



SOCIETY OF ACTUARIES

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Chairperson's Corner

by Bruce D. Moore

The International Section has been very active over the past year in a number of areas. The regular ongoing activities common to all Sections continued at an impressive pace. In addition, a number of special activities unique to this Section were continued or initiated. As members of the Section, you can all make valuable contributions to these services to your fellow members, and I urge you to do so. The ongoing recurrent activities of the International Section include the following:

1. The Section newsletter, under Kevin Law's prolific leadership, was published three times in 1998, full of interesting articles in each. This is one of the most valuable

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Jamaica's Life Insurance and Financial Sector Crisis

by Janet Sharp

It is the last quarter of 1998 at the time of writing, and the story is far from over. The Jamaican financial and business sectors are reeling from a combination of high inflation, tight monetary policy, and poor risk management practices. The economy is in poor shape. Even though inflation has been tamed over the last three years, and the currency has been somewhat stable, growth has been minimal and businesses are closing every day, unable to meet their debt obligations.

In January 1997, in response to a call from the leaders of the life insurance industry, the government established the Financial Sector Adjustment Company (Finsac) to assist in the rehabilitation of the ailing financial sector. To date, Finsac has provided bailout packages to life insurance companies and commercial banks to the tune of J\$73 billion (US\$2 billion) with estimates that the final figure may be closer to J\$100 billion (US\$3 billion). The long-term impact of this is alarming when the cost is looked at in relation to Jamaica's Gross Domestic Product (GDP). At an estimated 66% of GDP, this compares unfavorably with the cost of bailouts in other parts of the world, the closest being that for Indonesia at 20% of Gross National Product (GNP).

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which the general and life insurance companies are governed.

The Life Insurance Sector Now

None of the Finsac-supported companies continues to have an interest in commercial banking, although many are still dogged by real estate. Options of demutualization and merger have been discussed with four of the companies, but no definite decisions have been made. One of the Finsac-supported companies has reported profits.



In the meantime, at least one new life insurance company, owned by one of the larger banks, has opened its doors. With its captive client base and well-capitalized parent, the new company may pose a considerable competitive challenge.

The new face of the life insurance industry is still emerging. One thing is sure, it will never look the same again.

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contributions of the Section to its members. I urge all of you to contribute articles, or to recruit authors, when you become aware of something that you believe would be of interest to the Section membership.

2. The Section has sponsored or co-sponsored over a dozen programs at Society meetings. Under Mike Gabon's and Bob Lyle's leadership, the Section sponsored and recruited for several concurrent sessions, with active participation by section members as speakers. In addition, at the Annual Meeting in New York we hosted a reception and an International Section breakfast.
3. The Section web page is maintained, providing easy access to International Section newsletters. We are investigating the possibility of adding hotlinks to websites that would be of interest to other internationally active actuaries.
4. The SOA Ambassador Program continues to operate under the direction of the International Section Council. Josh Bank has provided great leadership there, with strong support from the Society staff. The Section Council continues to recruit new and replacement Ambassadors, and to provide direction and support for their activities. The Society staff plays a strong role in this as well.

In addition to these recurring activities, a number of special activities have been undertaken by the council in the past year or are planned for the following year. A summary of these follows:

1. The Product Development CD-ROM was distributed to SOA Ambassadors, a project jointly sponsored with the Product

Development Section. The intended use is to help spread knowledge about U.S. approaches to product development and the actuary's role in the process.

2. We have co-sponsored with the Financial Reporting Section seminars outside the United States on financial reporting topics. The first of these was in Asia, and subsequent sessions have taken place in Latin America and the Caribbean. Future sessions are planned for Eastern Europe. Section members have played an active role in these, in addition to the financial support provided.
3. This year the Section will investigate whether to sponsor a special seminar to serve its members in the United States. One potential topic would be financial management of multi-national life insurance operations. We would appreciate your feedback on what type of topics you believe should be covered in such a seminar. Angelica Michail is coordinating this, and you can send your suggestions to her.
4. In October, the Society of Actuaries reorganized and strengthened its committee structure dealing with international issues. The International Section will work to accommodate that new organization and to make sure we work together smoothly.
5. We are investigating ways to more widely distribute the Section newsletter. Section Council member Ronald Poon-Affat is looking into the financial viability of having it translated into Portuguese and distributed to the Brazilian actuarial community. Once that is done, we will explore other markets.

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Reinsurance in Brazil

by Ronald L. Poon-Affat

A common question that I am asked is why does the General and Cologne Re have an office in a country that has a closed reinsurance market? The answer is that we are anticipating the opening of what could be one of the last great opportunities in the highly competitive world of reinsurance. In addition to which, we have always liked Brazil and have maintained close contact with this market over the years.

Cologne Re signed its first Brazilian contract in 1880 and in the 1950s General Re, Citibank and Chubb got together and bought Argos Seguradora, one of the oldest companies in Brazil. General Re invested in Argos in anticipation of the opening of the reinsurance market. However, it subsequently sold its shares to its partners after accepting the fact that this opening was not about to happen. Therefore 1997 for us was our return to Brazil.

In the 1880s we were probably one of the very few to have Brazilian reinsurance treaties, but now there is lots of competition. Other reinsurers that have offices here include Gerling Re, Hannover Re, Mafre Re, Munich Re, Scor Re, Swiss Re, and Trans-atlantic Re.

The Brazilian insurance market stands at around \$US 17 billion, which is just about the size of the rest of Latin American put together. This is in spite of being a monopolistic state reinsurance company (IRB Brazil Re) being in existence for 59 years and legislation which explicitly prohibits the transaction of reinsurance with any other reinsurance company. Just for the record, only a handful of countries still have such tight controls on reinsurance—India, North Korea, Cuba and Costa Rica.

The present reinsurance premium being transacted by the state reinsurance company (IRB Brazil Ltd) is just over US\$ 1 billion but there is an active co-insurance market that accounts for an additional US\$ 1.5 billion. The fact that there was little alternative other

than the state reinsurer gave rise to a spirit of cooperation between direct writers, the likes of which I have never seen. Brazilian companies made the pragmatic decision to share both market information and premium with their competitors to limit their exposure to large individual risks.

So the present market is US\$ 2.5 billion. Is this market big enough to satisfy the appetites of all of these reinsurers who have had the foresight to establish their offices in Brazil before the opening of the market? The answer is "No." But according to a 1997 Sigma report, the insurance density (annual premium per capita) of Brazil, the 10th largest economy in the world, is US\$ 90; whereas the insurance density of Italy, the seventh largest economy in the world is US\$ 674. This simple statistic suggests that the potential is tremendous. Simply put, anyone who is serious about being a player in international reinsurance must have a presence in Brazil.

So when is the market going to open? The latest word is that it will be in June 1999. Only a few months ago, it was supposed to be March 1999. There was a bit of a scare when the second leading presidential candidate included a promise within his manifesto to desist with the privatization of the IRB Brazil Ltd. However, he was unsuccessful and President Fernando Henrique Cardoso easily won a second term during the October 1998 elections. Cardoso is committed to continue his drive to privatize the IRB Brazil Re and open the reinsurance market.

The actual date that the market will open is a moving target, but things are happening. An October 1998 IMF report regarding Brazil explicitly mentioned the forthcoming privatization of the IRB Brazil Re (always a very good sign). Earlier this year, the government formally appointed a team of local consultants to undertake a study of the privatization process (the local offices of Ernst & Yong & N.M. Rothschilds)

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6. The Education and Examination restructuring will present a number of special issues to actuarial students outside North America. We are working with the Continuing Education Coordinating Committee to assure that adequate opportunities exist for foreign students to meet these new requirements.
7. In October 1999, the 50th Anniversary meeting of the Society of Actuaries will take place. The International Section will join with all the other Sections to make this event really special.
8. We worked with the Education and Research Section to establish a teacher bank of teaching resources for actuarial programs in other countries.
9. In 2002, the next International Actuarial Association meeting will take place in Cancun. The Mexican actuarial body (CONAC) is managing that, but other North American organizations will help promote that meeting and make sure it is a success. The International Section will be involved in that activity, which has already begun.

These activities are all intended to better serve our members, both by serving their current needs, and also by helping promote the recognition of the profession and of the Society, worldwide. We will appreciate any feedback you wish to offer. Where are we succeeding? Where should we do more? And where would you like to help out? Please feel free to contact me or any of the other Section Council members with your thoughts.

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