INTERNATIONAL SECTION NEWS

NUMBER 17 SEPTEMBER 1998

Chairperson's Corner

by Michelle Chong Tai-Bell

The results are in ... Michael Gabon, Ronald Poon-Affat, and James Toole have been elected to our Council. As you can see from the following bios, the new members of our Council have been quite active as members of the SOA and of the International Section.

- ***Mike Gabon.*** Mike is a manager with KPMG Peat Marwick in New York. His major field of professional activity is in providing financial risk and reinsurance solutions for domestic and international life client companies. He has participated in numerous SOA activities having been a Financial Reporting Section panelist in 1996, a moderator/panelist for the 1997 Annual Meeting, and International Section Program Committee representative

continued on page 8, column 1

The Future of the Brazilian Health Market

by Ronald L. Poon-Affat

In the first week of June 1998, the Brazilian Senate passed the long-awaited Act that radically revises the regulation of the private health insurance industry. The importance of this passage should not be underestimated; the revisions will have an impact on a $17 billion (U.S) industry encompassing 1,400 registered health carriers, 233,000 physicians, and 41 million private health clients.

This is understandably a very complex piece of legislation, which is still being hotly debated (even as this goes to press). The intention of this brief article is to give a general overview of the reforms and to highlight some of the main challenges, that now face the health industry.

The intention of the legislation is to effect the following revisions:

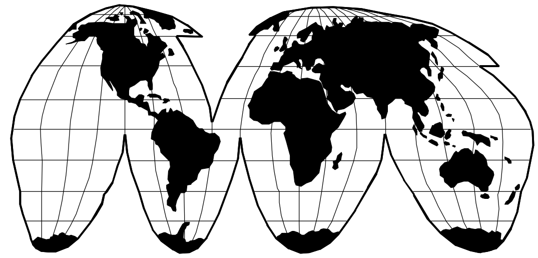
- To standardize the "product" that the health industry sells
- To level the "reporting requirement" playing field of the various players
- To place the industry on a stronger financial footing
- To allow health carriers to gain direct access to the capital of foreign partners
- To put into place a facility that will allow the government to receive financial compensation in the event that a person with a private plan uses the government's services.

The following develops each of these points in more detail.

continued on page 10, column 1

In This Issue

SOA Ambassador Program Evolves



The SOA began the Ambassador Program to help achieve its global strategy of advancing the actuarial profession, better serving its members outside the United States and Canada, maintaining contacts with actuarial organizations around the world, and, in some cases, helping these actuarial organizations grow.

The program has been in place for four years and is managed by the International Section Council. Within the last year, an SOA staff position was developed to support SOA international outreach programs, including the Ambassador Program.

Recently, the International Section Council approved a plan to improve the effectiveness of the Ambassador Program. The plan uses staff resources to keep ambassadors informed of activity throughout the world and to facilitate communication with interested SOA members.

Use of staff resources will leverage time for member volunteers to focus on the program's objectives. The staff member will:

- Notify ambassadors as to the new resources available to them and remind them of the required activities
- Ask potential ambassadors to report on the working relationship between themselves and the local actuarial organization to determine the scope of actuarial development in that country
- Develop a list server (single e-mail address for a group) for ambassadors to communicate directly with each other and with interested SOA members
- Develop an electronic bulletin board on the SOA web site for ambassadors and others to exchange information
- Create a database of research efforts, continuing education opportunities, regulatory environment, and country summaries to improve the breadth of their distribution
- Perform routine functions, such as a regular reporting process among ambassadors, the Section Council, and the International Issues Committee.

The International Section will be evaluating the results of the expanded communication plan for the Ambassador Program as outlined above. There are additional areas for future expansion, including customized initiatives to reflect cultural and economic differences among the countries.

For information on the Ambassador Program, contact Jeanette Selin, International Outreach Coordinator, at 847–706–3533 or at jselin@soa.org.

For a current listing of SOA ambassadors, see page 29.

INTERNATIONAL SECTION NEWS

Issue Number 17, September 1998

International Section of the Society of Actuaries
475 N. Martingale Road., Suite 800
Schaumburg, IL 60173
Phone: (847) 706–3500 Fax: (847) 706–3599
Web Site: www.soa.org

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.

Editor's Notes

by Kevin M. Law

We are fortunate once again to present in this issue of *International Section News* an outstanding selection of articles of interest to actuaries involved with international business including material on a number of different countries and/or regions—Asia, Italy, Taiwan, Ireland, Brazil, Philippines, Spain, and Latin America.

Given the quantity of material in this edition, I will be deliberately brief in this column. I would like to express my appreciation to all of the authors for their contributions, and in particular to Ronald Poon-Affat for his timely lead article on the recent health insurance legislation in Brazil. This is Ronald's second article on Brazilian private health insurance and we look forward to receiving additional material from him for future newsletters that covers various aspects of the insurance industry in Brazil.

As my term is now expiring on the Section Council, I would like to take this opportunity to thank my fellow Council members for their contributions to the Section and for their support in my roles as newsletter editor and as the Chairperson for 1995–1996. Special thanks and appreciation are also due to the excellent, hard-working SOA staff that make possible our activities, functions, and publications. In particular, I would like to personally thank Barbara Simmons, Susan Martz, and Lois Chinnock, with whom I have worked closely over the last several years.

Kevin M. Law, FSA, is Vice President, Group Actuary at Pan-American Life Insurance Company in New Orleans, Louisiana, a member and former chairperson of the International Section Council, and editor of International Section News.

Foreign Insurance Investors in Latin America: Can They All Survive and Prosper?

by Camilo J. Salazar

Latin America has become an integral part of the globalization process. Multinational insurance companies and international financial groups are making strategic investments in the region equal in size to other investments in North American, Europe, or the Far East.

As regional economies have opened, the transfer of ownership in the financial services industry from local hands to foreign hands has been fast and decisive. In the last few years, the growth in the supply of insurance products and carriers has been impressive. This article explores some issues related to the growth in supply capacity, the relatively slower pace of growth in consumer demand for these products, and the factors that companies can identify in forming their strategies to achieve their objectives.

When a multinational insurance company evaluates an expansion strategy in Latin America, or any other region, it typically relies on data such as:

- Political stability
- Key economic data (economic policy, GDP, trade balance, income per capita)
- Size of the market, labor force
- Demographic profile of the country
- Macroeconomic indicators (inflation, currency, interest rates)
- Insurance penetration and premium density as a percentage of GDP
- Insurance industry regulation.

For many countries in the region, these macro indicators point to a new frontier of future potential and growth. Premium penetration and premium density numbers in these countries make it clear that there is quite a gap to fill.

Understanding the local market context in which these indicators are present today is critical to understanding how quickly these markets will be able to fulfill their future potential tomorrow.

Background

Until the late 1980s, the economic development strategy applied by almost every country in the region was characterized by a high level of protectionism and import-substitution. The state exercised generalized control over all economic activity.

Two main events can perhaps be credited with forcing a dramatic change in economic policy in the region: (1) the debt crisis of the 1980s which exposed the failure of the economic models and (2) the fall of the "iron curtain" and disintegration of the Soviet bloc.

Latin America was a strategically important battleground for the cold war, both on an economic as well as political basis. Under the label of "nonaligned countries," many countries in the region played the United States against the Soviet bloc as a source of foreign credits and economic aid, which helped mask the failure of their own economic policies. With the collapse of the Soviet bloc, the only alternative was to attract foreign capital through open economic development.

The economic transformation of the region has been brought about by a radical change in economic policies in most Latin American countries, with a clear focus toward open and market-oriented economies in which the state plays a very different role than before.

Supply and Demand

The rapid influx of foreign capital and presence has not been matched by an equally fast growth in demand for insurance products. This is not to say that insurance activity is not growing. Both life and property and casualty premiums are growing at rates higher than GDP growth, but there is a mismatch of supply and demand at this point.

On one hand, the supply of foreign carriers and new companies has occurred very quickly. Aided by regulatory changes and the lifting of foreign

continued on page 4, column 1

Latin America
continued from page 3

investment restrictions, several foreign groups have established local subsidiary companies or have formed joint-venture relationships with local companies. New licenses have been granted or old inactive companies have been bought and recapitalized.

On the other hand, consumer demand is growing at a more incremental pace. Consumer attitudes change more slowly, and income levels rise incrementally. In some countries, income per capita is still too low and unemployment too high to create a significant demand for insurance products. The lack of additional consumer demand in these markets can also be influenced by the following factors:

- Inflationary legacy
- Cultural perception of insurance
- Regulatory sponsorship of insurance activities
- Logistical factors.

INFLATIONARY LEGACY

During the 1990s the region has, for the most part, come out from under many years of inflationary environments, in some cases severe, as in Argentina and Brazil. The impact that prolonged and severe periods of inflation has on society as a whole, as well as on individuals, is difficult to imagine for those who have not experienced it.

It is probably fair to say that time horizons in these countries are generally perceived as shorter relative to countries that have not been exposed to prolonged periods of inflation. From planning social policy to planning personal savings and retirements needs, these processes tend to be influenced by a shorter-term mentality. Adjusting to a noninflationary environment takes time.

The current generation of political and business leaders in most countries in Latin America has grown up in an inflationary environment and has just in the last few years begun to experience economic stability. In Argentina and Brazil, the transition from hyper-inflation to basically zero inflation has occurred in a very compressed period of time.

CULTURAL PERCEPTION OF INSURANCE

Insurance has had a difficult past in the region. Property and casualty business survived, even under the most severe inflationary pressures, but underwriting and pricing these products for profitability became secondary to investment gains on cash flows. Brokerage companies sometimes took advantage of hyperinflation periods by withholding premium and claims payments to invest them short-term for their own financial gain. In the eyes of the consumer, this negative perception tends to spill over to the entire industry.

Traditional life insurance is not regarded as an effective tool in protecting one's assets from inflationary erosion. Unprofessional market practices, as well as lack of innovation and adequate insurance regulation, helped create a negative image. Many countries had highly inefficient state insurance monopolies and product differentiation and competition was restricted.

One of the most critical issues that foreign companies face when establishing a presence in a new market is the adaptation of their corporate domestic culture to the realities of the new market environment in which they will now operate.

Corporate values represent the philosophical foundation of an organization and define how it conducts its business and relates to its clients. Such values are absolute and should not change in reference to the market in which the company operates. The application of those values, however, is relative to the market and the cultural context in which the company operates, whether domestic or nondomestic.

Assume that a well-established domestic U.S. company has as one of its core values, financial prudence. As a result, its financial and investment strategies have evolved over the years relative to the U.S. market in which it has operated since its inception. The political, economic, and regulatory framework present in the United States has, over the years, allowed the development of investment policies that rely on more stable long-term instruments and less on short-term, more speculative instruments.

Assume the company decides to enter a new market where inflation has historically been higher and the investment market has been more volatile than in the United States. Political and economic stability is improving, but historically has had volatile periods. The company then applies the same investment policy that it has developed in the United States, relative to the U.S. market, without adapting it relative to the new environment.

The company could be putting its capital investment in a very speculative position against its corporate values by trying to invest long-term in a short-term environment. Being conservative in this new environment means being short-term focused in order to hedge and preserve the purchasing power of the currency.

"One of the most critical issues that foreign companies face ... is the adaptation of their corporate domestic culture to the realities of the new market environment in which they will now operate."

The relative application of its corporate values would be misguided, although its philosophical value has not changed.

In addition to trying to adapt their corporate domestic culture to the local market, foreign companies also face the challenge of building name recognition and brand presence in a new market in which their domestic prominence at home means little, or nothing, locally.

They find themselves in these new markets increasingly crowded with many of the same domestic competitors they thought they left back home, plus a few other multinational competitors. To the typical local consumer, however, all these foreign players look very similar. They tend to be recognized by their common-denominator attributes, which can be summarized as large in size, financially strong, and foreign.

These three attributes are interrelated. Relative to the markets and economies in the region, the foreign

continued on page 5, column 1

Latin America

continued from page 4

parents of some of these companies look uncommonly big by local standards. Their size intuitively projects financial strength and this, in turn, is associated with foreign ownership.

Beyond these attributes, there isn't much differentiation in the eyes of the consumer. Foreign companies, however, struggle to differentiate themselves from one another in pretty much the same way they attempt to do so in their domestic markets.

The consumers they are trying to reach differ from the U.S consumer for whom they have developed their message over the years. The consumer in these countries is at a very different level of sophistication.

Under economic conditions in the past, market competition, in general, was not intense in these markets and particularly weak in the insurance industry, given regulatory restraints and state insurance monopolies. Lack of competition meant lack of choice. Choices in insurance offerings have increased exponentially, but the consumer is still adapting to this change.

To illustrate this point, let's remember how the Japanese developed a foothold in the auto industry in the United States in the 1960s and 1970s. The typical U.S consumer at the time wanted a Japanese car, not necessarily a Toyota or a Honda. The consumer wanted a Japanese car for its attributes of reliability and economy of operation. Years later, as consumers became more sophisticated and mature, they began to differentiate among brands.

REGULATORY SPONSORSHIP

When doing insurance research on the region, one of the most noticeable macro figures is the relatively low insurance density and premium penetration as a percentage of GDP as compared to developed markets. Table 1, based on 1996 available figures, illustrates this point.

The relatively higher figures for developed countries such as the U.S. or Japan, have evolved over several years (see Table 2). It is, therefore, optimistic to expect to reach the same levels of density and penetration in the region in a few short years.

Consistent government sponsorship of insurance over the years, whether direct or indirect, has played a critical role in developed countries in facilitating the creation of an insurance culture.

TABLE 1

Country	Insurance Premium per Capita	Insurance Premium as a Percentage of GDP
United States	$2,372	8.60
Japan	5,088	12.78
U.K.	1,694	10.33
France	2,268	8.55
Mexico	39	1.48
Argentina	142	1.72
Chile	147	3.06
Colombia	52	2.29
Brazil	90	2.04

TABLE 2
Insurance Premium as a Percentage of GDP

Year	U.S.	Japan	U.K.	France
1979	7.25	4.89	5.83	3.62
1985	7.52	6.94	7.11	4.50
1989	8.78	9.71	9.38	5.99
1993	8.90	12.64	11.73	7.58
1996	8.60	12.78	10.33	8.55

This sponsorship and support needs to occur in the context of economic and political stability. Such sponsorship, from favorable treatment of insurance premiums and cash values from a tax perspective, to the creating of compulsory insurance programs for employers and employees has been historically present in developed countries. Historically in Latin America, regulatory authority was exercised to the detriment of promoting the growth of the industry. State insurance monopolies and tariff controls made it difficult, if not impossible, for the industry to develop.

With the economic restructuring in the region, this is changing. With the privatization of the various state pension systems, consumers in these countries are learning, for the first time, about their retirement needs and the level of basic education about retirement savings and its long-term benefit is beginning to rise.

LOGISTICAL FACTORS

Latin America encompasses a population of more than 450 million people. In the countries in which most insurance activity and foreign investment is currently focused, the population is distributed as follows: Argentina, 35 million; Brazil, 165 million; Chile, 14 million; Colombia, 36 million; and Mexico, 95 million; for a total of 345 million.

By any measure, these numbers are impressive, as they represent a group of consumers larger than the U.S. population or the European community. The ability to reach such a number of consumers needs to be put in perspective, however, with factors such as infrastructure limitations in transportation and telecommunications, cost of basic services and income levels, historical patterns, and rural versus urban population distribution.

Conclusions

Latin America has acquired an economically strategic importance in the process of globalization that it did not have a decade ago. The region has attracted significant attention and investment in the international community, and the international insurance industry is an integral part of this effort.

The determination of the necessary and achievable critical mass has been, in some cases, carried out without

continued on page 6, column 1

Latin America
continued from page 5

proper analysis and identification of some critical factors such as deeper understanding of market expectations and distribution practices, consumers' historical perception of insurance, and lack of insurance culture. The development of an insurance culture similar to that present in developed countries will take longer than is sometimes estimated.

For some foreign companies that have established a presence in Latin America, their investment and long-term presence is threatened by the difficulty in reaching anticipated levels of critical mass. Many companies will be forced to either invest more capital, consolidate their presence through acquisitions, or exit the market.

Foreign investors face two critical strategic options when entering the region—to pursue a strategy of reaching critical mass in a short period of time through acquisitions or joint ventures, or to reach critical mass in a longer period of time through internal growth. Either strategic option needs to incorporate in its analysis a much deeper understanding of the market and cultural differences and local consumer perspectives and expectations.

This will allow investors to design strategies that will take into account a longer-term perspective for market evolution and achievement of critical mass, which in turn will provide more realistic expectations for capital needs and return on investment.

The industry will continue to consolidate. Foreign ownership will continue to dominate these markets. Those companies able to establish a solid and long-term presence in Latin America will be successful at applying their corporate culture in the context of understanding the realities of those markets in the region in which they are present.

Camilo J. Salazar, ASA, is Senior Consultant, Latin America, with Milliman & Robertson in Denver, Colorado and a former Chairperson of the International Section Council.

Call for Papers

"Fair Value of Insurance Business"

The Society of Actuaries and New York University join forces again. A conference on "Fair Value of Insurance Business" will be held on March 18 and 19, 1999, in New York City. The goal is to extend and update the body of knowledge from the 1995, "Fair Value of Insurance Liabilities" Conference; to highlight similarities in various theoretical developments; and work towards resolution of differences and implementation issues. The scope of the conference has been broadened to encourage fair valuation efforts which consider insurance business as an integrated whole.

The conference will:

- Provide an overview and comparison of various theoretical developments
- Provide an update on various efforts in accounting and management reporting
- Suggest how the various theories may be applied to financial and management reporting in practice, and discuss implementation issues and potential solutions.

A call for papers is being held in conjunction with the conference. The goal of this call for papers is to promote fresh perspectives on this challenging topic; to provide a solid foundation for the conference; and to move forward the state of the art on insurance valuation. Papers should bring fair value accounting for insurance forward with respect to recent developments in accounting initiatives as well as management practices. Papers submitted in response to this call may cover topics related to fair value of assets, liabilities or insurance enterprise value.

The Society of Actuaries anticipates publishing acceptable papers in a book. Papers from the 1995 conference have been published in the book "The Fair Value of Insurance Liabilities," Kluwer, 1998. Expenses incurred by authors who present accepted papers at the conference will be paid by the Society of Actuaries.

The target date for receipt of papers is October 30, 1998. The detailed call for papers can be accessed via the Research Section of the Society of Actuaries web site (http://www.soa.org/research/cfp2.html). Or contact Joanne Temperly (Phone: 847–706–3519, Fax: 847–706–3599, E-mail: jtemperly@soa.org) to receive a copy via fax, mail, or e-mail.

Filipino Actuaries Attend Management Seminar

by Angelica Michail

Filipino actuaries get acquainted at the meeting of the Actuarial Society of the Philippines held last March.

Once every three years, I visit the Philippines—my native country. Most of the time I visit friends, family, and new tourist spots. This year, I had a big bonus. On March 4, 1998, a large group of Filipino actuaries attended a management seminar at which I was a presenter. The event was facilitated by Mabini Juan, our SOA Ambassador to the Philippines.

At last year's SOA meeting, I told Mabini I was planning a trip home in 1998 and asked if he would arrange a meeting with Filipino actuaries during my visit. He agreed and gave me his e-mail address.

My plans turned to reality and I sent Mabini an e-mail message with my vacation dates. I also informed him that while on vacation, I planned to give some management seminars. After corresponding with Mabini and Edna Ledesma, a former classmate and also an actuary, we decided that I would give a three-hour seminar under the sponsorship of the Actuarial Society of the Philippines (ASP). I was delighted—this was a great opportunity to see Mabini and Edna again and meet Filipino actuaries in the Philippines.

On March 4, I was pleased to face an audience of 59 insurance professionals—42 ASP members and 17 guests. In the audience was Professor Inez Belleza, the University of the Philippines math professor who introduced many of the Filipino actuaries to the profession and encouraged their efforts to study actuarial science.

For me, the seminar was a wonderful experience. I achieved two objectives—meeting Filipino actuaries at home and talking to actuaries about the importance of developing nontechnical skills to enhance professional skills. It was a wonderful gathering, with the usual "merienda," a sumptuous afternoon snack of Filipino delicacies. The seminar covered a variety of topics— public speaking, stress management, and time management.

The ASP regularly sponsors professional development seminars, most of which are insurance-related. This is the first time it sponsored a management seminar. I was born and raised in the Philippines but almost all my work experience is in the United States, so I do not claim to be familiar with their day-to-day struggles. I have found out, however, that Filipino actuaries deal with the same issues of lack of time, too much stress, and fear of public speaking.

As to the reaction of the audience to the seminar, I prefer to quote from a letter sent to me by Mona Lisa de la Cruz, the current president of the ASP. "The seminar has certainly opened our eyes to the nonactuarial issues that affect us in our day-to-day work. It is interesting to note that despite the two-week notice given for the seminar, it was well attended. The participants found your topics interesting, gauging from the participation that occurred. After your session, we have had some requests to give more expanded seminars on some topics which you covered."

The ASP is an active actuarial organization and I am thankful that our Philippine ambassador, Mabini Juan, made it possible for me to have a memorable and productive visit with ASP members. I encourage International Section members to get in touch with our Ambassadors when they plan a trip to countries that may have actuarial organizations. With e-mail technology and better telephone and fax capabilities, making arrangements with foreign-based actuaries can be easy, simple, and fast.

Angelica B. Michail, FSA, is a consultant at National Actuarial Network in Rowland Heights, California and Secretary/Treasurer of the International Section Council.

Chairperson's Corner
continued from page 1

for the 1997 Annual and 1998 and 1999 Spring meetings.

- ***Ronald Poon-Affat.*** Ronald is Director and Vice President of General and Cologne Re Brazil Ltda. He is responsible for the management of the Life and Health Unit of the Brazilian operation. He has lived and worked in England, Puerto Rico, Trinidad, Tobago, and now Brazil. Ronald is a past Council member of the Caribbean Actuarial Association and currently SOA Ambassador to Brazil.
- ***Jim Toole.*** Jim has more than ten years of actuarial experience in the product development, bancassurance, and merger and acquisition areas, most recently spending two years working in South America and Australia from the Mexico City office of Tillinghast. He is a former SOA Ambassador to Mexico. His Society activities also include being instrumental in establishing a SOA exam center in Puebla, Mexico, a founding member of the Computer Science Section, Council member for four years, past editor of *CompAct*, the newsletter of the Computer Science Section, as well as a frequent SOA meeting session moderator.

As a result of this election, the newly elected International Section Council is as follows (terms expire):

- Joshua Bank (2000)
- Michael E. Gabon (2001)
- Richard J. Geisler (1999)
- Jeong S. Han (2000)
- Peter K.Y. Luk (1999)
- Angelica B. Michail (2000)
- Bruce D. Moore (1999)
- Ronald L. Poon-Affat (2001)
- James F. Toole (2001).

Outgoing members are Kevin Law, newsletter editor; John Nigh; and myself. The term of the new Council members begins at the Society's October Annual Meeting.

The internationalization of the profession is indeed accelerating. In 1998, in Birmingham, U.K., the General Assembly of the International Actuarial Association (IAA) voted to restructure the IAA into an association of associations. This umbrella association will provide the impetus to the creation of a truly global profession with common codes of conduct, minimum educational standards, and the like. What's more, the IAA will become the platform for our profession's voice on the world stage, forging relations with such bodies as the International Accounting Standards Committee, the International Social Security Association, the World Bank, and the International Monetary Fund.

The International Section, led by your new Council, has exciting times ahead. The mission of the Section—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—is becoming even more important in the lives of a growing proportion of Society members. In recognition of this, the Society has provided additional staff support to the Section. The Society recently reorganized with a view of facilitating coordination between the Sections and the practice areas. Most Sections have been assigned a staff Fellow or a managing director, providing Fellows a communication link between the Section and the appropriate practice area and to the Board of Governors. In the case of the International Section, our staff liaison is Chelle Brody who has rejoined the Society as Manager of International Affairs. Chelle will provide a necessary point of contact between the International Section, the International Issues Committee, the Asia Committee, and the Board of Governors. It has been a pleasure working with Chelle, and I urge the new Council to make use of her support and advice.

Since this may be my last "Chairperson's Corner" as I welcome Mike, Ronald, and Jim to the Council, I wish to take the opportunity to thank Kevin and John for their yeoman's service over the years. Kevin is the longest standing and most experienced member of the Section, having been a member of the Council since 1993. He was Vice-Chair in 1995, Chairman in 1996, editor of six issues of our newsletter from December 1993 to August 1995, and resumed the position of editor with our last issue in June 1998. John, who joined the Council in 1995, has also had an illustrious career as editor of the Section newsletter, having been editor of six issues from December 1995 through to February 1998. I would also like to thank everyone on the Council and the membership for their support. It has been an enjoyable year chairing your Council.

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

Asia Committee Begins to Roar

by Chelle Brody

The Board of Governors approved the formation of the Asia Committee in January 1997, in part to maximize opportunities suggested by the election of a Vice President whose office was located in Hong Kong, which is a Special Administrative Region of China. By November 1997, the SOA had temporarily relocated one of its administrative staff, Patrick Cichy, to a representative office in Hong Kong. A representative office gives the SOA the legal right to promote the SOA, providing a liaison role between the headquarters office in Schaumburg, Illinois, and its members and students in Asia. The office is physically located in space occupied by Metropolitan Life Insurance Company on an arrangement that reimburses Metropolitan for expenses attributed to its operation.

The approximately 600 members of the Asia Committee have been represented by a Core Committee of about 15 actuaries resident in Hong Kong, which has met monthly since November 1997. The Core Committee is divided into subcommittees in the areas of Education, Finance, Membership, Priority and Planning, Professional Conduct, Project and Public Relations.

The mandates of the Asia Committee, as approved by the SOA Board, are:

- To represent the SOA in promoting actuarial education
- To provide services to members in the development of educational programs, research and other professional support
- To build the image and awareness of the profession in Asia.

The Asia Committee has a new Chairperson. Kin Chung Chan is the Vice President of Marketing at Top Glory Insurance Company in Hong Kong. He is working with SOA Vice President Bill Bluhm on restructuring the Asia Committee to focus its efforts.

Projects the committee has been working on during the last year are outlined below.

Primary Projects

Virtual Tutorial Center. The Virtual Tutorial Center is designed to give actuaries practicing in Asia a place to question "experts" regarding work-related actuarial issues. These experts will be listed on the SOA web site along with their practice areas for individuals to contact privately with their questions. It is hoped that continuing education newsletter articles will be developed from the experts on frequently asked questions.

Reference Centers. The creation of reference centers is designed to supply universities with SOA study, research, and reference materials. The universities identified so far are: Fudan University, Shanghai; Keji University, Heifei; East China Normal University, Shanghai; Hunan College of Finance & Economics, Hunan; Shanghai University of Finance & Economics, Shanghai; Renmin University of China, Haidan; Nankai University, Tianjin; and Zhongshan University, Guangzhou. The materials to be supplied by the SOA are: ASA study notes, *The Actuary*, *The Future Actuary*, *Society of Actuaries Yearbook*, *The North American Actuarial Journal*, (*NAAJ*), Section newsletters, and books published by the SOA. The selection criteria for these universities could be applied to universities in other countries.

Asia Committee Newsletter. The Asia Committee Newsletter is a project designed to publicize the committee's efforts and share work-related information. The newsletter is to be published electronically only via the Committee's page on the SOA web site. It will include relevant past articles from *International Section News* and *The Actuary*.

Joint Seminar. A joint seminar between the International Actuarial Association, the SOA Asia Committee, and the Chinese Insurance Institute for March 1999 in Beijing is under discussion.

Nankai University. The Coordinator of Asian Services (Patrick Cichy) continues to coordinate efforts with the Nankai University actuarial program to help find instructors and to provide study materials. Clement Cheung is the member coordinator appointed by the SOA President to manage the program.

Seminar. The Asia Committee and the representative office helped coordinate President-Elect Howard Bolnick's September visit to Asia. In China, the SOA delegation donated books to the Preparatory Committee of the Chinese Actuarial Association and visited Renmin and Nankai Universities. While in Hong Kong, President-Elect Bolnick gave a luncheon presentation to the Actuarial Society of Hong Kong. The Asia Committee hosted a seminar on September 26 on "The Impact of the Asian Financial Crisis on the Insurance Industry." Speakers from several Asian countries presented how the crisis has affected their countries and their solutions to dealing with the crisis. The trip concluded with a visit to Kuala Lumpur and a meeting with the Actuarial Society of Malaysia on September 28.

Communication. The Asia Committee is trying to formalize links between the SOA Board, the Committee on International Issues (CII), and the International Section. Current examples in this attempt at links include broader and more timely distribution of Asia Core Committee minutes and regular reporting between the representative office and the SOA Manager of International Affairs, with subsequent reports to SOA officers and the Board.

For more information on the Asia Committee and its projects, contact Patrick Cichy by e-mail at patrickcichy@compuserve.com, by telephone at (852) 2973–4032, or by fax at (852) 2826–9189. The Representative Office's mailing address is G.P.O. Box 192, Hong Kong.

Chelle Brody is Manager of International Affairs for the Society of Actuaries.

Brazil

continued from page 1

Standardized Product

In the past there was a wide range of plans, with premiums ranging from R$20 to R$800 per month. Plans at the lower end offered inexpensive but very restricted medical attendance. Common deficiencies for the bottom-basement prices included limited length of stays for "in-patient" treatment (including treatment within intensive care units), the omission of treatment for all major organ transplants, lengthy initial waiting periods, and no protection in terms of holding technical reserves.

The politicians gained kudos for the elimination of the time restrictions, which were often applied to in-patient treatment, that is, many low budget plans limited the number of days that could be spent in a private hospital. The Minister of Health was reported to have said that selling health insurance with such in-patient limitations was akin to selling property insurance that protected your home for only the first hour of a fire.

The new law introduces five types of standardized plans, which all health carriers can offer. These plans have defined benefits and limited exclusions. They are (1) a wide ranging, all-encompassing comprehensive plan (plano referencial) and four distinct plans that provide treatment only in respect to (2) out-patient (ambulatorial), (3) in-patient (hospitalar), (4) maternity (obstétrico), and (5) dental (odontológico) benefits.

The law sets out the minimum benefits that must be offered under each plan. Companies may, of course, choose to improve their product and include a wider range of benefits.

Level Playing Field

My previous article ("Brazilian Health Industry," *International Section News*, June 1998) described the differences between insurance companies' plans (seguros saúde), the HMO-type plans (Medicina de Grupo), the co-operative association-type plan (Unimed) and the self-insured sector (Autogestão). In the past only the insurance companies had supervisory control under the Ministry of Finance. The new law puts all health carriers under the watchful eye of four supervisory authorities.

First, two bodies under the Ministry of Finance existed in the past:

- The Conselho Nacional de Seguros Privado (CNSP) or the National Council for Private Insurance
- The Superintendência de Seguros Privados (SUSEP) or Superintendent of Private Insurance.

Two newly created bodies now exist under the Ministry of Health:

- Conselho Nacional Saúde (CNS) or the National Health Council
- Conselho Nacional de Saúde Suplementar (CONSU) or the National Council for Supplementary Health.

So from the statutory point of view, not only has the field been leveled, it has also become much more complicated. The Ministry of Finance will deal with technical issues and the Ministry of Health will look after the on- going quality of service. As yet, the roles of each of these bodies have not been strictly defined.

Stronger Financial Footing

In the past, only insurance companies that sold health business (21% of the market—Seguros Saúde) were obliged to set up reserves, but only for unearned premiums and reported but unsettled claims; very few companies established IBNRs. The rest of the health industry was not required to establish such reserves; and the vast majority did not. The new legislation now necessitates that all health plans establish some reserves. This will include, at the very least, unearned premiums and reported-but-unsettled claims. SUSEP, the legislative body responsible for defining reserve requirements, is presently formulating its policy on IBNRs.

Access to Foreign Capital

Allowing health carriers to gain direct access to the capital of foreign partners fits in with President Fernando Henrique Cardoso's ongoing drive to "open up the economy to foreign investors." In the past, it was difficult, but certainly not impossible, to secure a financial interest and many international companies are already well established in the local health market—Aetna, AGF, AIG, Cigna, Allianz, Generali, HSBC, ITT-Hartford, and Prudential, to name a few. However the passage of this law will now make direct investment easier and allow up to 100% foreign investment.

Compensation for the Government Health Plan (Sistema Unico de Saúde (SUS) or Single Health System)

Under the new law, if a person with a private health plan receives treatment from a government facility, the government can seek financial reimbursement from the person's private health carrier. A database will be established that will compare the names of all Brazilians who have a private health plan with the names of those who are receiving treatment from a public facility. This is a bit of double taxing, because all tax-payers contribute to SUS. There are many cynics who say that this is the raison d'être for the change of legislation.

Some of the More Interesting Clauses

- Premiums cannot be "actuarially" increased for persons over 60 who have been in a scheme for at least 10 years. In respect to individual plans, this would seem to imply that one would then have to pre-fund the cost of actuarial increases by establishing mathematical reserves that could then lead to surrender values. Building up long-term actuarial reserves will certainly be a challenge, given the inavailability of long-term assets.
- As to pre-existing conditions, a health carrier has up to two years to ascertain whether a new client had a pre-existing condition that he knew about upon entering the plan, to decline coverage for such an illness. After two years has passed, the client is eligible for treatment even if he or she knowingly sought to deceive and stated that he or she did not having a pre-existing condition at the contract's inception.
- Waiting periods have been slashed. At one time, carriers offered plans with a wide range of initial waiting periods. Terms of up to 18 months were not uncommon for the less

continued on page 11, column 1

Brazil
continued from page 10

expensive plans. The maximum waiting period is now 24 hours for emergency treatment, 300 days for pregnancy, and 180 days for all other treatment.

- Inclusion of treatment for AIDS, major organ transplants and mental health illnesses. These were commonly excluded in the past. The new benefits are limited to the treatment of "full blown" AIDS (this does not include treatment of pre-AIDS antiretroviral medication) and transplants of kidneys and corneas. There is presently fierce lobbying taking place in an attempt to defer the introduction of these new benefits.

These points must be implemented quickly! The initial September 1998 date set out in the legislation has recently been pushed back to November 1998. This deadline mandates that all health carriers must submit actuarial technical notes for the five new "standardized" plans by that date, and they cannot sell "old" plans to new clients after November 1998.

Other Implications

Increases in Premiums

Increases in premiums is inevitable. The industry is saying that, on average, premium increases will be between 10% and 20%, but this is still a poker game and no one is as yet willing to show their hand. While one of the noble intentions was to give the Brazilian public a better health plan, the reality of the situation is that many will not be able to afford a new health plan.

Brazil has a population of 156 million, however only 41 million presently have access to a private health plan. This is due in large part to the poverty level, which is still quite high. Statistics showed that in 1995, only 10% of Brazilians earned more than $350 (U.S.) per month (three times the minimum salary). It is inevitable that these price increases will push access to private health plans out of the reach of many, which will then undoubtedly increase the demand for the government's already over-stretched health services.

The prices of the insurance companies' (Seguros Saúde) plans will probably not increase very much because these plans were already quite comprehensive and the pricing included the capital cost of establishing some reserves. The really hefty price increases are expected to be experienced by the clients of other health carriers, that is the HMOs (Medicina de Grupo), Unimed associations (Cooperativas), and the self-administered plans (Autogestão).

Less Players

The reserving requirement will require a large number of health carriers to establish reserves for the very first time within a five-year time period. Those health carriers (79% of the health market) that previously did not have to establish reserves are shown in Table 1. There will be many who will not have access to the required capital and it is predicted that there will be many mergers and acquisitions accompanied by the entry of new foreign capital.

TABLE 1

	Number	Premiums $U.S. (Billions)
Self-Insure Groups (Autogestão)	300	5.1
HMO-Type Plans (Medicina de Grupo)	730	4.6
Cooperatives (Unimed)	320	3.7
Total	1,350	13.4

Concluding Comments

A common misinterpretation in the local press is that the law changes the structure of health carriers. This is not technically correct. The new law only changes the "product." Clearly, some of the changes introduced point to making certain changes to the corporate structure, but such changes have not been mandated by the law.

The general mood is positive with the industry largely admitting that there are many positive aspects of the new law that will benefit both the consumer and the industry as a whole. Nevertheless, much doubt exists as to the exact interpretation of many aspects of the new law and a feeling that the time-frame for the implementation of the new plans is too short to achieve a seamless transition.

If you would like to receive a complete copy of the legislation translated into English, please feel free to contact me at raffat@colognere.com.

Ronald L. Poon-Affat, ASA, is Director and Vice President—Life and Health at General & Cologne Re Brazil Ltda. in São Paulo, Brazil, SOA Ambassador to Brazil, and a newly elected member of the International Section Council.

The Equation for Success—Professionalism and Profitability: Part II

Focus on Asian Market

by Thomas H. Kelly

Editor's Note: *This article contains material excerpted from a speech given on June 17, 1997 by Tom Kelly, Senior Vice President and Managing Director of LIMRA International, at a LOMA/ LIMRA Strategic Issues Conference in Singapore. Credit is also due to Randy Makin, who converted the outlines and slides from Mr. Kelly's speech into an article format for the newsletter. This is the second installment of three articles derived from the speech. The first article appeared in the June 1998 issue of* International Section News.

⚜ ⚜ ⚜

The following percentages document that the global market share of life premium has changed dramatically.

	1950	1994
North America	75%	24%
Rest of World	25%	76%

Looking at this on a regional basis, we can see the life premium market share by each region where 85% of the Asia share represents Japan.

	1994
Asia	47.9%
Europe	25.2
North America	23.9
Africa	1.2
Oceania	1.1
Latin America	0.7
Total	100.0

Another major force at work is the worldwide population trend. Every year, 88 million people are added to the world population. Table 1 reflects where this growth is taking place and Table 2 looks more closely at Asia, specifically, its economic growth.

As to premiums per capita for selected countries and as a percentage of

continued on page 13, column 1

TABLE 1
Worldwide Population Trends

	1995	2020	Percentage Increase
World	5.7 billion	7.7 billion	35%
U.S.	265 million	315 million	19
China	1.2 billion	1.4 billion	17
India	890 million	1.3 billion	46
Brazil	165 million	215 million	30
Indonesia	190 million	255 million	34

TABLE 2
Economic Growth

	GDP Growth (Percentage)	Per Capita GDP	Inflation (Percentage)	Savings (Percentage of GDP)
China	9.9	$ 540	5.6	42
Hong Kong	5.1	23,200	6.6	35
India	7.0	335	8.5	23
Indonesia	7.8	940	4.7	36
Malaysia	8.1	3,930	3.1	37
Philippines	5.9	1,130	4.4	15
Singapore	5.8	26,400	1.9	52
South Korea	7.2	10,076	4.9	37
Taiwan	6.6	12,265	2.0	26
Thailand	8.5	2,680	4.3	34
U.S.	3.9	26,620	3.0	15

TABLE 3
Growth Opportunities

	Premiums per Capita	Percentage of GDP
Japan	$3,817	10.1
South Korea	782	9.1
Singapore	569	2.7
Hong Kong	409	1.9
Taiwan	412	3.6
Malaysia	72	2.3
Thailand	27	1.4
Philippines	6	0.6
Indonesia	4	0.4
India	4	1.3
China	2	0.3
U.S.	965	3.6

The Equation for Success
continued from page 12

the GDP, Table 3 presents a great opportunity for today and the future.

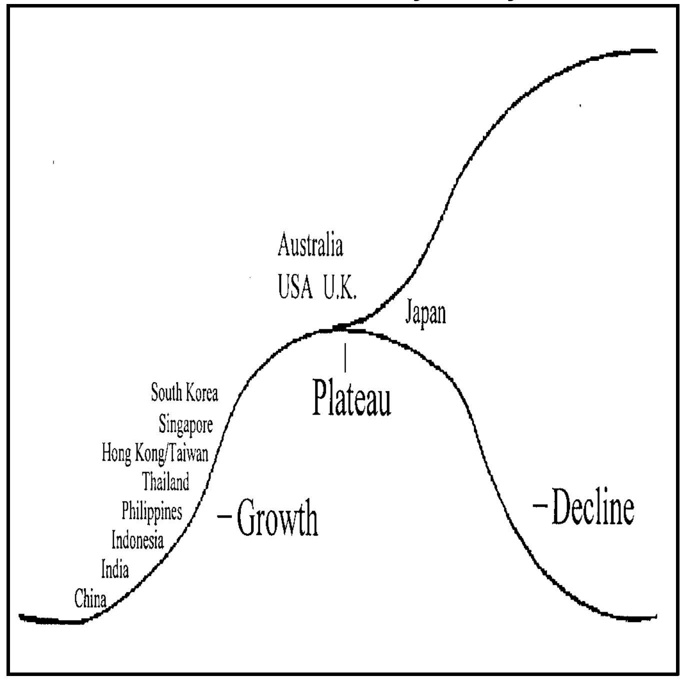
As shown in Figure 1, if we place the countries on the industry life cycle, there are many years of future growth for Southeast Asian countries.

Many companies are already taking advantage of these opportunities, as there have been a number of new entrants into the Asian markets in recent years.

The career-agent system is the system of choice for distribution. In Asia, 50% of agents are part-time and at least 50% are women. There has been limited penetration with other channels, such as brokerage, bancassurance, work site, and direct response.

Traditional products, such as whole life, endowments, and term products are dominant in the region, with some sprinkling of variable life and universal life. Other products include specialty package savings products (marriage, children) and personal accident/ indemnity. There is limited group coverage. Core products also come with such riders as par riders on nonpar products, critical illness riders, and hospital indemnity. Some wrinkles to traditional products include "anticipated endowments" contracts, with 5–10% of the face returned every three years and a total return in 20 to 25 years. We have also seen a rise in equity- or unit-linked products, based on the maturity of stock markets—Singapore, Malaysia, Hong Kong. Side funds are stock-indexed regional.

FIGURE 1
Southeast Asia Industry Life Cycle



I truly believe there is an opportunity for creative and value-added product development and, in doing so, changing the value-added proposition with customers in each country with the quality of product offerings, services, and distribution.

International Actuarial Workshop Held in China

by John Zhang

An international actuarial workshop was held in Guangzhou, China on June 3–5, 1998. Actuaries and participants from more than ten insurance companies and scholars from Beijing University, Zhongshan University, Jinan University, Boston University, Indiana University of Pennsylvania (IUP), and the SOA attended the meeting. At the meeting, participants examined the current business environment in China and studied the role, functions, and future directions of actuaries and actuarial science in China. Issues examined included: how to educate actuaries for the needs of future Chinese business development; the functions and structures of an actuarial academic program; the conditions necessary for the existence of actuarial firms in China and their possible structures.

The meeting promoted communications between academia and industry in actuarial science and provided our Chinese colleagues up-to-date information about actuarial science. As a result of the meeting, participants have a better understanding of how to use actuarial science in Chinese insurance companies and a better understanding of the future of actuaries in China—which is, perhaps, the biggest future commercial market in the world. After a lengthy discussion, participants estimated that it would take from three to five years for China to have demand sufficient to support actuarial firms. The key criteria considered include the enactment of laws favorable to the development of actuarial business, the privatization of the health care system, and the growth in competition for qualified personnel that would be generated by business development.

The meeting was organized by Dr. John Zhang, an assistant professor of mathematics at IUP, with the support of a China Bridge International (CBI) fellowship and SOA Asia subcommittee. The People's Insurance (Life) Company of China, Ltd. (PICC) Guangdong Branch and the mathematics department of Zhongshan University co-hosted the meeting. John Eng, a Fellow of the SOA, attended and gave a short course at the meeting. The organizer wants to thank James W. Grosheider of Towers Perrin, Rachel L. Gilmore of Buck Consultants, and Tom Fagan of Blue Cross and Blue Shield of West Pennsylvania for their information and help.

Seminars in Asia Mark a First

by Shirley Hwei-Chung Shao

It all started during lunch in a sunny restaurant at the SOA Annual Meeting in Orlando in October 1996 when Bill Carroll came up with the idea of presenting seminars in Asia.

That very afternoon, I went to my first Financial Reporting Section Council meeting where the members discussed plans for 1997. "Great opportunity," I thought to myself as I mimicked Bill's idea. After some wisecracks, I was asked to develop a proposal outlining the purposes, topics, cities, speakers, and, of course, budgets. The proposal had to justify running seminars 10,000 miles away.

Searching for the top 10 reasons why we should sponsor seminars overseas, I was surprised to discover that neither the International Section nor the SOA had a one- or more-than-one day seminar anywhere outside the United States. It seemed that we were missing a tremendous opportunity to exchange knowledge and serve our members.

In the spring of 1997, the Financial Reporting Section Council approved sponsoring full-day seminars in Tokyo, Taipei, Hong Kong, and Jakarta. It was also decided to seek partnership with the International Section and International Practice Area. These partners turned out to be a great resource in planning, coordinating, recruiting, and so on, because they already have the inroads to those markets. In fact, two of the planners and panelists are very much related to the International Section: Bill Bugg, who was the Chairperson, and Bruce Moore, the current Vice Chairperson. After many months of planning and a binder full of faxed correspondence, the seminars took place in November 1997.

The Banner in Jakarta. Can you read the topic and time of the seminar?

The topic of the seminar was asset adequacy/capital adequacy analysis. When we selected this topic at the beginning of 1997, we could not have imagined the challenging times that were ahead in Asia later in the year. In some sense, the interest in our seminars was heightened because of this turmoil. The overwhelming feedback we received proved the timeliness of these seminars. In each city, about 75 to 95 actuaries and other financial professionals attended the seminar.

The actuarial profession in Asia, both in regulatory and industry fields, found itself needing to respond to the crisis as well as reevaluating business fundamentals. More focus is being placed on the need for a closer review of assets and liabilities together and the resulting surplus.

The seminars were developed to help actuaries and other financial professionals understand the current regulatory environment in Canada and the United States, including reserve adequacy and related solvency issues, how the current environment evolved, and what has been experienced. At a higher level, these seminars were intended to illustrate how actuaries have responded to the changing environment in North America and have become the leading profession in the broader area of the assessment and management of financial risks.

Bill Bugg (AFLAC), Mo Chambers (London Life), Yves Guerard and Bruce Moore (Ernst & Young), and I (Prudential), two from Canada and three from the United States, traveled to these cities to be the panelists. We were joined by local speakers: Junzo Tanaka and Steve Conwill in Tokyo, Won-How Lo in Taipei, Paul Heady in Hong Kong, and Kasir Iskandar in Jakarta. The seminars were very informative, both for attendees and speakers, because of the wealth of knowledge from this diverse group of panelists.

The seminars first gave the perspective of what happened in the financial and insurance markets in the 1970s and 1980s versus the previous era in

continued on page 15, column 1

Panelists in Tokyo (the first seminar). From left to right, Junzo Tanaka, Steve Conwill, Mo Chambers, Shirley Shao, Bruce Moore, and Bill Bugg.

Seminars in Asia
continued from page 14

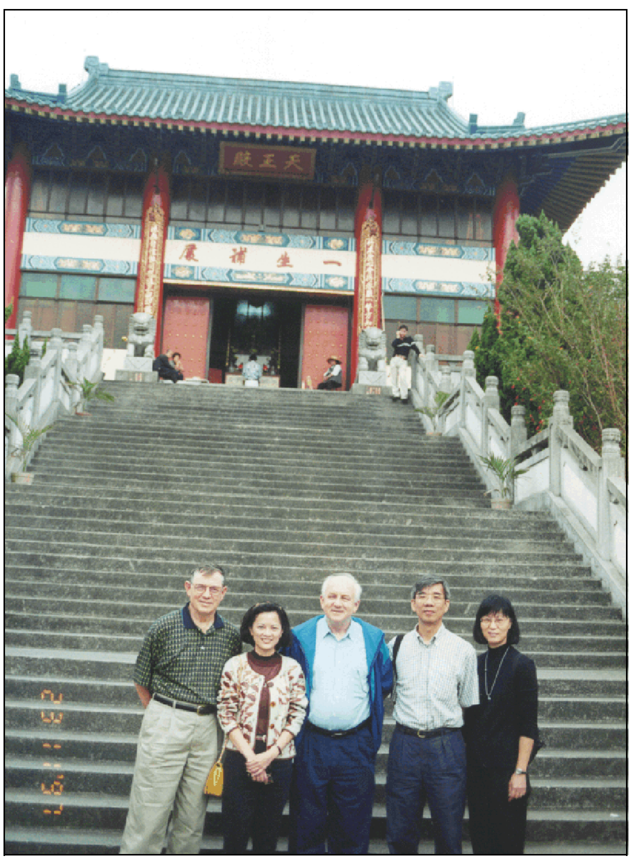
Canada and United States. There was a great deal of interest in this historical perspective because Asian markets are facing some very similar issues today: economic instability, financial weakening of the industry, heightened competition, changing needs of customers, and so on. We then discussed the various responses to these issues, including asset adequacy and capital adequacy analysis.

The Asian markets are dominated by relatively traditional products, with a small amount of variable products in a couple of cities we visited. The audience was interested in seeing the statistics and descriptions of how and why the markets, products, and distribution methods in North America have changed over the last two decades.

The underlying risk drivers for assets and liabilities were reviewed in detail to facilitate the presentations on the actuarial tools and techniques for combating them. This was an eye-opening experience for me to see just how much interest there is in getting a better handle on the risks. As a consultant 10 years ago, I could not get much attention or interest in the region on risks that arise from asset concentration, asset defaults, or asset liability mismatching. Now, I find myself trying to answer questions relating to two-factor interest rate models.

We talked about modeling details such as the interest rate models and the various data, assumptions, and methods. We also gave some examples to show how changes in risk profiles may affect a company financially and how that can be captured by using actuarial tools. In particular, we demonstrated the cash-flow-testing model and the dynamic financial analysis model. Anticipating that this level of technical detail may put most actuaries to sleep during the long day of a seminar, I was pleasantly surprised at the responses and related questions.

Welcome sign in Taipei. From left to right: Bill Bugg, Yves Guerard, Mo Chambers, and Shirley Shao.



Temple in Hong Kong. From left to right: Bill Bugg, Shirley Shao, Mo Chambers and two local actuaries.

The local actuarial speaker shared what types of risks pertain to their environment and how some of them are addressed. It was a terrific way for me, and I am sure for the other North American speakers as well, to learn the unique situation and risks to which the actuarial profession in each city will need to respond.

I was somewhat amazed by the level of interest in how the public is served by actuaries in North America. At the seminar, we discussed the various roles served by the actuarial profession that arise from regulatory requirements and from professional bodies. We also reviewed how these roles have evolved over the years. To tie into the topic of our seminars, we then focused on the role of the appointed actuary in Canada, compared with that in the United States. I thought this would have been a fairly boring subject, but we received many questions on how actuaries strike a balance between working for the industry and fulfilling their professional obligations, especially if the two are in conflict. The attendees were also very interested in understanding what motivates actuaries in North America to volunteer for activities benefiting the profession and the public. In particular, many were curious about why speakers from North America were willing to devote our time and financial resources to conducting these seminars and why the SOA and employers are supportive of this type of activity.

At the end of each seminar, we opened the floor for questions, comments, and discussion for about one hour. Frankly, this segment worried me the most—I was afraid that we would not get any questions. As it turned out, we were bombarded with

continued on page 16, column 1

Seminars in Asia
continued from page 15

questions. The speakers had to continue answering questions during the reception after the seminars. The questions and comments really reflected the fact that actuaries in each city are wrestling with somewhat different issues.
This is natural considering that market conditions are unique in each country and that each country has suffered from the Asian financial crisis in varying degrees. In Tokyo, our presentation was taped so that it could be transcribed and distributed to the attendees as well as to those who did not attend. In Jakarta, we were asked to go back for a sequel on financial modeling.

Yes, we also followed the good old U.S. tradition of hosting a reception after the seminar. The receptions were an excellent opportunity for discussing ideas, for meeting people, for sampling local food and drink, and for exchanging business cards. I ran out of my 50 or so business cards part way through the visit to the third city.

The actuarial institutes in each city actively worked with the SOA on the logistics of these seminars, which was no small task. We had strong support from the leadership of each institute and a group of excellent coordinators: Hikaru Sugawara in Tokyo; Jung-Hui Huang in Taipei; Michael Ross in Hong Kong; and Kasir Iskandar in Jakarta. The local actuarial institutes committed substantial financial resources essential to making these seminars possible. Funding was also provided by a joint effort within the SOA (International Section, Financial Reporting Section, and International Practice Area).

The speakers witnessed the SOA Ambassadors program under the International Section at work and were the direct beneficiaries of this program. For example, Dominic Lee (the Ambassador in Hong Kong) and his better half went above and beyond in showing speakers a great time in Hong Kong over the weekend.

I am very proud to have been a part of this first series of SOA seminars abroad. I would like to take this opportunity to express my deep appreciation to the many people involved (it took me several months to finish writing thank-you letters). It was their belief in this cause that made these seminars a success. The model developed for this series of seminars will be expanded to elsewhere in the world: June 1998 in Buenos Aires; possibly December 1998 in the Carribbean; and spring 1999 in Eastern Europe.

Overall, it was a very successful journey, especially considering I only lost (and found) my luggage twice in all the stops I made.

Shirley Hwei-Chung Shao, FSA, is Vice President and Assistant Actuary at the Prudential Insurance Company in Newark, New Jersey, Vice-Chairperson of the Financial Reporting Section Council, and organizer of the Asian Seminars.

Reforming Taiwan's NHI with Managed Competition

by Chiu-Cheng Chang

ABSTRACT

NOTE: *This article evaluates the performance of Taiwan's NHI program against its objectives and offers a managed competition model to reform the program. The model is expected to improve efficiency, quality, and innovation in health care within the constraint of equitable access but may not contain costs. In such a case, I argue for letting the market determine the optimal level and allocation of health care spending. If government intervenes the market by putting an upper limit on health care expenditures, I argue for the exclusion of cost-ineffective care from the compulsory health insurance system. This creates a new concept of equity and a two-tier health care system.*

Taiwan's National Health Insurance (NHI) program was implemented in March 1995. It is a compulsory, single-payer health insurance scheme incorporating 13 pre-existing public health insurance plans in Taiwan. It covers more than 96% of the population and provides comprehensive health care services to its insureds. These include hospital and surgical inpatient care, outpatient care, dental care, preventive care, pharmaceuticals, traditional Chinese medicine, and so on.

The objectives of the NHI program were as follows:

- To provide equal access to health care for all Taiwanese citizens
- To ensure both quality and efficiency in delivering health care services
- To control health care cost so that the total expenditures fall within an acceptable range.

The source of NHI's revenue is payroll-related premiums contributed by employees, employers, and the government. The contribution rates vary among six categories of employment, with the insureds contributing the most in total, followed by the government and then closely by the employers. In addition, the insureds are required to co-pay for health care services provided. For ambulatory and inpatient care, user fees are also charged to the patients. Under NHI, the payment system is mainly on the fee-for-service basis, supplemented by case payment, payment for disposable medical devices and materials, and a long list of prescription drugs.

After more than two years' operation, Taiwan's NHI experience has gradually emerged. There are many discussions and debates over whether the NHI program is succeeding in achieving its goals and whether there should be some reforms to restructure the program. The purpose of this

continued on page 17, column 1

Reforming Taiwan's NHI
continued from page 16

article is to evaluate the NHI program and offer a managed competition model to reform it so as to achieve its objectives.

Evaluation of Taiwan's NHI Program

As of the end of May 1997, Taiwan's NHI has collected nearly $18 billion (U.S.) of premiums and paid close to $16.5 billion (U.S.) of health care expenditures. Thus, it appears self-sufficient on the cash basis. However, the program does show a few worrisome signs.

Although the health care expenditure is only 5.26% of GDP for 1995–1996, its growth rate accelerates at more than 13% while the growth rate for GDP is at 8%. Also, the annual growth rate of the total health care expenditure is at 11.2%, of which outpatient care expenditure grows at nearly 15%. Examining the expenditure components further, one finds that the outpatient care exceeds 54% of total NHI medical claims and the drug expenses surpass 25% of total medical expenditure. Moreover, both the health care utilization rate and health care cost per capita increase rapidly.

Perhaps far more important than the above statistics are the following:

- NHI's inability to deliver health care services efficiently due mainly to its resource allocation and fee-for-service payment system
- NHI's inability to assure quality of care in delivering health services
- NHI's failure in providing both the insureds and providers the freedom of choice of insurers
- Difficulty in accessing health services because of uneven distribution of providers
- Public dissatisfaction rates range from 25% to 60%, averaging around 40%.

The idea underlying the managed competition model to reform Taiwan's NHI program comes not only directly from the desire to solve the above problems but also from reform experience of many countries. Most of these countries' reforms started out with the removal of barriers to access to health services. They were then followed by the control of the subsequent rise in health care expenditures. Finally, these reforms aim at improving the efficiency and quality with which health services are produced and used. The managed competition model as proposed here is to solve the problems described and listed above but within the constraints of equitable access and control of total health care expenditures.

A Managed Competition Model

The managed competition model as proposed here envisions a competitive market in which the allocation and price setting are determined by the market with the government instituting a set of rules so as to achieve the nations's goal with respect to equity and an efficient functioning of the market. As mentioned above, Taiwan's NHI is a single-payer, compulsory health insurance scheme under which both the insureds and providers do not have the freedom of choice as to the insurer. The proposed system intends to introduce managed competition among insurers and/or health insurance plans as well as among health care providers.

Many people confuse the term "managed care," which refers to the procurement of health care services by health plans and/or insurers, with "managed competition," which refers to the procurement of health insurance policies from competing insurers and/or health insurance plans. The central idea of managed competition is to force rival insurers/health plans to compete honestly and fairly for enrollees in the health insurance market. Fundamental to this process is accurate information that a health care consumer ought to have on each competing plan. These information requirements are both vast and vitally important.

We can thus characterize the proposed system as a compulsory health insurance for the whole population and managed competition among insurers/health plans as well as among health care providers. Just as in the existing NHI program, under the proposed managed-competition scheme the mandatory income-dependent contributions will be made by the insureds, employers, and the government to the Bureau of National Health Insurance (BNHI) via the tax-collecting authority. The insureds will receive their subsidies to help them buy their compulsory health insurance. The subsidies will be paid directly by BNHI to the qualified insurers/health plans chosen by the insureds.

The subsidy per insured is independent of the chosen health plan/insurer and is equal to the expected per capita costs within the risk group to which the insured belongs, minus a fixed amount which is equal for all insureds. The deficit created by this deducted amount is met by a flat-rate premium to be paid by the insured directly to the health plan/insurer of his or her choice. The difference between the actual costs and the risk-adjusted payment will not be the same for all health plans/insurers and will be reflected in the flat-rate premium that the competing health plans/insurers will quote. This creates the incentive for health plans/ insurers to be efficient.

> ***"The managed competition model as proposed here is to solve the problems described ... but within the constraints of equitable access and control of total health care expenditures."***

The health plans/insurers will function as an intermediary between the insureds and the health-care providers. To a great extent, health plans/insurers and providers will be free to negotiate the terms and conditions of contracts. Because Taiwan's National Health Insurance Act does not specify the scope of benefits in terms of institutions such as hospitals or nursing homes, but rather in terms of types of care, any health care supplier meeting certain quality standards should be allowed to provide these services. This will greatly increase the possibilities for substitution of care and thus the competition among providers. Health plans/insurers will be allowed to selectively contract with providers and to

continued on page 18, column 1

Reforming Taiwan's NHI
continued from page 17

offer different insurance options as long as the insurance conditions provide the insureds coverage for all types of benefits specified in the law. Insureds are free to choose among different health plans/insurers, selecting the insurance policy they like the most. The premium paid will reflect the efficiency and cost-generating behavior of the contracted health-care providers.

Equity, Cost Containment, Efficiency, and Quality

Under the proposed system, competition can be expected to improve the efficiency, quality, innovation, and responsiveness to consumers' needs and preferences. However, a question naturally arises as to whether managed competition can improve all these in health care within the constraints of equitable access and control of total health care expenditure. The constraint of equitable access appears to be achieved in a managed competitive health care system as proposed here for Taiwan's NHI program. Under the compulsory health insurance scheme, each Taiwanese citizen has access to a comprehensive health insurance benefits package within a large pool of well-mixed risks.

On the other hand, managed competition may not be able to provide any guarantee for the achievement of cost containment because health care expenditures under the model may exceed a certain percentage of GDP. This is especially likely given that:

- Additional health care can contribute to one's health.
- Most people consider a good health status to be the most important thing in life.

This means that a managed competitive health care system may yield higher total costs. However, we should also point out that a managed competition system could be expected to yield more value for money and may also yield more efficiency.

If managed competition does yield higher total costs, the government could impose a global budget on total health care expenditures by putting an upper limit on the premium that each insured pays directly to the health plan/insurer. In this way, the government is intervening with price controls and controls on olume and capacity in health care, making managed competition unworkable. On the other hand, if government is willing to share the responsibility for cost containment, efficiency and quality of care with all parties concerned (insureds, health plans/insurers, providers), then it should let the market determine the optimal level and allocation of resources to be spent on health care. What the market determines should then be considered the choices and preferences of all health care consumers in the nation.

An argument for government to put an upper limit on some health care expenditures is government's objective to provide access to health care for every citizen. Access to care for sick and low-income people means cross- subsidies from the healthy and high-income people. Should government put a cap on public health care expenditures, an important question arises as to what types of health care should be provided by the compulsory health insurance scheme. Should everybody have guaranteed access to all care with any possible benefits, regardless of the costs? Clearly no country in the world can really afford this kind of access. In such a situation, we believe cost- ineffective care (that is care with very high costs but very low expected benefits) should be excluded from the compulsory health insurance system. Therefore, under the managed competition scheme as proposed here, health plans/insurers should be allowed to refuse to reimburse those costs arising from cost-ineffective care. In other words, only equal access to cost-effective care is guaranteed under the system. Certainly the insureds are free to buy an all-inclusive policy that unconditionally reimburses all health expenditures. If such a policy is available on the market, its premium can be expected to be very high.

This brings up another question. Will a two-tiered health care system, in which those who can pay will buy all-inclusive policies and those who cannot pay will not receive cost-ineffective care, emerge under the proposed managed competition scheme? Given the limitation of resources available for cross-subsidies, it appears that a two-tiered system is inevitable. Those who can pay will always find their way. As n example, in Britain, salaried physicians working in a hospital are allowed to treat private patients in their private practice for a private fee. Under the proposed system, many wealthy Taiwanese, when necessary, are expected to go abroad searching for the best treatment available in the world.

Conclusion

This article first reviewed Taiwan's NHI program and evaluated its performance after two years' operation against it objectives. In order to help the NHI program achieve its objectives more assuredly, I offer a managed competition model to reform Taiwan's NHI program. The model is expected to improve efficiency, quality and innovation in health care within the constraint of equitable access but may not be able to achieve cost containment. In such a case as managed competition yielding higher total health care costs, I argue for letting the market determine the optimal level and allocation of health care spending. However, if government's objective is to provide access to health care for all citizens, it will intervene in the market by putting an upper limit on health care expenditures to achieve the cross-subsidies to the sick and low-income people. In such a situation, I argue for the exclusion of cost-ineffective care from the compulsory health insurance system. This creates the new concept of equity, that is, equal access to cost-effective care, which in turn induces a two-tiered health care system, in which those who are able to pay have access to care excluded from the compulsory health care benefits package. Given the limitation of resources available for cross-subsidies to the sick and low-income people, a two-tiered health care system is inevitable anyway. Finally, the cost-effectiveness of care appears to be the desirable criterion on which society can decide to which types of care every citizen should have access.

Chiu-Cheng Chang, FSA, is Professor and Head, Department of Business Administration and Director, MBA Program at Chang Gung University, Graduate Institute of Management in Tao-Yuan, Taiwan and a former member of the International Section Council.

Use of Embedded Values (Shareholder Value) by U.S. and European Insurance Companies

by Allan D. Affleck
and Steven I. Schreiber

Over the past several years, many well-known corporations, such as Coca-Cola, AT&T, and Quaker Oats, have begun using the concept of economic value-added (EVA) to measure financial performance and to determine incentive compensation for management. The primary goal of an EVA system is to increase shareholder value. EVA is basically a company's net operating profit after taxes and after reflecting the cost of capital. Instead of focusing only on earnings, the EVA system reflects how much capital is needed to generate those earnings. If the discounted cash flows from a business exceed the cost of the capital used to generate those cash flows, then value has been created for the shareholders.

A similar concept has been developed in the life insurance industry. Several companies are now evaluating financial performance based on the concept of embedded value. Some companies refer to this same concept as shareholder value. The embedded value or shareholder value of an insurance operation equals;

- Adjusted capital and surplus

  plus

- Discounted value of future profits on in-force business.

Both the adjusted capital and surplus and the value of future profits reflect the cost of the capital required to support the in-force business, which is not available for distribution to shareholders.

Some companies also include a third component in their definition of embedded value to reflect the value of future business. When the value of future business is included, this value is often referred to as appraisal value.

Embedded value is expected to increase from the beginning of the year to the end of the year by the required return on adjusted capital and surplus, plus the discount rate times the discounted value of future profits at the beginning of the year. After adjusting for these expected changes in embedded value (and any capital infusion or shareholder dividends paid), any additional increase (decrease) in embedded value shows that the current year's operations created new value (destroyed value).

To determine the extent to which major U.S. and European insurers are using the embedded value concept, consultants from Milliman & Robertson and from Bacon & Woodrow surveyed senior executives of selected large companies. For companies currently using embedded values to measure financial performance, we wanted to learn their views on the advantages and limitations of the embedded value concept, and whether these companies are using embedded values as a basis for incentive compensation for management.

Survey Results

U.S. Stock Companies

All but one of the companies surveyed use the embedded value concept. Although one company has used the concept for seven years, the others using embedded values have been doing so for two years or less. Some of the newer users consider the process to be in the implementation stage and are still trying to get comfortable with the concepts and how to interpret the results.

All companies using embedded values today continue to monitor and report financial results on a generally accepted accounting principles (GAAP) basis as well. This is necessary because of regulatory requirements and because GAAP results continue to be the primary basis for evaluating companies in the financial markets.

U.S. Mutual Companies

Although several of the mutual companies have studied the concept in great detail, none has yet implemented the embedded value concept on a company-wide basis. However, one of the surveyed companies has been using embedded values for several years to evaluate the results of its international operations.

European Stock Companies

Most companies surveyed are using the embedded-value concept to evaluate financial performance, several for six years or longer. Two European insurers using embedded values also use the accruals method of accounting to evaluate financial performance.

Companies Surveyed

We spoke with senior executives from the following insurance companies: U.S. Stock Companies; U.S. Mutual Companies; European Stock Companies; AEGON; John Hancock; Allstate; Metropolitan Life; Allianz; CIGNA; New York Life; AXA; Equitable Life; Northwestern Mutual; Commercial Union; Lincoln National; Prudential; ING; Prudential Corporation; and Transamerica.

Advantages and Limitations of the Embedded Value Concept

Most companies using the embedded value concept regard it as an effective way to evaluate financial performance, although some of the newer users said it was too early to reach a conclusion.

Survey respondents identified the following advantages of the embedded value concept for measuring financial performance. The embedded value concept:

- Enables management to make better decisions by providing one measure that encompasses all activities
- Reports the whole effect of a change in management action or a change in experience assumption in the current time period, whereas GAAP and statutory accounting methods recognize either part of or none of the effect in the current period
- Focuses on a longer time horizon than GAAP or statutory accounting methods
- Allows management to evaluate the impact of its actions by measuring

continued on page 20, column 1

Use of Embedded Values
continued from page 19

the differences in embedded values resulting from various decisions

- Is particularly meaningful for evaluating results for life insurance, since the long-term focus of embedded values matches the nature of the product
- Clearly highlights where value is being created and where it is being destroyed
- Is an effective tool for making capital allocation decisions, because it reflects the impact of the use of capital to generate earnings
- Leads to analysis of actual expenses, new business production, investment returns and persistency against projected assumptions
- Improves communication among business units and between the head office and foreign operations by a common language and approach.

The companies using embedded values also identified certain *limitations* to the method:

- There are no official rules or interpretations for the method (such as by FASB or the NAIC), which results in different methods among companies and the potential for manipulating results.
- It cannot currently be used as a U.S. company's primary financial measure, because it is not accepted by capital markets. (However, the capital markets are beginning to recognize the useful information provided by insurance company embedded values.)
- The calculations are complex and time-consuming.
- The learning curve is difficult for many managers, requiring considerable time for everyone to understand and to acclimatize.
- Sensitivity to some assumptions is high, so embedded value results may change significantly from one year to the next. (This makes analyzing change in embedded values as important as the embedded value result itself).
- The measurement of trends over several time periods may be distorted by changes in assumptions.
- It is difficult to ensure that the risk discount rate appropriately reflects shifts in the current risk profile over time or the current differences in risk profile by line of business.

However, the companies using this concept were able to address these limitations and found embedded values to be a useful way to evaluate financial performance.

If the Embedded Value Concept Was Considered, Why Was It Rejected?

For companies not using the embedded-value concept, the primary measures of financial performance include statutory internal rate of return, modified GAAP and key drivers (such as agent recruiting, agent retention, expense levels, lapse rates, and so on).

Several of the companies not using the embedded value concept spent a significant amount of time studying this approach, but did not implement it. Some of the reasons given for not implementing embedded values include:

- The process is too difficult to implement, particularly in large companies with many autonomous units that cannot agree on ground rules.
- Results may be volatile and too sensitive to changes in assumptions.
- Management is uncomfortable with any system not based on GAAP principles, which allows benchmarking of results against competitors.
- It is difficult to link projected dividend scales with projected economic assumptions.
- The company is too busy implementing GAAP for mutuals to consider other methods.
- The return on investment on new business is less than the company's hurdle rate, so the embedded value approach would consistently show value being destroyed.

Use of Embedded Values for Management Incentive Compensation

While many of the companies surveyed are using embedded values to measure financial performance, few are using it to determine incentive compensation for management. One U.S. company surveyed determines 50% of senior management's incentive compensation using embedded values, with the other 50% based on GAAP return on equity. Another U.S. company is in the process of changing its management incentive compensation plan to incorporate the embedded value concept. Only one European company surveyed bases incentive compensation on embedded values. For this company, embedded values is a key component of the incentive compensation plan. Several other European companies are now discussing the possible use of embedded values for incentive compensation.

The most frequent reason companies give for not using the embedded-value concept in determining incentive compensation is that the process is too new and the companies first need to resolve all technical issues associated with implementation. One company that has used embedded values for several years to evaluate financial performance said that, because of the highly political nature of the incentive compensation formula, it continues to use traditional measures. According to companies using embedded values for defining incentive compensation, two other benefits in addition to those described above are:

- Management reacts more quickly to pricing and experience problems
- The process has a direct impact on a company's decisions to enter or continue in a line of business.

Implementation Suggestions

Several of the companies surveyed offered useful suggestions for companies considering implementation of an embedded-value system. These suggestions include:

- Do not rush implementation. One European company, as part of its implementation process, allowed five years to resolve technical issues across all of its subsidiaries and seven years to fully educate senior management on the meaning of the results. Several companies

continued on page 21, column 1

Use of Embedded Values
continued from page 20

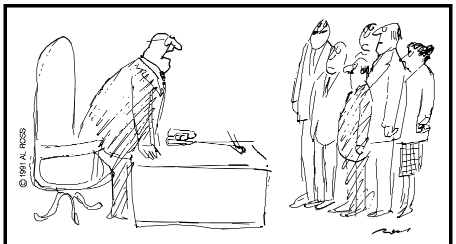
iterated this same general suggestion.

- Do not discontinue the current approach until all technical issues and educational aspects are fully addressed.
- Do develop a set of guidelines. To ensure uniformity in calculation from one period to the next and among business units, as well as to prevent manipulation, each company needs to develop its own guidelines on how the embedded value process will work. These guidelines should address all issues associated with the embedded value process, including defining responsibility for setting assumptions and defining the process for revising assumptions.

Future of Embedded Values

We anticipate increased use of the embedded value approach as more companies recognize its benefits for measuring financial performance. While implementation is not easy, companies that have gone through the effort believe the embedded value concept provides better information for management and thereby improves the actual decisions made by its managers.

Allan D. Affleck, FSA, is a principal and consulting actuary in the Seattle office of Milliman & Robertson. He is the founder of Milliman & Robertson Japan. Steven I. Schreiber, FSA, is a consulting actuary in the Tokyo office of Milliman & Robertson Japan.

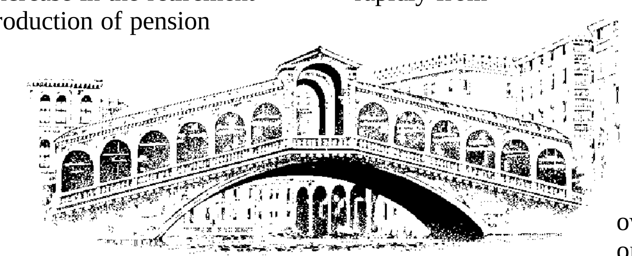


"It has come to my attention that one of you called the profit motive 'a figure of speech'?"

The Italian Life Insurance Market

by Alessandro Corsi

The Italian life insurance sector has been influenced by dramatic and historic changes over the last few years. These changes have stemmed from the creation of the insurance common E.U. market, the strengthening of new competitors into the market such as banks and financial consultants, and the recent modifications in households' savings profile. Also, in the last few years, the social security pension scheme has been reformed through a change in the method of calculating social security pensions and a progressive increase in the retirement age. The introduction of pension funds, which came into effect in 1997, will have to compensate for future lower state pensions, thus creating new opportunities and challenges for life offices, although in the context of a more aggressive environment.



Total life premium income amounted to about 37,100 billion Italian lire in 1997 [roughly $21 billion (U S.) at the December 31 exchange rate of $1 (U.S.) to 1,760 (ITL)], 41.5% over the previous year's figure and representing close to 45% of the total insurance sector. The life market share was only around 25% in 1990. As to the different business lines within the life market, well over 90% is individual business, the remainder being group business which has been quite stagnant over the last few years. As to market concentration, of 127 companies carrying on life business at the end of 1996 (105 pure life, 22 composite offices), the top-ten-ranked companies had a market share of 55%, 72% taking into account the first 20-ranked. It may be of some interest to locate the Italian life market within the European Union: in 1996 Italy was only the fifth-ranked market with premiums of ITL 26,100 billion (5.4% of the total U.E. life market, 1.4% on GNP), behind France with ITL 137,700 billion (6.0% of GNP), the U.K. with ITL 118,400 billion (6.2% of GNP), Germany with ITL 88,900 billion (2.6% of GNP), and The Netherlands with ITL 29,500 billion.

As to distribution channels, trends have been changing dramatically throughout the 1990s. Traditional channels, which are basically career-tied agents and companies' employed sales forces, continue to be the largest channel. However, their market share has fallen rapidly from 82% in 1991 to below 60% in 1997. On the other hand, banks, either through a totally owned life office or through a joint venture with an insurer, gained remarkable market shares at the expense of traditional outlets. Their share grew from 4% in 1991 to nearly 25% in 1997 with more than 50% of new sales. The third major distribution channel consists of financial consultants, which are the captive sales network of mutual fund companies and financial intermediation firms known as the Securities Intermediation Company (SMI). They have maintained a more or less constant share of approximately 15% for the last few years, thanks to this channel offering global advice on all financial needs to their clientele. They have effectively segmented the market and sell tailor-made products to medium and high segments. In life business, brokers play a marginal role, with a marginal market share concentrated in medium- to large-sized group schemes.

Generally speaking, consistent with a trend which can be observed Europe-wide, Italy is experiencing a progressive

continued on page 22, column 1

The Italian Life Insurance Market
continued from page 21

integration between the financial, banking, and life insurance sectors, as well as a radical change in the households saving profile, all of these events again driven by macroeconomic factors.

Until some years ago, it was typical for an average Italian household of a medium- to high-income band to funnel a large part of its traditionally high savings ratio into short-medium term treasury bonds, guaranteeing high real yields within a relatively high inflation scenario. This was much more attractive than the then-asphyxiated stock market. Life insurance could complement the household's portfolio, typically under the form of a traditional, relatively high-loaded, fiscally-driven endowment with profit sharing. Pure risk policies were, and still are, virtually marginal because of a "cultural" lack of awareness of death and disability risks within Latin communities. From the industry's standpoint, main focus points were the little or no contact between life companies and other financial players, the traditional well-commissioned distribution channel dealing with life and nonlife, the high margins stemming from not too innovative and inflexible products, and a certain administrative inefficiency within a relatively self-protected market.

In the early 1990s, banks started to enter the life market, normally with pure-saving, low-loaded, fiscally driven products sold on a single-premium basis or on a single-premiums program basis. Thereafter the European directives regarding Free Movement of Capitals and of life insurance specifically, all implying a higher degree of competition and an enhanced consumer's protection, were incorporated into all member countries regulations, including Italy.

Last but not least, the needs of complying with the so-called "Maastricht economic parameters" to qualify for the single currency forced the Italian government to pursue an economic policy aimed at reducing both inflation and the public finance deficit, the result of which was a brutal and rapid decrease of governmental bond yields (incidentally backing most of the life liabilities to date) on new issues.

The households reaction over the last couple of years has been from the one side to switch a significant portion of their savings from treasury bonds to shares or mutual funds, both domestic and foreign, and from the other side to utilize a single provider for all of its saving and sometimes its protection needs (one-stop shopping).

The life insurance industry's reactions have been a move to integrate with other financial players, including joint ventures with banks and acquisitions of mutual funds companies, to convert the traditional sales forces into more global financial consultants, more efficiency, and the reduction in acquisition and maintenance expenses through commissions squeezing and reengineering processes.

> ***"Reforms of both the social security system and supplementary pensions started in 1993 and received a fresh impetus in 1995 ... social security benefits will be defined in terms of contributions paid throughout employees' working lives, rather than based on final earnings."***

On the product side, more innovation has arisen, although with an eye to saving rather than risk products. In the early 1990s, the traditional with-profit endowments marketed by traditional sales forces started to reduce their loadings to face the competition of low-load banking products. Over the last one-and-a-half years, all of these product lines have been partially replaced by new investment products meant to link the life industry to the booming stock markets, especially as to financial consultants and banks' networks. These would typically be either single-premium, index-linked, medium-term products with a return guarantee wrap, or single/singles programs unit-linked products, normally without a return guarantee.

The new laws reforming social security pensions and introducing pension funds have been mentioned at the outset of this article. Because of the impact that they will have on the financial market, as well as on the life industry, it is worthwhile to provide a quick overview on the subject. Interested readers can find a more thorough treatment in the April and October 1997 issues of *Benefits & Compensation International*.

The Italian pensions environment is dominated by a variety of State and other compulsory, collectively bargained arrangements, varying by business sector and category of employee. These provided benefits that were generous salary-wise by international standards, with the exception of higher-paid employees. Before 1993 no coordinated legislation governed supplementary pension schemes. Therefore, employers who established pension funds, normally for highly paid employees only, were able to set up the benefit structures and the funding means almost as they wished, in the context of a generous tax environment.

Reforms of both the social security system and supplementary pensions started in 1993 and received a fresh impetus in 1995. In particular, future social security benefits will be defined in terms of contributions paid throughout employees' working lives, rather than based on final earnings. Moreover, restrictions have been imposed on early retirement. It is widely recognized that further benefit cuts and more restrictions will be necessary in the future. In turn, private pension funds, meant to supplement lower social security pensions, have finally been regulated from a statutory and tax standpoint after a long bureaucratic process which almost ended in 1997.

As to fund legal structures and apart from the detailed regulations such as the separation between the Fund and the different operational parties involved (that is, administration, investment and asset custody, tax treatment, investment restrictions), it is useful to recall that pension schemes will have to be defined-contribution. Defined-benefit arrangements are possible—albeit unlikely—for the self-employed only. There would basically be two classes of new pension funds, "open" and "closed." Closed pension funds could be established by an employer or other "affinity group" with membership limited to that group. Membership of open

continued on page 23, column 1

The Italian Life Insurance Market
continued from page 22

pension funds would initially be restricted to those who are not covered by a collectively agreed pension fund, but it will be possible for a closed pension fund member to transfer one's rights to an open fund after five years of membership.

Likely developments of the new market will be that new pension funds will be established along a number of different lines. First, there will be a number of national industry schemes, applying to certain employment sectors which will be largely influenced by the national trade unions. Second, several large employers will establish closed pension funds to cover their employees, contracting out of the relevant industry-wide arrangement. Third, the main financial services providers, such as banks, life companies, mutual fund companies, and SMI, apart from offering investment, administration, custody, and consultancy services to the closed-pension funds, will establish their own open funds.

Alessandro Corsi is with Assicurazioni Generali in Trieste, Italy, and a member of the Italian Society of Actuaries.

Insurance Regulation in Spain—Changes and Challenges

by Daniel A. DeKeizer

The European insurance market has been rapidly changing in the last five years. Adoption and implementation of the life and nonlife directives, the converging economies required by the monetary union, privatizations, mergers, and acquisitions have all helped reshape the insurance landscape.

Spain has not been exempt from these changes. In response to the 1995 Ordinance on the Supervision of Private Insurers, the Direccion General de Seguros (DGS) has proposed a sweeping new set of regulations. These regulations replace the 1985 and 1986 regulations and their amendments and are intended to bring Spanish regulation and practice into line with the European Community (EC) directives.

This article reviews some key aspects of the new Spanish regulation and discusses possible responses by the insurance market.

Technical Note

Much of Spanish regulation builds on the concept of the "Technical Note," which is a formal statement of the pricing basis for a given contract form. This concept is carried forward from the 1985 regulations. The Technical Note must include a guaranteed mortality table and interest rate, benefit descriptions, the calculation of the net premium, and the expense loads used to convert the net premium to a gross premium. It also describes the basis for participation, if any. This note must be certified by a qualified actuary.

Reserves

Articles 32–38 of the proposed legislation deal with the calculation method, the interest rate, mortality tables, and expenses. Previously, the reserves were determined on a valuation premium basis, which provided for maintenance expenses but not the amortization of acquisition expenses. The interest rate and mortality table were the same as those used to determine the premium in the Technical Note. Under the new regulations, products of up to one year duration require an unearned premium reserve, while longer term products require a seriatim, prospective, gross-premium-type reserve.

Interest

The interest rate can be no more than 60% of the weighted average of long term (five or more years) government bond yields during the last quarter of the last three years. The weighting is 50% of the most recent year's rate, 30% of the next prior year's rate, and 20% of the yield from three years ago. The government will publish the rate on an annual basis. If the actual investment returns of the insurer are less than this benchmark rate, then the actual returns are to be used. For certain contracts, the interest rate used in determining the premium—if lower than either of the above rates—is used in reserves as well. Previously, actual returns were allowed to be below the reserve interest rate for up to two years before reserve strengthening was required (Article 71 of the 1985 regulation).

For policies denominated in non-Spanish currencies, a similar formula, applied to the appropriate governments' bond yields, is required for foreign currency contracts.

Currently, this formula would result in a statutory interest rate of approximately 3.4%, which by itself will require substantially higher reserves than many companies are now holding. However, for "unit-linked" contracts, in which the insured is bearing the interest-rate risk, the company can simply hold the market value of the assets. These contracts are reported as part of the general account. No separate accounting treatment is currently required for such products.

This provision should encourage companies to move more aggressively into variable products or products with market value adjustments.

Mortality

There is no explicitly specified mortality table, such as the U.S. Commissioner's Standard Ordinary table. Instead, the table must satisfy certain criteria:

- It must be based on national or foreign experience and determined using generally accepted actuarial methods.
- It must be within certain confidence intervals specified by the government.

continued on page 24, column 1

Insurance Regulation in Spain
continued from page 23

- It must be based on observation periods within the last 20 years.
- It must include mortality improvements if significant survivorship benefits are available.

In addition, if emerging experience credibly demonstrates that the original table is inadequate, reserves must be increased to reflect the actual behavior.

Expenses

The administration and acquisition expenses included in the product's Technical Note are also reflected in the reserve. Under the previous regulation, expenses were generally charged as incurred, although the amortization of certain acquisition costs (in excess of first-year loads) was allowed.

In contrast to GAAP reserves or DAC in the United States, no lapses or withdrawals are included in the calculation. Companies will need to be very careful that they do not overestimate how much of the acquisition costs can be front-loaded.

If the company's actual expenses exceed those assumed in the Technical Note for more than two years running, and those expenses cannot be rationally explained as being "extraordinary" or one-time expenses, then the actual expenses must be reflected in the reserve calculation. This loss recognition concept will encourage careful monitoring and strict controls on expenses as compared to the loads in the Technical Note. It may also encourage companies to refile the Technical Notes on existing products, reallocating expenses, interest gains, and mortality tables even if the price and benefits to the consumer are unchanged.

Adequacy of Reserves

Unlike the United States or Canada, where the actuary opines on the adequacy of the reserves in aggregate, the Spanish regulation requires the actuary to test the interest, mortality, and expense components of the reserve separately. This is a more conservative standard in that gains from one component or product form will not be allowed to offset losses on another. This may create an interesting opportunity for surplus relief reinsurance treaties supported by the gains of one component of the reserves to offset the surplus strain created in another area.

Assets

The growing cross-border activity of the EC is expected to bring greater liquidity to the asset side of the balance sheet. Increased liquidity and a broader range of assets should improve insurers' asset/liability matching and the margins available from cash-flow management. These advantages may be offset by additional competitive pressure as companies with superior investment performance pass on a portion of these gains to their customers.

Articles 50–53 control the asset allocation and valuation rules for those assets supporting the technical reserves. These clauses contain much more detail than the corresponding clauses of the previous regulation. Insurers are allowed greater access to assets from across the entire EC. New asset types, such as derivatives and futures, are explicitly covered as admitted assets.

Solvency Margins

Solvency margins are discussed in Articles 61 and 62. For life companies, the standard of 4% of reserves plus 0.3% of the net amount at risk is continued from the previous regulation. "Unit-linked" products have a lower requirement of 1% of reserve plus 0.3% of the net amount at risk. This is consistent with those of a number of the EC nations. However, because of the stronger reserve requirements, keeping the same formula has the effect of strengthening the required capital.

The simple nature of this formula means that it may not do a good job of discriminating between strong and weakly capitalized companies. At this time, regulators do not appear to be seriously pursuing a more detailed risk-based capital formula such as the U.S. or Canadian methods.

Conclusions and Future Possibilities

This regulation takes a big step toward an open market with the EC, improves the technical bases for reserves and assets, and generally strengthens the solvency of the Spanish insurance community. The application of the regulation is likely to produce new products, especially of the variable or unit-linked type, and some reinsurance opportunities. The expense component of the reserve formula will put pressure on inefficient companies and distribution methods to reform.

I speculate that future regulation will include commission and cost disclosure as is already being practiced in Great Britain and Portugal, and the growing cross-border and direct marketing insurance transactions will act to further reduce expense margins.

The Spanish market has become a fast-changing, challenging place in which to do business. Insurance companies must respond to the new Spanish regulations and, at the same time, manage the Euro, Y2K, new competitors, and falling interest margins. Recognizing and taking advantage of the opportunities in this regulation is one way for superior companies to distinguish themselves in this market.

Daniel A. DeKeizer, FSA, is a Senior Actuarial Associate at Metropolitan Life Insurance Company, International Operations, in New York, New York.

Life Assurance in Dublin's IFSC

by Colm Fagan

EDITOR'S NOTE: *This article first appeared in the* International Money Marketing *magazine and is reprinted with permission*.

"*In Dublin's fair city, where the girls are so pretty*" run the opening lines of the city's anthem, "Molly Malone." But is it just the pretty girls that are enticing major financial services groups to establish cross-border life assurance operations from Dublin's International Financial Services Center (IFSC)?

The latest "Blue Book" from Ireland's Enterprise Ministry records business transacted in 1995. It shows a total of 12 companies authorized to transact cross-border business from Ireland under the EU's Third Life Directive. This Directive—also called the Framework Directive—established the framework for Europe's single market in life insurance.

Total premium income in 1995 was IR£161m ($240m), a 50% increase on the previous year. Industry estimates indicate that premium income more than doubled to IR£343 million in 1996 (Figure 1).

While growth rates in the three years prior to 1996 have been exceptional, activity during 1997 indicates that life assurance in the IFSC is moving to an even higher plane. Major changes are also taking place in the nature of operations being launched from Dublin.

Most of the companies named in the 1995 Blue Book were subsidiaries of U.K. parents. Their initial *raison d'être* was to sell policies back into the U.K.

Of course, tax is still an important attraction for companies thinking of establishing in the IFSC. Investment income and capital gains on policyholders' funds are completely exempt from Irish tax. Also, shareholder's profits are subject to a specially low tax rate of 10% until the year 2005. Thereafter, tax on shareholders' profits increases—but only to 12.5%. The Irish Government has guaranteed the 12.5% rate until at least the year 2025.

A major attraction for newer entrants, however, is Ireland's regulatory regime for life assurance and the country's long experience in the design and delivery of both unit-linked and traditional policies.

The Department of Enterprise, Trade, and Employment (DETE) is the regulator for the insurance industry. Traditionally, it has adopted a "hands-off" approach to supervision and has placed considerable reliance on the professional judgment of the insurer's Appointed Actuary. This approach has continued following the implementation of the Third Life Directive. Its effect has been to facilitate product innovation without compromising solvency. In the last 60 years, not a single life insurer supervised from Ireland has gone into administration or receivership.

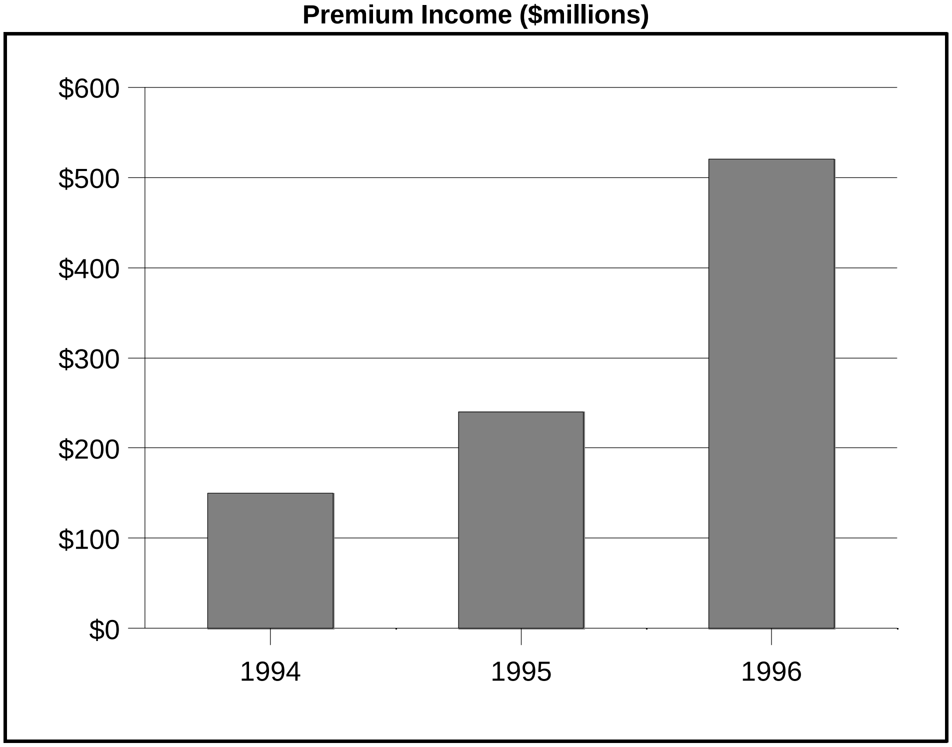
As long ago as the early 1970s, unit-linked business already accounted for more than 50% of all new insurance policies sold in Ireland. The flexible whole of life product design was commonplace by the early 1980s as well as for Critical Illness Insurance. This contrasts with the experience in many European countries where unit-linked policies were only introduced within the last five to 10 years.

Ireland was ahead of the U.K. in embracing the unit-linked concept, mainly because Irish Life, the market leader, was an early convert to the unit-linked cause. It introduced its first unit-linked policy in 1964 and its "Property Modules" range of funds, introduced in 1969, captured the imagination of an investing public eager to share in the benefits of a booming real estate market.

The Irish insurance industry's early love affair with unit linking contrasts with the U.K. where the market leaders (Prudential, Standard Life, etc.) viewed the concept with suspicion and, as a consequence, were slower in adding unit-linked products to their portfolios.

This long experience with unit linking means that there is now in Dublin a strong cadre of professionals with the necessary skills in dealing with sophisticated life insurance products. The market is also responding quickly to the growing demand for outsourced professional and administrative services—actuarial advice, Third Party

FIGURE 1
Premium Income ($millions)



Administration, etc.

continued on page 26, column 1

Life Assurance in Dublin's IFSC
continued from page 25

This combination of a favorable regulatory regime, no tax on policyholders' funds, low tax on shareholders' profits, a strong skills base, and membership of the EU is attracting an increasing number of major financial services groups to establish life assurance companies ("head office undertakings" is the official terminology) in Dublin to sell life assurance and pension products to customers both within and outside the EU.

The vision of the original promoters of the European single market is at last being realized. It is now almost as easy for a company based in Dublin to sell business in Lombardy as it is for one based in Milan or Rome.

This is precisely what is happening in the case of the Lombardy-based Gruppo Area, a broadly based financial services group whose activities include a bank, Area Banca, established in 1995.

"The vision of the original promoters of the European single market is at last being realized. It is now almost as easy for a company based in Dublin to sell business in Lombardy as it is for one based in Milan or Rome."

Sales of life insurance and annuity products are central to the group's operations. Up to now, the Gruppo Area sales network has distributed the products of other Italian life assurance companies. This will change in the future, however.

A wholly-owned subsidiary, Area Life International, has now been authorized to transact cross-border business from Dublin's IFSC and, in the future, the group's Italian sales network will distribute the products of Area Life. At a later stage, Area Life International plans to sell policies in other EU member states.

A number of other European and American companies are taking a similar route. At least two major American groups have decided to base their planned European life assurance companies in Dublin, selling into other countries on either a "Freedom of Services" or "Freedom of Establishment" basis.

The procedures for obtaining authorization to establish a new life assurance company in Ireland or to transact cross-border business from an Irish head office using either the Freedom of Establishment or Freedom of Services provisions of the EU's Third Life Directive are relatively straightforward.

An application to the DETE for authorization to establish a head office undertaking in Ireland must be accompanied by a comprehensive business plan. The Department has specified the required content of the plan in general terms. In reality, it is looking for a little more than the type of planning document which the sponsoring institution will want prepared in any event to satisfy itself of the undertaking's viability.

The plan must be accompanied by optimistic and pessimistic financial projections based on alternative sales and expense assumptions. The capital requirement for the undertaking is derived from these projections.

The undertaking's Appointed Actuary must certify that the initial capital base will be sufficient to cover mathematical reserves and the required minimum solvency margin under EU regulations for the first three to five years of operations.

The capital requirement depends on a variety of factors including product design, sales volumes, distribution costs, etc. The minimum solvency margin required under EU Regulations is 800,000 ECUs. This equates to approximately IR£640,000 at current exchange rates. The DETE likes the projections to show free capital exceeding the minimum by a comfortable margin throughout the plan period. Furthermore, even the simplest business plan will include some start-up costs that cannot be recovered immediately from margins in policies sold.

Taking all these factors in account, total shareholder funds of at least IR£1M ($1.5m) will be required for the simplest of business proposals. The capital requirement could be much higher for a proposal involving significant capital strains in the early years.

While the DETE approves the application for authorization to establish a new life assurance company in Ireland, the Industrial Development Agency (IDA), whose primary function is to promote inward investment into Ireland, is charged with recommending to the Department of Finance whether the undertaking qualifies for the special tax exemptions associated with the IFSC. The IDA's primary concern is that the undertaking is not a "brass plate" operation and that it generates employment in Ireland, either directly or indirectly through the medium of a Third Party Administrator. The target is that it should generate 20 jobs—either direct or outsourced—within three to five years of commencement of operations.

An application to the DETE for approval to establish a branch in another EU member state follows a similar but more streamlined procedure. The normal time limit for branch authorization is three months, compared with six months for a head office undertaking.

On approving an application to establish a branch in another member state, the Irish supervisory authority informs the supervisory authority of the "host" member state and provides it with information of the proposed constitution and operation of the branch, as required under the Framework Directive. Within two months of receiving this information, the host country supervisor must notify DETE of its "general good" requirements. General good requirements include regulations to protect consumers from unscrupulous sales practices, e.g., rules on the wording and content of sales illustrations.

The procedures for carrying on "Freedom of Services" business are much simpler. The applicant is only required to send a notification to the DETE stating the nature of the commitments that it proposed to cover. The DETE in turn notifies the supervisory authority of the other member state. It is worth noting that no approvals are required, provided that the company satisfies normal Irish solvency margin requirements. Naturally, it is also necessary to comply with the general good requirements of the host member state.

The most important point to note about the Irish regulatory process has more to do with style than substance. Both the DETE and the IDA see their primary job as helping *bona fide* applicants to secure authorization, not hindering them.

continued on page 27, column 1

Life Assurance in Dublin's IFSC
continued from page 26

There is much debate about the relative advantages of "Freedom of Services" and "Freedom of Establishment" under the Third Life Directive. In practice, the right answer depends on a variety of factors. These include:

- The scale of the operation in a particular country
- The distribution channels being used
- The products being sold
- The host country's tax and regulatory structure.

Essentially, the question should be answered by reference to business considerations. Too often it has been answered incorrectly by referring purely to legal and tax considerations, without considering wider business issues.

In summary, Dublin's emergence as a leading location-to-market cross-border life assurance in Europe is due to a combination of:

- Zero tax on policyholders' funds
- 10% tax on shareholders' profits (increasing to 12.5% for the 20 years from 2005)
- A regulatory regime that facilitates product innovation
- A sophisticated support structure that includes ready availability of people with strong product knowledge and technical expertise.

With all these advantages, who cares about the prettiness of the girls in Dublin's fair city?

Colm Fagan, ASA, is Chief Executive at Life Strategies Ltd., in Dublin, Ireland.

Minutes of the International Section Conference Call

Monday, July 20, 1998

Participating: Michelle Chong Tai- Bell (Chairperson), Josh Bank, Mike Gabon, Ric Geisler, Kevin Law, Bruce Moore, Angelica Michail (International Section Council); Bob Collett (Committee on International Issues); Chelle Brody, Lois Chinnock, and Lela Long (SOA Staff).

The minutes from the March 3, 1998, conference call were approved.

SPRING MEETINGS REVIEW. Mike Gabon reported that he believed that the Maui sessions were successful and well attended.

Mike Gabon will be the Section's Spring Meetings representatives for 1999.

ANNUAL MEETING UPDATE. Mike Gabon reported that the Annual Meeting sessions are fairly well set, with some recruiting left to do. The Section will sponsor five sessions (including the field trip to the United Nations and the Section breakfast) and co-sponsor three other sessions. The attending Ambassadors will be asked to speak briefly at the breakfast. The Council decided to have a hospitality suite after the field trip on Tuesday, October 20. Mike will handle the arrangements. Lois Chinnock reminded the Council that the deadline for putting speaker names into the final program is August 3.

Bob Lyle will be the Section's 1999 Annual Meeting representatives.

AMBASSADOR PROGRAM. The Council members discussed Lela Long's memo of recommendations to improve the Ambassador Program and agreed to all recommendations for better use of resources. The Council asked for a written procedure for the appointment of Ambassadors. The members saw a need for more information about the candidates before appointing them. The Council also agreed to the recommendations for improved communications and suggested the list of Ambassadors and their addresses be placed on the SOA web site as well as be published in every issue of the *International Section News*. Lela will format her memo into an article for the next issue.

Josh and Lela will work on the list of ambassadors to bring it up to date.

REPORT ON THE MEETING OF COUNCIL OF SECTION CHAIRPERSONS

- ***E&E REDESIGN:*** There is a potential problem internationally. For example, on the Continuing Education segment, how much credit is needed and how do you obtain it if you are overseas? Bruce Moore will submit a newsletter article by August 15, 1998, describing the international issues, with a request for feedback from the members. Ambassadors will also be contacted to see whether they can get involved.
- ***SOA STRUCTURE:*** Lois Chinnock described the new SOA Staff Structure. Linden Cole is retiring this year. Chelle Brody is the new Manager of International Affairs. Lela and Patrick Cichy will provide support. The rationale for the restructure is to induce Sections, practice areas, and the Board of Governors to work together.
- ***ANNIVERSARY ACTIVITIES***. There are several 50th anniversary activities and commemorative events planned for 1999 in San Francisco. The International Section was asked to be involved in the following anniversary projects planned:

    a. *Monograph of classic papers*. The International Section was

continued on page 28, column 1

Minutes
continued from page 27

asked to recommend three *Transactions* articles with an international flavor.

b. *Time line in the North America Actuarial Journal*. The International Section was asked to suggest events and trends that define the 50-year period.

c. *Section Monograph*. Sections were asked to choose and publish five or six classic articles from previous Section newsletters. It was decided that instead of five or six classic articles, the Section will do a special issue of the newsletter instead. Publishing a separate commemorative issue would cost about $6 each.

Bruce Moore will take care of items (a) and (b) above and Kevin, item (c). Recommendations for items (a) and (b) should be submitted to Bradley Smith by August 1, 1998.

NEWSLETTER UPDATE. Kevin requested that articles be submitted by August 15, 1998. The September newsletter is expected to be mailed by the end of September 1998.
Articles will be submitted by:

- Josh—Puebla meeting
- Lela—Ambassador Program Recommendations
- Bruce Moore—E&E Redesign
- Michelle—Caribbean Actuarial Association Meeting; "Chairperson's Corner"
- Angelica—Actuarial Society of the Philippines seminar
- Mike—International Annual Meeting sessions, including sessions co-sponsored with other Sections.

PRODUCT DEVELOPMENT CD. Josh will be mailing the CDs to the Ambassadors. Enclosed is a brief description of the CDs along with a request for feedback from the Ambassadors.

WEB SITE. Per Lois, the International Section Council members are already listed in the web site.

RESEARCH PROJECTS. No requests have been made.

There is some interest in sponsoring (or jointly sponsoring) seminars using the Asia seminar model set up by Shirley Shao for the Financial Reporting Section. Chelle will write an article for the newsletter on the seminar. Currently Chelle and the Continuing Education Committee are in the process of developing guidelines for sponsoring International seminars.

Rick Bergstrom, M&R, and Hank George, Editor-in-Chief of *On the Risk*, are currently putting together a seminar for the Philippines or Singapore and they are looking for potential sponsors. Lois mentioned that the Section can reserve money for future seminars so we can consider this in next year's budget. Also, the idea of an IAA- sponsored seminar in Asia was promoted at this year's meeting in Birmingham.

We may also piggyback on seminars that already exist and add an international flavor. Lois will ask Barbara Choyke for ideas and will send an e-mail message to Michelle with a copy to Bob.

NEXT MEETINGS. The next conference call will be held on Wednesday, September 16 at 4:00 p.m. Eastern Standard Time. A reminder will be sent out Sept. 1, 1998. The Section Council will also meet at the Annual Meeting in New York on Sunday, October 18.

Respectfully Submitted,
Angelica Michail, FSA
Secretary/Treasurer

SOA Ambassador List

As of September 10, 1998

Shahid Siddiqui,ASA
American Life Ins. Company
P.O. Box 5984
Sharjah, UNITED ARAB EMIRATES
phone: 971-659-7315 Ext: 206
fax: 971-659-8910
e-mail: alicoact@emirates.net.ae

Rodney Mark Benjamin, ASA
Bacon & Woodrow
Albert House, S. Esplanade
Guernsey
St. Peter Port CHANNEL ISLES
phone: 148–172–8432
fax: 148–172–4082
e-mail: bandw@bwgsy.com

Luis G. Caro, ASA
Carrera 7a #33–42
Piso 11
Santa Fe de Bogota, COLOMBIA
phone: 571–338–1789
fax: 571–287–6820
e-mail: lgcfinac@impsat.net.co

Stephen H. Conwill, FSA
Milliman & Robertson Japan
40–9 Oyama-Cho, #102
Shibuya-ku
Tokyo Japan 151
phone: 35–211–7031
fax: 35–211–7033
e-mail: 74673,3610@compuserve.com

Robyn Day, FSA
Buck Consultants Ltd.
The Chamber of Commerce Building
Westmoorings P.O. Box 498
Port of Spain TRINIDAD
phone: 868–637–7084
fax: 868–633–7968
e-mail: buck@trinidad.net

Alan Dubin, FSA
Zion Insurance Company Ltd.
41–45 Rothschild Boulevard
Tel-Aviv 65784 ISRAEL
phone: 03—564–6848
fax: 03–516–4934

Peter Chien H. Foo, FSA
LOMMA Consultant
18 Ewe Boon Road #02-04
Singapore 257326 SINGAPORE
Telefax: 65–242–3125

Janet C. Fuller, FSA
Llwyn-Onn 4 Heol Ty Mawr
Pendoylan Cowbridge
UNITED KINGDOM CF71 7UQ

Richard J. Geisler, FSA
National Mutual Life
80 The Terrace – PO Box 1692
Wellington NEW ZEALAND
phone: 4-474-4731
fax: 4-473-7673
e-mail: rgeisler@nm.com

Verna P.Griffith, ASA
Life of Barbados Limited
Life of Barbados Building
Wildey, St. Michael
BARBADOS West Indies
e-mail: vholder@caribsurf.com
phone: 246-426-1060
fax: 246-436-8835

Jonathan S. Herron, ASA
INT
20 Nizhnyaya
Radishchevskaya
Moscow RUSSIA 109004
Mailings:
666 Fifth Ave. #572 – Box 612
New York, NY 10103
phone: 95–932–3810
fax: 95–932–3810
e-mail: herronis@mail.sitek.ru

Jeffrey P. Newnam, FSA
PT AJ Principal Egalita IO
Jalan Tanah Abang 11– No.15
Jakarta INDONESIA 10160
phone: 221–350–6666
fax: 221–344–0216

Allan J. Wendt, FSA
Deloitte Touche Tohmatsu
505 Bourke St. Box 78B
Melbourne, Vic 3000 AUSTRALIA
phone: 39–208–7173
fax: 39–208–7708
e-mail: allan_j_wendt@deloitte.com.au
Mabini L. Juan, FSA
Actuarial Advisors Inc
6/F Filipino Merchants Bl
135 Dela Rosa Legaspi Vlg
Makati City PHILIPPINES
phone: 632–894–3827
fax: 632–812–8512

continued on page 30, columnn 1

SOA Ambassador List
continued from page 29

Hassan B. Kamil, FSA
Aetna Universal Insurance Co.
84 Jalan Raja Chulan
P.O. Box 10846
Kuala Lumpur 50927 MALAYSIA
phone: 603–261–7255
fax: 603–925–8058
e-mail: hassank@tm.net.my

Peter C. Lamprecht, ASA
Southern Africa Actuarial Consultants
Box 836
Houghton, 2041 SOUTH AFRICA
phone: 11–480–8666
fax: 11–480–8699
e-mail: peter.lamprecht@saac.co.za

Won How Lo
China Life Ins Co Ltd.
12F 122 Tung Hwa North Rd.
Taipei TAIWAN
phone: 2–718–5062
fax: 2–718–7449

Charles E. Moes, Jr., FSA
Mailing Address:
MetLife
1 Madison Ave., Area 10G
New York, NY 10010–3690
Business Address:
Metropolitan Life Seguros de Vida
Avenida Madero 942 Piso #11
Buenos Aires, ARGENTINA 1106
phone: 541–318–1828
fax: 541–318–1853
e-mail: dge014@metlife.com.ar

Cyrus Neyssari, ASA
50 rue Mademoiselle
75015 Paris FRANCE

Ronald L. Poon-Affat, ASA
General&Cologne Re Brazil Ltda
das Nacoes Unidas 11.541
14 andar-C 141
Sao Paulo BRAZIL 04578000
phone: 115–506–3088
fax: 115–506–3630
e-mail: raffat@colognere.com

Janet M. Sharp, FSA
Island Life Ins. Co. Ltd.
6 St. Lucia Avenue
Kingston JAMAICA 5
phone: 809–968–6874
fax: 809–926–2679

Arthur (Guang-tong) Ren, ASA
Ping An Insurance Co. of China
4/F Ping An Building
No. 3 Bagua Road Bagua Ling
Shenzhen REPUBLIC OF CHINA 518029
phone: 755–226–2888
fax: 755–243–1059

Ralph Vásquez
Metropolitan Life Ins. Co.
Paseo Doce Estrellas, 4
Campo de las Naciones
Madrid SPAIN 28042
phone: 341–721–1127
fax: 341–721–0704

Henryk S. Walerys, ASA
Alte Leipziger Hestia SA
AL Niepodleglosci 741B
81–840 Sopot POLAND
phone: 58–550–7008
e-mail: WalerysHS@hestia.pl

International Sessions at the Annual Meeting

by Michael Gabon

October 18–21, 1998
New York, New York

Following is a list of sessions at the SOA Annual Meeting in which the International Section has been involved. We hope that you, as Section members, support these sessions with your attendance and that you find the material covered to be valuable.

Monday, October 19

10:30 A.M.–12:00 NOON

4PD INTERNATIONAL VALUATION SYSTEMS
As the NAIC Life and Health Task Force crafts the valuation law of the next century, it is considering the results of the American Academy of Actuaries' research of valuation systems and the role of the actuary of 14 other countries covering close to 70% of the world insurance market. In this session, find out how you may be affected.

7PD OFFSHORE LIFE INSURANCE MARKETS
This session provides an update on, and comparison of, the jurisdictions currently utilized for offshore insurance products along with the key considerations for successfully operating in this market.

2:00–3:30 P.M.

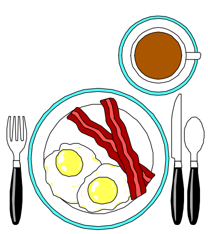
26PD LESSONS FROM ASIA
The financial turmoil continues in Asia and this session presents the impact of the recent volatility on the insurance market, the challenges facing Asian insurers, how regulators and actuaries are dealing with these challenges, and what the insurance industry in North America can learn from the Asian marketplace.

32IF INTERNATIONAL ACCOUNTING FOR INSURANCE
This session presents the viewpoints of an international (non-U.S.) company, a consultant with significant U.S. GAAP conversion experience, and developments in international accounting.

Tuesday, October 20

7:30–10:00 A.M.

47SM INTERNATIONAL SECTION HOT BREAKFAST
Join us for breakfast with an international flair including a roundtable discussion of current international issues, briefings from national Ambassadors on local issues, an update on recent developments of the IFAA, and a report and discussion of issues facing the International Section

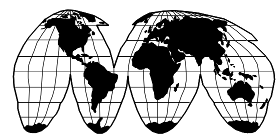


8:30–10:00 A.M.

56PD BANCASSURANCE: A GLOBAL PERSPECTIVE ON CUSTOMERS, PRODUCTS, AND DISTRIBUTION METHODS
This session presents a comprehensive look at bancassurance in the United States, Europe, and Latin America from both insurer and banker perspectives and covers target customer segments, products offered, and distribution structures.

2:30–4:00 P.M.

90FT STAND UNITED AT THE UNITED NATIONS
Join us for a tour covering four of the most important areas of the UN: the General Assembly, Security Council, Economic and Social Council, and the Trusteeship Council.



Wednesday, October 21

8:00–9:30 A.M.

118CS WORLD-CLASS BENCHMARKING AND THE BALANCED SCORECARD
This session focuses on the Balanced Business Scorecard (BBS) methodology as it may be applied to an insurance company. The BBS is a communication tool used by progressive organizations to help overcome the barriers to strategic change. In doing so, it takes the vision of the few and communicates it throughout the entire organization, building consensus and teamwork, aligns actions with the strategy of the organization, and links strategy to planning and budgeting and compensation, thereby defining and driving the culture of the organization.

Please join us at the Annual Meeting in New York!

Michael Gabon, FSA, is Manager at KPMG Peat Marwick LLP in New York, New York and International Section SOA Annual Meeting Representative.