarial & Marketing Systems at National Mutual Life in Wellington, New Zealand and a member of the International Section Council.

Columbia Ambassador's Report

by Luis Gabriel Caro

In Colombia there are currently two actuarial organizations: Asociación Colombiana de Actuarios and Asociación Nacional de Actuarios. Each association has approximately 60 members. A member of the Asociación Colombiana de Actuarios is required to be an ASA or to hold a Master's degree from a foreign university in actuarial science. The requirements for membership in the Asociación Nacional de Actuarios are less restrictive; it is enough to hold an equivalent of a bachelor's degree in actuarial science from a local university.

The Asociación Colombiana de Actuarios, being an older association, has wider recognition among insurance and banking regulators and private industry. It has served as a permanent reviewer of

insurance regulation. As a matter of fact, it is almost a standard procedure that the drafts of new regulation are sent to the association for analysis and comments. Most of the members work for insurance companies or are private consultants. A few focus their activities in the banking sector, mainly with work related to market risks evaluation.

Several of the members of the association are taking exams of the Society of Actuaries. A few currently hold the ASA designation, but it is expected that within the next few years more members will complete the requirements.

Earlier this year we participated in the Congreso Panamericano de Actuarios in Buenos Aires, Argentina. Several

meetings took place regarding different issues related to the profession. Colombia was designated as the host country for the congress in 1999. We plan to have it in Cartagena, and given Colombia's accessible location for every part of the continent, we expect a large number of participants. In a later release we will provide more information related to this event.

For more information regarding our associations and our market, please contact me at: lgcfinac@impsat.net.co

Luis Gabriel Caro, ASA, is Director of Finac in Bogota, Colombia.

Observations on a Trip to China June 20 to July 5, 1997

by Harold G. Ingraham, Jr.

As part of a Society of Actuaries (SOA) delegation to China, I recently visited with various academics and representatives from the insurance and banking industries. The primary purposes of the trip were to attend and participate in actuarial student graduation ceremonies at Nankai University (Tianjin) and Renmin University (Beijing). Some members of the SOA delegation also participated in a seminar in Shanghai underwritten by Metropolitan Life Insurance Company (Met Life) and Fudan University, and also co-sponsored by Shanghai University of Finance and Economics (SUFEC), The People's Insurance (Life) Company of China, Ltd./Shanghai Branch (PICC), and American International Assurance Company, Ltd./Shanghai Branch (AIA). Other schools visited were Southwestern University (Chengdu) and Joatong University (Shanghai).

The graduation ceremonies at Nankai University also involved graduates of the school's Risk Management program. Most of these graduates had also success-

fully completed the Life Office Management Association (LOMA) exams.

This report sets forth my observations and other information gleaned from various meetings and discussions with (or writings from) individuals that took place during this trip.

Actuarial Exams in China

By now, it is widely known that the performance of Chinese actuarial candidates on the SOA's Course 100 Associateship exams has been phenomenal. Combined results for five exam centers administering exams since November 1992 show an 81% overall pass ratio on these exams—almost double the comparable pass ratio on such exams taken during this period by all other candidates in the rest of the world! Indeed, by mid-1995, 19 Chinese actuaries had become SOA ASAs based on the pre-July 1995 standard for becoming ASAs.

However, the post-July 1995 SOA requirement that the four Course 200 Series exams also be passed to obtain the ASA designation has proven very difficult for the Chinese actuarial candidates (with

one notable exception). Only a 24% overall pass ratio has been achieved on post-100 Series exams taken during the past year. The one notable exception is Wei Mong Bo, an actuary with AIA, who achieved his Associateship this past May by passing the required Course 200 Series exams.

Much of the difficulty in passing post-100 Series exams for the Chinese actuarial candidates is attributable to their lack of facility in English.

Also, however, Chinese actuaries have to be examined on North American-specific topics under the existing SOA exam structure. While some of the actuarial principles common to the profession are beneficial to their development as fully qualified actuaries, many North American-specific topics find little relevance in the day-to-day work of Chinese actuaries.

In the current redesign of the SOA Education and Examination system, U.S. and Canadian nation-specific topics are

continued on page 22, column 1

Observations on a China Trip continued from page 21

deferred to the Professional Development category. Consideration might be given to expanding the scope of nation-specific topics by enlisting the services of a given country's actuarial association to develop study materials and to grade the papers. In the case of China where there is no fully functioning actuarial organization currently in place, non-resident actuaries (such as those in Hong Kong and Taiwan) having close current working relationships could assist.

There are no Chinese actuarial exams currently developed to satisfy the requirements for accreditation of an Appointed Actuary by the Chinese government. Hence, the government will currently have to rely on designations of Fellowship in foreign actuarial bodies as accreditation for Appointed Actuary in a Chinese insurance company.

It has been rumored that the People's Bank of China (PBOC) may soon initiate the development of some nation-specific actuarial exams for Chinese actuaries. Such a project might include:

- A comparative study of corresponding exam systems in certain foreign countries (U.S., U.K., Japan, Taiwan, Australia).
- Establishment of the qualification requirements for actuaries practicing in China.
- Development of the structure of China's Actuarial Association and its constitution and by-laws.

No discussion of actuarial exams in China would be complete without addressing the issue of needed property/casualty study material. At the present time, the property/casualty sector accounts for about *two-thirds* of new insurance premiums in China. Particularly, as noted by Chris Daykin, then President of the (British) Institute of Actuaries in his January 1996 report on the then-current situation in China:

"One of the problems from the educational developments in China (other than at CIFAB) is that the links with the SOA have left general insurance largely uncovered, apart from some risk theory and loss distributions in the early parts of the SOA examinations. Some thought needs to be given to greater cooperation with the Casualty Actuarial Society (CAS) or the Institute of Actuarial/Faculty of Actuaries to fill this

gap, since a significant part of the future demand for actuaries in China could be in the general insurance (property/casualty field.)"

In August 1996, five professors from Hunan College of Finance and Economics (where there is an undergraduate actuarial program supported by Lincoln National) visited the CAS office. During their visit, they were informed about the committee structure and organization of the CAS, the education and examination process, and the membership management of the office. Other than that one contact, there has been no CAS involvement with the development of actuarial science in China.

SOA Asia Committee

The SOA has recently formed the Asia Committee of the SOA, to be based in Hong Kong. The Committee is open to all SOA members practicing or residing in Asia. The SOA's plan is to have this Committee place initial focus on actuarial development activities in China—later expanding its activities to other countries in Asia.

The Committee's mandates are:

- To represent the SOA in promoting actuarial education in Asia. With the growing demand for actuarial education, the availability of experienced educators and reference materials has become an imminent issue. The Asia Committee is planning a series of projects to address some of the issues, including a virtual tutorial center and SOA reference center.
- To provide services to SOA members in Asia in the development of actuarial education, research, and professional support. The establishment of the Asia Committee with a physical location in Hong Kong will provide a stronger SOA presence in this region and will provide easier access for members residing in this region.
- To build the image and awareness of the actuarial profession in Asia. Our profession is still not well understood by the nonactuarial community in this region. Managers and regulators may not be fully aware of the existence of our profession—and even if they are aware, they may not be cognizant of the full extent of the actuary's ability in their operations.

- To encourage the building of SOA reference centers in China.

Yuan Chang, a current SOA vice president, chairs the Asia Committee. In addition, Zhenghuai Li is serving as an advisor on Chinese actuarial matters. He is the deputy general manager of Tai Ping Life Insurance Company in Hong Kong and formerly headed the PICC's actuarial department.

In 1995, Yu Luo—then the SOA Ambassador in China and on the Nankai University faculty—attempted to organize a Chinese Actuarial Association (CAA) consisting of 19 ASAs who obtained their SOA Associateships at the pre-July 1995 level. While a few of the actuaries have circulated technical papers amongst their group, to the best of my knowledge they have never met.

Through Messrs. Chang and Li, the Asia Committee should attempt to make contact with and help coalesce this CAA. I hope that the CAA will be open to other Chinese actuaries and actuarial student with equivalent designations. The founding of the CAA will push Chinese actuarial research and normalization of the profession in China to a higher level. It will also serve to promote and enhance communications between Chinese actuaries and their international peers.

The Asia Committee can help the CAA develop Qualification Standards and a Code of Conduct. This Committee can also provide guidance for them in developing a concept of professionalism, a Discipline Process, and eventually Standards of Actuarial Practice.

Actuarial Activity in Shanghai

An actuarial training and exam center was established in Shanghai in September 1994 under the joint sponsorship of AIA and Fudan University. At this exam center, over 30 candidates have now achieved pre-July, 1995 SOA ASA exam status. And in the past two years, 22 former attendees of the AIA/Fudan actuarial training classes have been hired by various Chinese insurance and other financial institutions.

Shanghai has played a pioneering role in opening its insurance markets

continued on page 23, column 1

Observations on a China Trip

continued from page 22

to foreign companies and also in the area of internationalization of the insurance industry. Intense competition among these Chinese capitalized and joint-ventured companies has accelerated the development of Shanghai's insurance markets. These developments have served to focus the Shanghai insurance industry on recognizing the importance of actuarial science.

The Shanghai-based actuarial profession has made special efforts to cultivate its own actuarial teaching staffs. At present, all actuarial teaching staffs for students at Shanghai University for Finance and Economics (SUFE), Fudan East China Normal and Tongji University are "home grown." One Fudan teacher, Associate Professor Zheng Yunyo passed ten ASA exams in one sitting. A second Fudan teacher, Associate Professor Yu Yuenian, passed 11 ASA exams in one sitting. Both of them have interned in Hong Kong.

The character of Shanghai actuarial education has been to utilize three separate approaches to develop a supply of actuaries:

- Full-time graduate and undergraduate programs
- AIA/Fudan actuarial training classes
- On-the-job training.

Recently, Fudan's mathematics department and AIA/Fudan center jointly held a meeting for "human resources exchange in applied mathematics." This meeting drew the attention of the Shanghai financial and insurance community. All major insurance companies and other financial institutions in Shanghai sent their representatives to participate in this meeting and expressed their wishes to hire actuarial students.

Some insurance companies in the Shanghai area are cooperating with Fudan and SUFE to offer training classes, to jointly sponsor research, and to publish some textbooks. AIA in particular has expended considerable efforts to promote actuarial education in China, through the establishment of the aforementioned AIA/Fudan actuarial training center. This center has produced a group of newly minted professionals who have achieved an 86% success rate on the SOA's 100 series exams. These actuaries are now working for various

financial and insurance institutions (or universities), mainly in the Shanghai area.

Also, MetLife has established an actuarial scholarship and teaching fellowship program at SUFE. And New York Life has been providing both scholarship and teaching assistance to Fudan.

A number of actuarial activities are currently taking place at SUFE. One current research project involves the application of nonlinear utility theory to premium rate making—a project sponsored by China's Social Security and Insurance Forum. Another involves placing SUFE's Actuarial Communications Newsletter on the Internet.

SUFE has organized an actuarial discussion group, consisting of two Ph.D. candidates, two post-docs and two associate professors. Their primary discussion topic in 1997 has been risk theory. SUFE also maintains a fairly extensive insurance and actuarial library that was established in 1995 under the joint sponsorship of John Hancock Mutual and the SOA. And SUFE is planning to host an "Actuarial Science Conference" this coming fall. All of the foregoing is to be coordinated through a new SUFE Research Center of Insurance and Actuarial Sciences.

Chinese Insurance Regulation/ the Need for Standards

China's new Insurance Law became effective on October 1, 1995. The law covers all commercial insurance activities within China. It stipulates that the financial supervision and regulation department of the People's Bank of China (PBOC) shall be responsible for the supervision of the insurance business and insurance companies.

To implement the new law, the PBOC issued two sets of regulations in 1996. Of particular interest is article 119, which states that:

"Insurance companies engaged in the life insurance business in china must appoint and employ a professional actuary certified by the financial supervision and control department and establish an actuarial reporting system."

Note that Article 119 does not define the term "professional actuary."

In a speech presented at the June 28, 1997 Chinese American Shanghai Insurance and Actuarial Seminar held at

Fudan, Nysco Shu (General Manager, AIA/Shanghai Branch) stated:

"Solvency concerns exist. To safeguard the long term interests of insureds and insure the financial safety of Chinese insurers, the actuarial division of an insurer should soundly price products and evaluate the company's financial condition. If a company takes no action on its existing problems, the actuarial division must report them to the associated department of the government.

The Chinese insurance industry must develop its own actuarial professionals and should establish its own standards of actuarial practice in conformity with world practice."

In September 1995 the first Appointed Actuary of AIA/Shanghai Branch was approved by the PBOC.

Problems Facing Actuaries in China

**From Yu Luo, ASA,
Former SOA Ambassador in China
Former Member of Nankai
University Faculty
Intern with Milliman & Robertson 1995-1996
Current student at University of
Wisconsin School of Business**

The complete acceptance of the actuarial profession in China will not be easy for two reasons:

- Many management people are not familiar with the importance of actuarial science. Moreover, those executives and managers who do appreciate the value of actuarial techniques have encountered difficulties in changing established methods and procedures.
- The Chinese actuaries have learned actuarial science academically and lack the knowledge, training, (and mentor!) To put it to much practical use. Until very recently, there were

continued on page 24, column 1

Observations on a China Trip continued from page 23

were few opportunities to gain actuarial experience in China.



From Chengfeng Shen, ASA Current Ambassador in China Currently Employed at Ping An Insurance Company Shenzhen

“Chinese actuaries” functions at the present time are largely limited to product design, pricing, and reserve calculations. And their techniques are often too simple.

Some of the reasons include the following:

- Life insurance in China is still in a relatively nascent state. Hence, it is premature to find applications of life actuarial science on a large scale.
- The life insurance industry in China is heavily influenced by the traditional Chinese economic system. The operations are yet to be commercialized, there is little competition, and entirely too much emphasis is being placed on expansion and too little on profitability.
- There is a lack of good, accurate historical data.
- Good judgment is a requisite of successful actuaries. However the training of enough qualified actuaries cannot happen overnight. For example, there are currently no consistent requirements on minimum reserves or loss ratios.



From Hongjian Bao, ASA Currently Actuary at China Pacific Life Insurance Company-Shanghai

The first generation of Chinese actuaries has to learn from books and publications and apply knowledge without the guidance of mentors.



From Yunyu Zheng, ASA Currently Deputy General Manager/Life Insurance Comprehensive Administration Department-China Pacific Life Insurance Company (CPIC) Shanghai

“Some of the problems facing actuaries at CPIC include the following:

- Insufficient management controls. Products are not yet under the head

office’s control. By year end 1996, CPIC had more than 100 types of products in use. Only about 10% of these were placed at the CPIC head office. CPIC doesn’t know the profitability of the products being developed without authorization in its branches. Some of them have the same names with different provisions; some of them have different names with the same provisions.

- Computer development is comparatively lagging behind.
- Insufficient actuarial staff. There is not enough time to do such things as profitability analysis by product, underwriting and marketing research, reinsurance studies, etc.
- Many life insurance clerks lack adequate knowledge of life insurance.



Some Final Thoughts

First, the growing contingent of ASAs and other trained actuaries in China currently has few role models for developing their actuarial careers. They also have grave doubts regarding the feasibility of attempting to achieve the FSA designation under the SOA’s current and proposed new exam system. For the SOA to maintain any degree of influence in China, it must at least hold out the promise that some official group will be working toward the development of some exams of local content (and in Chinese).

Second, the SOA’s new Asia Committee needs to activate a Chinese Actuarial Association at an early date. Contact should be initiated with sister bodies in the Far East and with the IFAA. It would be propitious if some sort of actuarial conference could be scheduled for Shanghai in 1998 or 1999, involving actuaries from various East Asian countries as well as China.

Third, there is a need for greater contact between local experts from the insurance industry and the Chinese actuarial students. More emphasis should be placed on expanding actuarial employment opportunities into certain non-traditional practice areas (investment, risk management in banking, asset liability management). In this regard, due partly to the statutory restrictions on the investment of insurance funds and partly due to China’s financial market still being rela-

tively under developed, there are currently few available investment channels. However, the number and degree of sophistication of investment vehicles should increase as China’s economy becomes more advanced.

Fourth, ongoing efforts should be made to change the prevailing image of actuaries in China as simply technical experts who calculate life insurance premiums. Here I am encouraged by what seems to be happening at Ping An Insurance Company in Shenzhen. Within the past two years, Ping’s actuaries have been able to apply some basic actuarial techniques to life insurance operations in areas such as contract analysis and financial management as well as in pricing. Their actuaries also are beginning to actively engage in communication and cooperation with international actuarial consulting firms, as well as peers from Hong Kong and Taiwan. Ping An has been selectively importing actuarial training and software, especially from Taiwan life insurance companies because of the close tie between the two cultures.

Also Ping An has started to send its actuaries overseas to keep up-to-date on the latest developments in the industry and in the actuarial profession.

It has now been almost ten years since the first time that I went to China to negotiate a Memorandum of Understanding with Nankai University, which served to initiate the very first actuarial program in China. At that time I recall that virtually no one that I encountered (whether academics, industry people, or government officials) had any concept of what the actuarial profession was about.

Now, ten years later, the actuarial profession in China has strongly taken root. While the profession there is certainly experiencing a variety of growing pains at the present time, I am extremely bullish about the ultimate strength and vibrancy of actuarial science in China in the 21st century. I predict that by the year 2010, Chinese actuaries will play a significant role in the IFAA and the world actuarial scene in general.

Harold G. Ingraham, Jr., FSA, is a Consultant with CMG International Corporate Marketing Group in Florham Park, New Jersey, and a past President of the Society of Actuaries.

Minutes of the International Section Council Meeting

October 26, 1997
Washington, D.C.

Present: Bill Bugg (Chairperson), Joshua Bank, Bill Bluhm (SOA Vice-President, International), Lois Chinnock (SOA staff), Patrick Cichy (SOA Staff, Hong Kong), Linden Cole (SOA Staff), Mike Gabon, Richard Geisler, Sam Gutterman, Jay Han, Bob Katz, Kevin Law, Lela Long (SOA Staff), Angelica Michail, Bruce Moore, Mr. and Mrs. James Shah (Observers), and Kurt von Schilling



Introduction of New Members and New Assignments

Bill Bugg announced the following:

New Members: Josh Banks, Jay Han, and Angelica Michail.

New Assignments: Chairperson, Michelle Chong Tai-Bell; Vice-Chairman, Bruce Moore; Secretary/Treasurer, Angelica Michail; Newsletter Editor, Kevin Law; Asst. Newsletter Editor, Chiu-Cheng Chang; Ambassador Program, Josh Bank.

Bill Bluhm, SOA Vice-President, has international as one of his areas of responsibilities and will coordinate with our section.

Bill Bugg mentioned that he has a call in to Randy Makin to determine whether he can also be an assistant newsletter editor. Bill also announced that Michelle gave birth to a baby girl, Pascual Marie and the Council agreed to send flowers.

Introduction of New Staff

Patrick Cichy is the new SOA staff member assigned to serve the Asian SOA members. He is waiting for his visa and plans to leave November 15, 1997 and establish the Hong Kong SOA office.

Lela Long, staff member in Chicago, has the title of International Outreach Coordinator and will report to Linden Cole. One of her assignments will be to provide staff support to the Ambassador Program.

Minutes

The minutes of the September 26, 1997 conference call were approved as distributed.

Treasurer's Report and Proposed Budget for 1998

Bruce Moore distributed copies of the Proposed Budget for the period August 1, 1997–December 31, 1998. The SOA August-July fiscal year has been changed to calendar year starting 1998. The budget showed revenues of \$27,025 (12-month) and expenses of \$31,100 (17-month). Member dues were not raised since the deficit of \$4,075 can be covered by drawing on the existing funds. Also, it is non-recurring because it is largely due to the fiscal year change. The proposed budget was approved.

Discussion of Ideas to Use Section Funds

The actual expenses during the 1996-97 period of about half the budgeted expenses have provided excess funds for additional projects for the coming year. Also, it is an indication that the current level of operations is not fully using available funds. Ideas presented that would require some financial assistance are:

- Issue an additional newsletter in 1997-98 (four instead of three)
- Assistance for speaker expenses—more outside speakers
- Fund research project
- Contribute to co-sponsored seminars (for example, Asia Seminar)
- Create a prototype actuarial program for developing countries.

There was a consensus to issue the additional newsletter at a cost of \$2,500. One idea proposed was to designate a specific percentage of the revenues for research funds. Members were asked to keep their eyes and ears open for funding opportunities and for newsletter articles.

Linden mentioned that the SOA and the Committee on International Issues are working on some programs that involve requests for funds. Bruce mentioned that

the East Asia Conference was presented without cost to the SOA and the Council. Bruce and Shu Yen Liu coordinated it with the help of Hong Kong-based personnel. In the future there may be a need to support this.

Level of Dues for 1998

As mentioned in Item 5 (Proposed Budget) above, member dues will not be increased.

Update on Ambassador Program

The new ambassador to Taiwan is Mr. Won How Lo. He replaces Kenneth Hsu.

Bill uses the following process in getting ambassadors:

- Send a letter to potential ambassador. Enclosed are the ambassador guidelines.
- If agreement to take on the position is obtained, Lela sends a package of information from the office, for example, list of current ambassadors and various memos describing the mission and objectives of the program.

A request was made to distribute the ambassador program information package to International Section Council members. Lela Long will do that.

This year, there are first-time appointments for Mexico, South Africa, China, Israel, and Brazil.

Update on Newsletter

Kevin Law is the newsletter editor and he will be assisted by Chiu-Cheng Chang and possibly Randy Makin. Only one article has been submitted for the next newsletter. Bill Bugg will also submit one. Various ideas for potential newsletter articles were discussed throughout the meeting. Also, the newsletter will reprint interesting articles from other publications if permission to reprint can be obtained.

continued on page 26, column 1



Minutes of October 1997 Meeting

continued from page 25

Review of Survey Response

After reviewing the survey responses, Kevin Law listed the following 8 items as the most common member requests for information:

1. List of actuarial organizations in various countries
2. Index of papers published in foreign actuarial journals
3. Directory of actuaries in other countries who are not SOA members
4. List of foreign actuarial meetings
5. On-line copies of newsletters, publications, and studies of other actuarial organizations
6. Listing of actuarial job opportunities in other countries
7. Library of data sources containing statistics of interest to actuaries who practice internationally
8. Insurance and pension information (for example, products, regulations, practices) in various countries.

Rick Geisler is currently working with Jim Weiss (SOA staff) on our International Section website. Some items such as website addresses that contain some of the information requested above will be collected and published in future newsletters/website. Meeting participants were requested to send known useful website addresses to Rick Geisler and

Linden Cole. Such websites may be "hot-linked" to other websites to provide various information that the members have requested, for example, regulations in other countries.

The SOA website has a list of actuarial meetings throughout the world. However, the list is accurate and complete only to the extent that those organizations provide the information. The IFAA, which requested that the SOA maintain this list, will be asked to encourage more participation.

Discussion of Plans for 1998

Bill mentioned that Michelle Chong Tai-Bell, the new chairperson, wants to schedule a conference call toward the end of the year to talk about plans for 1998.

Spring Meeting Program Update

Mike Gabon reported that we will have a total of about ten meeting sessions planned for the two spring meetings in Hawaii. The final planning meeting will be November 5 and 6. Mike will give Lois Chinnock a copy of the list of topics, and Lois will distribute them to all council members with a request for input. Some of those topics are: Profiting from the Financial Turmoil in the Asian Market, Success of BancAssurance, Integration of the Insurance and Capital Markets on a

Worldwide Basis, Forum for Actuaries with Pacific Rim Responsibilities; Social Security: Is an Equitable Design Possible?; Outliving our Expectations; and Health Insurance in Asia.

Bob Katz is one of the speakers on Social Security at the Hawaii meeting.

Other Business

Product Development CD-ROM

The Product Development Section is marketing a CD-ROM based on the Product Development Bootcamp. Josh Bank will prepare a recommendation for the Council to consider at the next meeting, for example, if ambassadors should get the CD-ROMs, purpose for getting them, and if the cost should be subsidized by the Product Development Section and the Council.

Liaison Representative to Permanent Committee of International Actuarial Notation

A replacement is requested due to the death of the prior representative, Paul Kahn. No Council member expressed interest in the position.

Gifts

Gifts were presented to Bill Bugg and Bob Katz, retiring Council members.

International Section Budget

August 1, 1997—December 31, 1998

Fund Balance as of 8/1/97 \$37,574

	Proposed 1997-1998	Actual 1996-1997	Budget 1996-1997
Income			
Dues (1,700 × \$15)	\$25,500	\$24,740	\$24,000
Interest (5%)	1,275	1,093	900
Newsletter Subscriptions	250	245	200
Total Income	\$27,025	\$26,078	\$25,100
Expenses			
Conference Calls (5 × \$500 per call)	\$2,500	\$1,640	\$2,000
Section Newsletters (4 issues)			
Printing \$1,000 each	4,000	1,835	2,700
Postage (\$1,500 each)	6,000	2,533	3,600
Meetings			
Spring	3,000	525	2,000
Annual	3,000	0	3,000
Administrative Charge (\$3.00 × 1,700)	5,100	3,408	3,200
Common Section Expenses	500	475	500
Section Election Expenses	1,800	1,500*	1,700
Asia Seminar	2,000	0	0
Research	2,000	0	5,000
Miscellaneous	200	200	200
Contingency	1,000	0	1,200
	\$31,100	\$12,116	\$25,100
Total Expenses			
	(\$4,075)	\$13,962	0
Surplus/(Deficit)			

*Breakout of section election expenses is approximate.