



Chairperson's Corner Happy New Year

by Angelica Michail

On behalf of the International Section Council, I wish you a Happy New Year as the year 2000 begins. I hope this year will be a happy one in all aspects of your life, including that aspect which we will try to enhance — your professional life as a practicing international actuary.

For this reason, our Happy New Year greeting this year includes a commitment to the NEW. Since the Council's year of service starts with the October 1999 annual meeting to the day before the next annual meeting, I will describe some of the NEW activities that have been implemented since October and those still in the planning stages.

On October 20-21, 1999, we sponsored our first seminar "Financial Reporting for International Actuaries." It

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SOA Board Approves Changes to Global Initiatives Policy

by Mo Chambers

At its meeting in October, the SOA approved changes to the Global Initiatives Policy that were intended to define better the relationships that SOA has with other actuarial organizations around the world. The policy addresses the SOA global role in education, qualification, continuing professional development, code of conduct, discipline, research, and public service.

Education and Qualification

The SOA encourages and supports national organizations that choose to use its education qualification system. The Canadian Institute of Actuaries (CIA) has been developing its own professional development component of the new education system to provide the Canada-specific training that the CIA believes is necessary and appropriate. A parallel approach would be available to other national organizations. Under this approach, SOA exams provide the general qualification and, where desired, the local organization can develop SOA-conforming programs that, at the same time, meet its own local training needs.

Continuing Professional Development

While the SOA has not imposed a minimum level of continuing professional development, it has emphasized to its members that they have a professional responsibility to

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Editor's Note

by Randy Makin

When Kevin Law first asked me to succeed him as *International Section News* editor, I had visions of a few pages of articles and late night calls pleading with people for enough to fill an issue.

Then I attended the International Section Council meeting in San Francisco. Everyone was more than eager to help, both in suggesting topics and writers as well as writing articles themselves. You can see the result for yourselves. This issue shows how wide global issues are and how rapidly they are changing and contains much to be care-

fully thought over.

Jim Toole has given us an update on the Ambassador Program, which has grown so much that we are beginning to spread out the responsibilities by world region. Arthur Guang-Tong Ren has an update on China, which barely missed our October 1999 issue. We also have reports from Nauman Cheema and Bill Klunk, our Ambassadors to Pakistan and Tanzania, respectively. We also have numerous reports which Ambassadors gave at our standing-room only International Section Breakfast in San Francisco.



Angelica Michail gives us her overview from the Chairperson's Corner, as well as reflections on the Financial Reporting Issues seminar, which was presented in conjunction with the annual meeting. We also have notes from Rob Brown on the Pan-American Congress of Actuaries, from Linden Cole on the IAA

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Colloquium in Tokyo, Jeong Han on the EAAC and Pat Kum on the China Region Committee meeting. In addition, Mo Chambers has written up Global Initiatives Policy changes as set out by the SOA board. To round out this issue, there is the second installment of a reprint from LOMA's Resource magazine on life in China and a thorough overview of recent European developments from *Best's Review* with the kind permission of A.M. Best. Many thanks to all of the writers for these excellent articles!

To our readers, we add, "Please tell us what's happening in your part of the globe." You have much to share with other members of the Section, and, of course, your editor is always eager for more. His New Years' resolutions do not necessarily include the newsletter going on a diet.

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Chairperson's Corner

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was a joint effort with the Financial Reporting Section and we appreciate very much their generosity in giving us the benefit of their experience and expertise. The response in attendance and evaluation indicated that this was a worthwhile endeavor.

We have a new edition of the *International Section News* — the Portuguese edition. Why Portuguese? Because one of the Council members, the energetic and enthusiastic Ronald Poon-Affat brought the idea to the Council last year and he was willing to make the commitment in time and effort to make it happen. The project was encouraged and supported by the Council. This year, we will review the process and results and determine how we can apply the experience and knowledge we gain to publish other translated editions.

We have a new set-up for overseeing the Ambassador program. We now have three Council members involved with the program and they are each assigned to a specific geographical region — Jim Toole (Latin America), Hans Wagner (Asia-Pacific), and Hubert Mueller (Europe). This means more support and more service to our members who work outside the United States and Canada. This also means that we can respond sooner and better to the issues our members in faraway places face. One important issue we need to address this year is how to help international actuarial students fulfill the requirements of the new SOA examination system.

The world continues to be increasingly global in perspective; yet there is a continuing need to be aware of and be sensitive to the local perspective in many countries. For this reason, our *International Section News* and SOA country Websites are valuable resources. We welcome Randy Makin as our new newsletter editor and August Chow our new assistant editor. We know they will continue our tradition of publishing excellent articles on international insurance knowledge, issues, and practices. As



for the country Web pages, we plan to include new country Websites this year, through the efforts of everyone involved with the Ambassador Program.

The SOA meeting programs have always been an essential venue for bringing you what's new and what's hot in the international insurance scene. With the enthusiastic and energetic efforts of Mike Gabon, and Josh Banks we look forward to another year of exciting programs.

The Council has many more plans for NEW activities, but we are also committed to supporting the current ones that truly serve our members. We look forward to an exciting year. We look forward to a HAPPY NEW YEAR.

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SOA Board Approves Changes to Global Initiatives

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continue life-long learning and to maintain currency of professional knowledge. In support of that encouragement, the SOA provides the world's broadest spectrum of actuarial continuing education. However, it is the exclusive prerogative of the national organization to determine whether or not it wishes to impose a minimum continuing professional development requirement on its members.

Code of Conduct

All members of the SOA, regardless of where they are performing actuarial services, are required to conform to the SOA code of conduct. Local national organizations can certainly adopt the same code if they so choose. The SOA should encourage such organizations to adopt a code of conduct that is not in conflict with the SOA code and meets the minimum code requirements of the International Actuarial Association (IAA).

Discipline

The Code of Conduct would be meaningless without a formal discipline process. While local national organizations might adopt a discipline process similar to the SOA's if they choose, it is unlikely that the process they adopt would follow that pattern precisely. This is because the bulk of SOA membership is resident in the United States, and because of the multiplicity of U.S. actuarial organizations, the investigative stage of the SOA discipline process has been delegated to the Actuarial Board for Counseling and Discipline (ABCD) and to the CIA in Canada. There is some possibility that a local national organization might seek to utilize the SOA discipline process but such undertaking would require the agreement of the ABCD. Because, only the local organization can impose penalties upon its members, a local national organization should be encouraged and aided by the SOA to develop its own discipline process that does not conflict with the SOA and meets the minimum requirements of the IAA.

The SOA recognizes the difficulty that a small national organization can face in operating an effective discipline process and will support local efforts. At the same time, the cooperative use of the SOA discipline process by a small national organization might facilitate such an organization in meeting the requirements for full membership in the



IAA and, therefore, should be implemented where possible.

Research and Public Service

The SOA mission statement clearly places the interest of the public ahead of the interest of its members. The SOA should encourage emerging actuarial associations to develop research and expert advice and apply them to societal problems to the extent possible. Again, cooperative efforts between the SOA and national actuarial organizations are encouraged.

Range of Contact

Key Associations

The SOA is interested in pursuing and maintaining discussion and written agreements to formalize liaison between the SOA and key, established national actuarial organizations. Such liaison extends to mutual recognition of qualification.

Developing Countries

Past experience has shown that any set

procedures will need to be modified to enable the SOA to provide assistance that is consistent with the requests made from developing actuarial organizations. Often a local champion who is an SOA member is needed to forge new relationships and maintain contact with the SOA leadership.

SOA assistance in each case needs to be evaluated and customized. For example, relationships with an IAA Observer association such as the Caribbean Actuarial Association will differ substantially from a relationship with an organization that is just developing in a country such as China.

Policy

The above discussion led to the approval of the following Global Initiatives Policy for the SOA.

- The SOA is interested in pursuing and maintaining discussions and written agreements to formalize liaison between the SOA and key national actuarial organizations, including the Canadian Institute of Actuaries and the American Academy of Actuaries.
- Knowledge of and participation in the international actuarial arena enhances the future of the profession and acknowledges the expanding global environment affecting the work of many members. The International Policy Committee, Committee on International Issues, IAA Committee, China Region Committee and SE Asia Committee, with support from the International Section, have been assigned by the Board to meet the following objectives for the Society's activities worldwide.

Internal Objectives

- To enhance and encourage the education and training of all Society members on international subjects

and facilitate the worldwide communications of ideas.

- To enhance, facilitate and communicate actuarial research worldwide and to make research conducted by members of actuarial associations worldwide available to Society members.
- To address the international needs of Society members.
- To enhance recognition of the Society globally and create additional opportunities for actuaries.

☞ By entering into agreements concerning the SOA Code of Conduct and providing support for Discipline Procedures

☞ By providing mutual recognition as deemed appropriate, when such involvement is requested

- To allocate resources to the worldwide actuarial profession, encouraging the promulgation of respected codes of conduct, standards of practice and discipline for the profession.

- The SOA Delegate to the IAA is recommended by the International Policy Committee and confirmed by the President. The term is three years. The Alternate Delegate is a presidential officer for a one-year term. SOA IAA Committee representatives will be appointed by the President per the recommendations of the International Policy Committee. The Society's Manager of International Affairs serves as IAA Correspondent. The incumbent Director of International Affairs serves as IAA Liaison.

“...To expand relations with actuaries in all countries, with particular emphasis in Latin America, Asia, and the Caribbean....to allocate resources to the worldwide actuarial profession.”

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External Objectives

- To expand relations with actuaries in all countries, with particular emphasis in Latin America, Asia and the Caribbean.
- To encourage the worldwide development of the actuarial profession with appropriate consideration of local conditions and practices

☞ By supporting national organizations who choose to use the SOA education and qualification system

☞ By providing assistance to students

☞ By providing local Fellowship exam support

☞ By providing opportunities for continuing professional development either locally or through on-line means

☞ By providing organizational assistance to developing actuarial associations

The International Section identifies ambassadors from overseas worldwide to help carry out the above initiatives. Ambassadors must be SOA members and should be located in the country or region they are representing. The term is one year, renewable.

International Actuarial Association (IAA)

- SOA policy in respect of relationships that have been long established or are newly developing should serve to support, advance, and promote the development of the actuarial profession in concert with the IAA.

- The SOA is a full member of the International Actuarial Association (IAA) and a contributing member to all its sections.

- The Society may provide funding to the International Promotion and Education Fund, China Region Development Fund and the SE Asia Development Fund.

Financial Reporting Issues for International Actuaries

A Report on the San Francisco Seminar

by Angelica Michail

*"If we apply knowledge to tasks we already know how to do, we call it productivity. If we apply knowledge to tasks that are new and different, we call it innovation. Only **knowledge** allows us to achieve those two goals."*

Peter Drucker, *Post Capitalist Society*

Knowledge on a wide variety of financial reporting issues for international actuaries was the order of the day for the attendees of the first seminar attempted by the International Section. The seminar, held October 20-21, 1999, in San Francisco, was jointly sponsored by the Financial Reporting Section, whose experience and resources proved invaluable on this project.

The seminar started with lunch right after the 50th Anniversary Annual meeting and continued to 12:00 noon the following day. The 44 attendees (including 10 speakers), had a virtual tour around the world of international financial reporting theory and practice — from Latin America to Asia to Europe. It was a whirlwind tour and the time was clearly insufficient to acquire the depth of knowledge needed to practice in all the countries discussed. There were, however, excellent overviews as well as some very detailed and specific information shared by the speakers. In addition, attendees were able to explore their specific concerns during the break-out sessions. With 33 evaluation forms submitted, and an average over-all rating of 1.7 (where 1 is excellent, 5 is poor), we believe we accomplished the goal for the seminar which was to enhance the attendees' understanding of the financial reporting issues in the global market.

Seminar Topics and Speakers

For those who missed the seminar, below is a list of the speakers and the topics covered.

Session I: Overview: International Financial Reporting

Bruce Moore - Financial Management of Multinational Life Insurers (Home Country Perspectives)

John Zellner - Mexico

Steve Mahan - Asia-Pacific (Hong Kong, Japan)

Ed Robbins - Chile

Jim Toole - Argentina

Dan Kunesh - Europe (EU, UK, Germany, Netherlands, Spain, Italy)

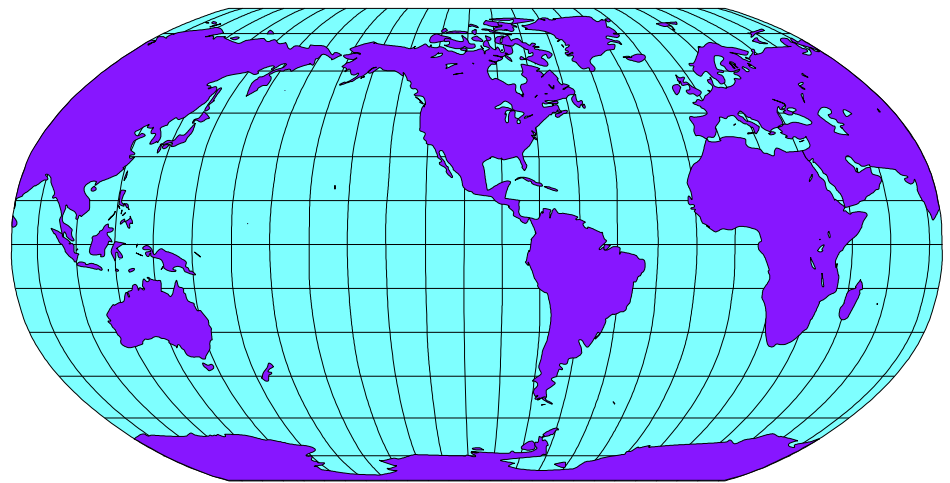
This segment included a general view of various countries' regulatory structure

and Financial Reporting Standards
Alma Tanjuakio (speaking on behalf of Mike Terne) - Multinational Company's Perspective on the International Financial Reporting Standards
Marty Huey and Angelica Michail - Reinsurance

This segment included a discussion of the International Accounting Standard Committee (IASC) structure, timeline, and the key issues and principles in developing the standards. Also discussed were the complications that occur when reinsurance crosses borders and a sampling of the reinsurance practices in some countries.

Session III: Break-out Sessions

Facilitators - Jim Toole (Latin America),



and practices and specific information on taxation, investments, capital and solvency requirements, and business practices.

Session II: International Solvency and Financial Reporting Standards, Reinsurance

Bruce Moore- International Solvency

Laura Hay (Europe),
Steve Mahan (Asia-Pacific)

Each group was engrossed in lively and informative discussions on the issues and concerns that attendees encounter in their work. A spokesperson from each group gave a summary report at the end of this session.

Session IV: U.S. GAAP for International Insurers and Reinsurers

Laura Hay, Ed Robbins, Steve Mahan

There was good reason to stay till the end and get a good picture of U.S. GAAP as applied internationally with a comprehensive "stepping stones" format, from detailed planning all the way to documenting findings and conclusions. The tour ended with European, Latin America and Asia-Pacific perspectives and practices.

Participant's Comments

Participant's evaluation form comments ranged from compliments to constructive criticisms. All comments are valuable because they affirm the value of the seminar and show the way for better seminars in the future. Below are some of those comments. I edited some of them to include those related to the agenda, speakers, and materials and to omit redundancies.

"Focus on specific countries was very good. I would appreciate more material on the particular laws of different countries as it may be difficult to research from scratch."

"Need more in-depth discussions and presentation."

"I had expected more focus on financial reporting, but very good meeting overall."

"I especially liked the GAAP session. Most of the presentations are informative and educational. The intention to cover more topics and materials was good, but was a little bit much for a short time period. The breakout session was a good idea. I definitely think that we should do more of this in the future."

"I think you underestimated the popularity that this session would have enjoyed if it was not tied to the annual meeting. The speakers all had a depth of information to share for

which the allotted time was not adequate so everything was rushed. Too bad, for they were all very good and informative. It definitely provided a meaningful service to International Section members. Thank you."

"In general, good seminar. Lots of material, nevertheless, good start."

"This has been a very useful seminar which has given me an understanding of issues."

For future seminar topics, the following were suggested: products, pricing assumptions, nonforfeiture requirements, asset liability management and cash flow testing techniques, currency risks, and risks in international operations. Some attendees have also suggested that speakers should include more anecdotal stories, real life examples and numerical illustrations.

Successful Seminar

We judge our success from the attendee evaluations we received, but we owe that success to the efforts of many who participated in front and behind the scenes.

Bruce Moore and Shirley Shao, past chairpersons of the International and Financial Reporting Sections, respectively, obtained the agreement and support of their councils to share the cost and work involved in planning, recruiting and making arrangements for the seminar. Ed Robbins from the Financial Reporting Section and I shared coordinating responsibilities. I knew we were off to a good start with the first phone conversation I had with Ed. He shared a lot of ideas and suggestions to enhance the success of the seminar.

We would not have had a seminar without expert speakers. We recruited speakers who we realize are busy international actuaries and yet they took time from their very busy schedules to prepare and deliver their presentations. They were very generous and enthusiastic in sharing their knowledge and

experience and they knew how to keep the attention of the audience.

We also appreciate the work done by the Society of Actuaries staff. Barb Choyke and the Continuing Education staff were already very busy preparing for the 50th anniversary and yet they made the necessary preparations for a seminar that followed right on the heels of the annual meeting.

Future Seminars

There are many reasons why we should be looking at seminars as a regular venue for helping our members develop professionally — the new examination structure, expansion of international insurance operations and markets, emphasis on international insurance regulations, to name a few. The success of our first seminar gives us the confidence and the inspiration to move ahead in this direction. Through the seminars, we hope to serve our members better. Through the seminars, we hope to help our members gain the knowledge that will make them more productive and innovative international actuaries.

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Ambassador Program Update

by Jim Toole

The Ambassador Program serves as an important link between the Society and its membership abroad. In 1999, the Ambassadors' energies were focused on assisting the SOA membership by providing insight into other markets in the form of the Country Web Pages. With the help of International Section Council member Richard Geisler and SOA staff members Debbie Jay and Jeanette Selin, the pages quickly progressed from idea to reality with 12 beautifully crafted submissions from around the globe. If you haven't seen them yet, please link to www.soa.org/links/amb.htm.

We have aggressively recruited Ambassadors in 1999, increasing our ranks from 24 to 30 as of year-end. Our goal for 2000 is to close the year with 35 or more Ambassadors, providing service to key countries where SOA membership is 10 or more or where there is a strong local actuarial presence.

This growth has proven to be too much for one volunteer to adequately support. Incoming Council members Hans Wagner and Hubert Mueller are sharing responsibilities with me to facilitate and encourage Ambassador activities. Hans, Hubert and I will be assisting Ambassadors and leading recruiting efforts in Asia-Pacific, Europe and the Americas, respectively.

Highlights on Ambassador activity for 1999 included:

- Our Ambassador in Egypt, Mohammed F. Amer, was instrumental in the establishment of the Egyptian Society of Actuaries in July 1999
- Bill Klunk being appointed as our Ambassador in Tanzania and, with limited resources, has been very active in furthering the profession in that area
- Ronald Poon-Affat, our Ambassador in Brazil, has been behind the efforts to produce this newsletter in Portuguese
- While we regret to report the retirement of one of our more active Ambassadors, Dominic Lee, we look forward to working with his replacement, Danny Chung
- New Ambassadors were appointed this year to represent India, Luxembourg, and Pakistan, areas that previously had no ambassador representation
- Last, but certainly not least, we'd like to thank all the Ambassadors who provided us with work reports throughout the year published in this newsletter.

Our main focus for 2000 will be to assist with the transition to the new exam system. To that end, we have identified two distinct student constituencies: expatriates studying overseas, and local

helping to locate PD advisors for projects and identifying programs with appropriate content for PD credits. Ambassador back office support for these and other efforts will be provided in terms of canned presentations on various topics; specific contact persons within the SOA exam center to handle questions concerning international students; and the support of the regional coordinators.

Being an Ambassador can be very rewarding. If you are interested in becoming an Ambassador, or have an idea that you would like to contribute, please contact one of the coordinators for more information.

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nationals sitting for SOA exams. Our Ambassadors will be assisting these students by presenting the new system to local universities and actuarial forums,

State of Insurance Industry in Pakistan

by Nauman Cheema

Editor's Note: Below are summary points on the development of the profession in the country over the last 25-30 years. The author wanted to emphasize that this is a synopsis regarding the overall development.

1. The actuarial profession in the country was achieving reasonable growth in '60s and early '70s. This was mainly due to the fact that more than 30 insurance companies were writing life business at that time.
2. The profession received a setback when the life insurance industry was nationalized in 1972. Most actuaries either left the country or went into other professions. Only a handful remained in the profession (employed either by the State insurer or by a couple of consulting firms).
3. New induction into the profession also come to a virtual halt due to stagnant absorption capacity of actuarial personnel in the market.
4. However, induction of new people restarted in the profession in the early 1990s, on account of the following reasons :
 - An actuarial program by the State insurer to develop more personnel in the profession (the State insurer finally realizing the necessity of actuarial personnel)
 - Additional requirements by consulting firms due to increased employee benefit and insurance-related work
 - Re-opening of life insurance to private sector
5. Almost all new inductees preferred to take SOA exams. Currently, there are approximately 30 students writing these exams. The largest employer of the new inductees is the State insurer.
6. The exam pass rate of new personnel has been quite reasonable, considering the lack of formal education support.
7. Some recent events are pointing to a significant increasing demand for actuarial people. Examples are :
 - Increasing number of private insurers
 - Increasing prevalence of employee benefits
 - Increasing market for health insurance (with some actuaries advising general insurers as well)
 - Significantly enhanced role of actuaries in the proposed new Insurance Act (Pakistan currently has an outdated Insurance Act dating from 1938 which is expected to be replaced by a new Act in the next 2-3 months)
 - Increasing role of actuaries in supervision of insurance industry
8. Some issues facing the profession and its future growth are :
 - Potential problems in qualifying due to high SOA fees when translated into local currency
 - Public image of the profession (actuaries are generally perceived as numbers-oriented theoretical people having little to do with market realities)
 - Creation of an effective actuarial association. Although Pakistan has had a local actuarial Society for the last four years or so that became an associate member of IFAA some time ago, negligible progress has been made in addressing the problems of the members, initiating research in different areas, holding regular consultative meetings, designing and monitoring appropriate code of conduct, and promoting the profession among the new generation.



- The existing Insurance Act (of 1938) only recognizes FIAs and FFAs as automatic actuaries whereas FSAs have to obtain a certificate from the Controller of Insurance for signing purposes (this is expected to be changed with the new Act).

Therefore, there is certainly a growing future demand for actuarial people in the country. However, at the same time, there are a number of issues that need to be resolved for positive, effective, and respectable growth of the profession.

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Activities Update in Tanzania

by Bill Klunk

Work Plan for 9/98 - 8/99

Learn Swahili, learn how to teach, learn how to survive in Tanzania, and (if there's time) promote the actuarial profession.

Report for 9/98 - 8/99

I brought promotional literature with me in case any of my students showed promise or desire regarding the profession and exams. Instead of one of my students doing this, one of my colleagues expressed a desire to become an actuary. So he sat for (I proctored) Course 100 last May.

In addition, he also arranged a meeting for me with the branch manager of the regional (Mwanza) office of the National Insurance Corporation (NIC). This proved useful as a means to write to the Commissioner of Insurance. I learned that an unannounced letter from someone calling himself the Ambassador to the SOA might not be well received.

Also, I received an invitation to attend the International Actuarial Association's (IAA) meeting in Ghana, held in September, 1999.

Lastly, I received Jim Toole's letter regarding the SOA Website.

Work Plan for 9/99 - 9/2000

- Attend IAA meeting in Ghana
- Collect data for SOA Web page for Tanzania, from:
 - Commissioner of Insurance
 - NSSF
 - Institute of Insurance
- Prepare a report on the (short) history of privatized insurance in Tanzania
- Solicit volunteers to speak at "Insurance Day" in Tanzania on behalf of the actuarial profession
- Offer training services to the Commissioner of Insurance, NSSF, and NIC
- Create/strengthen relationships between consulting actuaries and their clients

- Report to the NIC on the cost of educating actuaries

Activities thus far

- I attended the IAA's meeting in September as Tanzania's representative of the actuarial profession. It was the IAA's first meeting in Africa, and the theme was "Development and Promotion of the Actuarial Profession in Africa."

Each (African) country's representative was asked to speak about the state of the profession in their country. We spoke in order of age of each country's actuarial association, so we began with countries that have actuarial associations: South Africa, Nigeria, Ghana, Ivory Coast, Egypt; also speaking were Zimbabwe, Zambia, Malawi and Tanzania. Countries with associations spoke about difficulties with formation and continued existence. Most other countries focused on the formation of individual actuaries within their countries (sometimes just themselves). Zimbabwe wanted to know what other actuaries had done when faced with inflation above 60%, and there were those who had experience with that. I talked about the non-existence of the actuarial profession in Tanzania (all work is done by consulting firms to my knowledge) and about the difficulties of using SOA exams in Africa.

As one of the few representatives of the SOA in attendance, I found myself interrogated by a few aspiring students, mostly from Ghana. In general, they told me that a major problem for them is that they have great difficulty in securing texts for exams. Expense is an issue, but so is delivery. They pay extra for books to be sent to Africa. They wait for long periods of time, and sometimes the materials don't reach them.

My experience with testing students (university students and one SOA exam candidate here in Tanzania) focuses on the issue of time; I spoke about this in my speech. There's a saying: "No hurry in



Africa," and if you've spent any time here you know that it is founded in truth. By American standards, things move slowly here. This includes my students through their examinations. But, often, their thoroughness compensates. My point was that "thorough" is something that an actuary is expected to be, but the exams emphasize speed also. Perhaps this emphasis is changing with the new syllabus, but I wonder if it (emphasizing speed) will keep some otherwise qualified individuals from receiving credentials. Alternatively, will it lower the importance of thoroughness in some student's mind? I realize that the exams require a balance of the two (thoroughness and speed), but I wonder if that (American) balance is appropriate for African candidates. I'm not advocating any immediate changes in the examination process, but I want to relay my observations.

Also, at the meeting, I described the SOA's efforts regarding country specific Websites and invited interested actuaries to give me their names. (I don't know if the Website organizers want to use non-Ambassadors to create Websites or not, but I thought I would seize the opportunity.) Two actuaries responded (Kwasi Osei, FSA, MAAA from Ghana — VP of the Actuarial Society of Ghana; and Mike Mwemba from Zambia), and I forwarded their names to Debbie Jay at the SOA.

The meeting also included presentations by various actuaries and follow-up discussions about:

- The role of the actuary in Social Security - Giovanna Ferrara/
Chris Daykin

- The role of the actuarial profession - Max LaCroix
- Educating actuaries - Chris Daykin and Bill Haslam
- Life insurance topics
- The future of the actuarial profession in Africa

In all, the discussions were interesting and fruitful. There was healthy dialogue and exchange between many actuaries: African and non-African, experienced and less-experienced, old and young.

I found the meeting interesting. I participated more than expected and felt I added to the exchange of ideas; I was glad I went and happy to represent Tanzania.

2. Regarding the Web page for Tanzania, things have moved slowly. I've asked the help of a local businessman in approaching those in the insurance industry; I didn't want to behave in a way that would put people off and discourage them from participating. So I arranged meetings with local insurance professionals who have contacted the Commissioner of Insurance regarding my requests. I am assured that this is the best way of proceeding. I am sending letters to the Commissioner of Insurance and the NSSF this week. (Note: I live in Mwanza where e-mail access is difficult and expensive and Internet browsing is practically non-existent. So, regular mail is my best means of communication.

3. A brief report on the insurance market in Tanzania is attached. It is based on a few interviews and information included in 2 September 1999 issue of *The Express*, a weekly newspaper. This issue covered the third annual "Insurance Day" held in Dar es Salaam in September, 1999.

4. At the IAA meeting in Ghana, I spoke to an actuary from South Africa about having someone come to "Insurance Day" in Tanzania next year to speak about the importance of the actuary in insurance. At first, we thought he could come and

speak, but then we decided a non-actuary might be a more convincing speaker. So we're working on having a CEO come.

I would like to solicit SOA members who might be interested in addressing the Tanzanian insurance industry to come, too. I don't expect the Tanzanian insurance industry to fund any of this, so interest on someone's part would have to include financing. Again, I think non-actuaries would be well positioned to address this topic, but anyone willing to come would be welcomed. Swahili speakers would be ideal!

Another topic that interested me at the IAA meeting came from the discussion on life insurance. South African actuaries discussed their efforts dealing with skyrocketing HIV infection rates in South Africa and its effect on life insurance. One idea they hit upon was to revive "funeral benefits" type life insurance. In short, it occurred to me that this product (for reasons other than increasing HIV infection rates) might be good for Tanzania. From my perspective, I see that deaths place quite a strain on the local (community, neighborhood) economy. Neighbors and relatives are expected to contribute at times of death to help cover funeral costs. Additionally, life insurance sales (see below notes on TZ Ins Industry) are very low. It would seem that a successful campaign for such a product could provide financial relief, boost life sales and provide an education for Tanzanians on the benefits of life insurance.

I discussed this with Paul Truyens, actuary for Southern Life in South Africa and we decided to work on the idea. I'm not sure how to introduce the idea to the industry or even if it already exists. In a related topic, one of the university's journalism students interviewed me about the IAA meeting and included some information about my thoughts on this product, its success in South Africa and its possible application in Tanzania. I'm hopeful that this article (slated for publication in a Dar es Salaam newspaper), will reach insurance professionals and/or interested buyers and spark some interest. I would welcome any guidance from the SOA or

individual actuaries on how to proceed. What was done in Eastern Europe to "set up" markets?

5&6 Included in my letters requesting information from the Commissioner of Insurance, the NSSF and the NIC, I am offering my services as an actuary. Specifically, I am offering training (computer training, data training) for those dealing with actuarial data and/or consultants. My availability is limited as I am teaching here in Mwanza and these activities are likely taking place in Dar es Salaam. With the NSSF, I hope to encourage them to send someone to ISSA's data training seminar next year.

7. The NIC has asked me to investigate the cost of educating actuaries. With the exam syllabus changing, I am unable to merely report to them registration fees and textbook costs. Additionally, I am hopeful that Tanzanian candidates will qualify for reduced fees under the SOA's proposed program. I have gathered some information from the Institute of Actuaries on this topic, so I am awaiting the SOA's response in order to give them my answer.

Some time ago, the NIC sent two students to the United States to study actuarial science at a university and to pass exams. I don't know all the details, but the plan was not successful. So they're interested in how to go about "growing" their own actuary and how much it will cost.

The Tanzanian Insurance Industry

Tanzanian banking and insurance industries have undergone major changes recently. After years of government domination, the Banking and Financial Institutions Act of 1991 encouraged liberalization, private sector participation and increased competition. Bills to liberalize insurance were twice tabled in Dodoma (administrative capital of Tanzania) in 1995. In 1996, the Insurance Act No. 18 was enacted, with the following objectives:

- To transform the industry into an agent for savings, investment

(continued on page 12, column 1)

Activities Update in Tanzania

continued from page 11

- To promote the insurance sector as a catalyst for economic growth
- To strengthen and promote the industry's health and growth
- To exempt the industry from interference (as with banking)
- To develop customer driven services

In 1998, the Tanzanian economy showed signs of stabilizing: when inflation slowed to 11%

Prior to privatization, there were only two insurance companies in operation: The National Insurance Corporation (NIC) on the mainland and the Zanzibar Insurance Corporation on the islands. As of July 31, 1999, there are:

- 11 insurance companies registered under the Insurance Act; all have at least one-third Tanzanian ownership.
- 156 insurance agents
- 24 insurance brokers

- 16 loss adjusters/assessors (data from the Commissioner of the National Insurance Board)
- 1998 premium amounts (in millions of Tanzanians shillings (Tsh); approximately 800Tsh=\$1):
 - 7,558.03 in long term insurance (life assurance, pensions, permanent health insurance)
 - 31,584.35 in general insurance (fire, motor, personal accident, transport, miscellaneous)
 - 39,142.38 Total Premium. This represents 2.70% of GDP

A further premium table breakdown for general insurance is depicted below.

My impression from the Mwanza branch manager for the NIC is that all actuarial work in Tanzania is done by foreign consultants, largely from Kenya and India.

From a press release, I learned the following about Tanzania's National Social Security Fund (NSSF). It was established by Act No. 29 of 1997 and became operational July 1, 1998. All members of the National Provident Fund (NPF) became founder members.

Benefits are conferred on unemployed, terminated, retrenched members or conferred upon attainment of age 60. By June 30, 1999, 48,000 members have received Tsh 7,500 million.

At age 60, a member receives between 30% and 67.5% of last salary. If a member loses employment prior to age 60, he can claim benefits immediately.

From the IAA meeting in Ghana, I encountered some actuaries who claim that a valuation of the fund is required every three years and has been recently performed (I don't know the actual date or the results of that valuation.)

William J. Klunk, ASA, MAAA, works for the Nyegezi Social Training Institute in Mwanza, Tanzania. He can be reached at nyegezi-sti@mwanza.com

Type of Insurance	Millions Tsh	Share
Fire Engineering	4,194.50	13.30%
Motor	19,600.70	62.10%
Personal Accident	937.40	3.00%
Marine	2,049.70	6.50%
Miscellaneous	4,802.00	15.20%
Total	31,584.30	

The Future Actuaries in China

by Guang-Tong Ren

As the Ambassador of the SOA in China, promoting actuarial education in China is one of my responsibilities. According to the Ambassador job scheme of 1999, I came to the campus of Zhong Shan (Sun Yat-sen) University, one of the top universities in China, located in Guangzhou, the metropolitan city in the south of China. Since Nov. of 1996, the SOA Exam Center in Zhong Shan University has registered more than 300 SOA exams and the pass ratio has been as high as 80%. The center was sponsored by American International Assurance Co., Ltd, while it began its business in Guangzhou in 1995 after its Shanghai branch.

In order to bring some practical actuarial ideas to the students, I choose Actuarial Science and Life Insurance Product Development as my lecture theme. The lecture combined my product development experience and the CD-ROM provided by SOA. The

lecture was held September 9 in the comfortable Ling Nan lecture hall in the center of the beautiful campus. The audience included teachers, graduates and undergraduate students from the Internal Trade & Finance Dept., Public Finance & Taxation Dept., and Economics Dept. of Ling Nan College, even some students from other universities in Gungzhou.

My lecture focused on the product development process, especially on the strategy and the existing life products in the Chinese life insurance market now. All students were active in the lecture and asked many intelligent questions. Some students were concerned about their future professional development and placement, while other students were concerned with how the industry would deal with the situation after China join the WTO. I shared my opinions and perceptions with them and described a high-spirited vision of the actuarial profession and insurance market in China. Some senior students were

more concerned about summer jobs or placement with my employer, Ping An Insurance Company of China, Ltd. The lecture aroused so many interests that it lasted three hours, almost an hour longer than expected.

After the lecture, I asked for some feedback about the lecture. One student said, "Your lecture described a real actuarial practice and enhanced my understanding about the textbook. Meanwhile I was inspired to continue my professional development."

Although I felt a little exhausted after three hours of speaking, I felt proud of what I have done and of the bright future of the actuarial profession in China.

Guang-Tong Ren, ASA, is assistant general manager of Ping An Insurance Company of China in Shenzhen, China. He can be reached at rengt@paic.com.cn.

EAAC Conference in Seoul

by Jeong Han

The 10th East-Asian Actuarial Conference (EAAC) was held in Seoul, Korea from October 3 to October 6, 1999. The theme of the 10th conference was "The Actuary's Challenge in the New Millennium." Four-hundred and twenty representatives from 18 countries attended the conference, where nine national reports from the member countries and 41 papers were presented on current actuarial topics — both life and non-life. Among the invited guest speakers were: K. S. Lee (the minister of Finance and Economy), Goan-Hyoung Joe (Korean Actuarial Association), Howard Bolnick (Society of Actuaries), Mavis Walters (Casualty Actuarial Society), Stuart Wason (Canadian Institute of Actuaries),

Paul Thornton (Institute of Actuaries), David Knox (Institute of Actuaries, Australia), Junzo Tanaka (Institute of Actuaries, Japan).

The EAAC was established in 1981 by the actuarial organizations of the member countries in East Asia to further and develop international collaboration in the actuarial field, and to promote the actuarial profession within the East Asian region. It held its first meeting in Malaysia, and subsequent meetings have been held every two years in one of the nine member countries (Korea, Japan, Hong Kong, Singapore, Taiwan, Thailand, Indonesia, Philippines, and Malaysia). The 11th EAAC will be held in Hong Kong in year 2001 and the 12th in Philippines in year 2003.

The EAAC is an excellent opportunity to follow the market development in East Asia for those who are interested in the region. It provides a forum for the participants to discuss the current actuarial issues each country is faced with and exchange ideas so as to address those issues. The meeting is open to the actuaries worldwide and all members of the global actuarial community are encouraged to attend to broaden the reach of the actuarial profession.

Jeong Han, FSA is vice president and actuary at Metropolitan Life Insurance Company in Seoul, Korea. He can be reached at jhan@metlife.com.

International Section Breakfast

by Jim Toole

As I am sure many of you have heard, the SOA 50th was a gala affair. While the Tony Bennett concert had a few empty seats, the International Section's world-famous annual hot breakfast was literally standing room only. In addition to two past SOA presidents, the U.K. Government actuary and a number of the Section's "founding fathers," nine of our Ambassadors braved long journeys and dangerous passages to be with us that fateful morn.

As is our custom, time was set aside to allow each of our Ambassadors to talk for a few minutes about developments in their host countries, their achievements, and their goals. Below is a brief summary of those talks, with apologies to all for any mistranslation/misunderstanding on my part.

Chip Moes (Argentina) has been very proactive in dealing with the upcoming changes in the exam system, which is sure to hit the international and expatriate students harder than their domestic counterparts. He has given talks at local universities on the subject and has offered to make his presentation available to interested parties. Current issues facing Argentina include the presidential election, the devaluation in Brazil, and the economic situation at home.

Luis Caro (Colombia) has been very busy with the Pan American Actuarial Congress in Bogota. It was well attended with more than 250 people, 50 from outside Colombia, including SOA President-elect Rob Brown and our own Josh Bank. He is also encouraging a number of students along with the exams. Perhaps one of the biggest issues currently facing Colombia is the social security system, which was recently privatized.

Alan Dubin (Israel) talked about the challenges facing the fledgling profession there. Right now, there is not a legal

definition of actuary or a governing professional body, so anyone can call himself or herself an actuary. No one exam system is favored, so different companies and students have different backgrounds.

Janet Sharp (Jamaica) spoke passionately about the financial crisis hitting the Jamaican and other Caribbean economies. Asset devaluation as a result of the crisis has strongly impacted insurer balance sheets. These factors, as well as some recent mergers, have caused a number of actuaries and students to leave for Canada.

Hassan Kamil (Malaysia) briefed the group on some of the new requirements there, including that each company have a qualified actuary with U.S., U.K. or A.U. credentials. Currently there are 18 companies and only 14 actuaries in Malaysia. The shortage has grown more acute due to the increased demands resulting from the activity in China. Hassan extends an invitation to any actuaries traveling in the region to contact him to arrange an informal talk with the local Society.

Ric Geisler (New Zealand) provided us with a brief regulatory update. There has been some demutualization activity in the region, and in general the economy has been favorable to insurance. Rick was active this year in his joint roles as Ambassador and Council member, helping to establish the country Web pages and promoting the SOA correspondent status among local professionals.

Mabini Juan (Philippines) discussed the impact of the Asian Flu on the Philippine insurance industry; 14 of 38 companies in the crowded market have



experienced negative growth. New entrants into the market in the future will certainly have closer review by the authorities.

Won How Lo (Taiwan) also discussed the Asian financial crisis and Taiwan's strong recovery (currently 5% GDP growth). The insurance industry is growing despite some recent solvency problems. Taiwan is going through the growing pains associated with a recently nationalized health insurance system and is in the process of developing a national social security system.

Ahmad Sami Sharif (United Arab Emirates), a newly appointed Ambassador, spoke to us about developments in the region, including the careers now available at Egyptian and Lebanese universities. The profession is virtually unknown in the U.A.E., so he has initiated contact with the government to stress the importance of actuarial oversight of the industry.

Hope to see you next year in Chicago, and remember — avoid disappointment, sign up early!

Jim Toole, FSA, is with Milliman & Robertson, Inc. in Denver, CO and is vice president of the International Section Council. He can be reached at Jim.Toole@milliman.com.

The Panamerican Congress of Actuaries in Bogota, Colombia

by Robert L. Brown

The Third Panamerican Congress of Actuaries was held in Bogota, Colombia, September 30 and October 1, 1999. This is a forum for actuaries from Latin America. The Congress was well attended by 200 actuaries, mostly from South America, but also from Mexico, Spain, the United States and Canada.

The topic for the Congress was "Social Security Reform in Latin America." This includes both classical social security (akin to OASDI) and government-sponsored health care.

Thus, most of the sessions were used to review, country by country, reforms that have taken place in social security and health care.

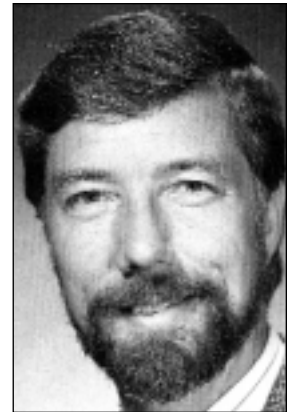
The Congress had three working languages: Spanish, Portuguese, and English. Unfortunately, the translation

pay. The best hospitals and doctors seem to be in the user-pay tier.

These new systems have not been without their problems. The private sector service needed to support the systems is expensive. This results in non-participation (non-compliance) by many workers, especially the poor (for whom social security is meant). Thus, the reality is that Latin America is a two-tiered society. The small, but very well-educated and wealthy upper class, are able to get the benefits they need with or without government systems and are doing quite nicely in the privatized world. The poorly educated and poverty-ridden lower class cannot afford the new premiums and contributions and are basically falling through the cracks.

Obviously, part of the problem is money (or wealth). These are not rich

There are huge opportunities in Latin America for a bright, young (or even not-so-young) person. The people you will work with are highly educated, almost



Robert L. Brown

always speak English, and are extremely appreciative of new ideas and methods. They love their homelands and want to see a better future for the next generations — and for all people, not just those wealthy enough to afford private sector services.

There are also business opportunities in Latin America for companies that can provide the service support infrastructure that is needed. There are business profits to be made, although it would be refreshing if this were not the motivating factor.

In summary, the Congress was a wonderful opportunity for me. It was well-organized (mainly by Victor Sanchez, President of the Colombian Actuarial Society) and I met some great people. On a personal level, I hope that I will have other opportunities to return to Latin America to assist in their development and growth.

Robert L. Brown, FSA, FCIA, ACAS is a professor in the Department of Statistics and Actuarial Science, University of Waterloo, Waterloo, Ontario, and also is a consultant in private practice. He is also president-elect of the Society of Actuaries and can be reached at rlbrown@math.uwaterloo.ca.

“However, suffice it to say, that there has been a strong shift in all of Latin America toward a privatization of social security and health care provisions.”

service did not appear for the first day of the Congress, so for unilingual members of the audience (like me), the first day was a bit of a blur.

However, suffice it to say, a strong shift has occurred in all of Latin America toward a privatization of social security and health care provisions. Social security systems have generally gone from pay-as-you-go defined-benefit schemes to some form of defined-contribution systems, usually similar to the individual accounts system first introduced in Chile in 1981.

Health care is now two-tiered. A very basic provision of care is free to the user, and then usually, a second tier is user-

countries, although there are rich people in each of them. The problem is mostly service infrastructure. Insurance and annuities in the United States and Canada can be purchased at much lower expense ratios than in these developing nations, because we have the programs and the infrastructure to make them work. And this is what is sorely needed in Latin America.

Two hundred actuaries attended the Congress. But, in a very real sense, this is a measurable proportion of the entire actuarial profession in Latin America. They need more actuaries. They need more programmers. They need more insurance managers, and the list goes on.

Experiences at the IAA Colloquium

by Linden Cole

People seem to be surprised that the Institute of Actuaries of Japan should be celebrating their centennial in 1999. I certainly was, because I didn't know my actuarial history. At the very first International Actuarial Congress in Brussels in 1895, the idea of national actuarial organizations was promoted aggressively. This made sense to the one Japanese actuary in attendance, so he returned to Japan and started organizing the Institute. Their history really does go back 100 years.

In order to allow the maximum possible number of visitors from other countries at the centennial celebration, the Japanese invited both ASTIN and AFIR to have their meetings in Tokyo just before the centennial celebration. In addition, the IAA had council meetings and committee meetings there. Finally, the Japanese Institute invited a large number of actuaries from other countries to attend. I was very fortunate to be one of those invited, along with many others from the Society of Actuaries.

We started on Sunday night with a banquet. They had limited the number invited and had arranged the seating so that there were both Japanese people and foreigners at each table. The food was superb, as it was throughout the meetings.

lemonade at the Tokyo branch of the famous Café de Flores in Paris and later enjoyed Austrian pastry and coffee at the Tokyo branch of the famous Demel's coffeehouse in Vienna. Tokyo is quite a city! But that was all before the centennial celebration started.

Monday morning, after a video about the Institute's first 100 years, leaders of the Institute presented their view of the issues facing the actuarial profession in Japan and suggestions for how they should meet them. These presentations were translated into several languages, including English. It all sounded very familiar. Actuaries are facing the same issues world-wide, and the Society of Actuaries Board and the Committee on Planning are identifying and attempting to deal with more or less the same things. Various actuaries from both Japan and from other countries responded to this report with comments and suggestions. If this presentation is translated and made available, it will be worth reading.

The Monday evening reception had

let someone speak from every actuarial organization represented at

the celebration. They handled this by having a few speak at each session, rather than all speaking at the same session. Many impressive gifts were presented by other actuarial organizations, and of course each presenter of a gift wanted to say something momentous. Considering how many actuarial organizations were represented here, it was a major challenge to figure out how to work everyone in and not overlook anyone.

Entertainment after each evening session was excellent, ranging from a Japanese dance group to an intriguing musical group combining jazz with native Japanese music.

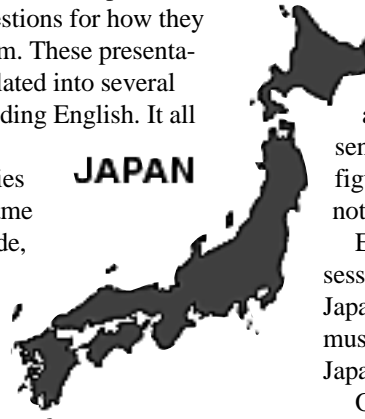
Overall, this was a memorable occasion. The Japanese Institute demonstrated the wonderful tradition of Japanese hospitality, and the Japanese ability to arrange things so that everything works precisely and well. It was a real privilege to be there, and the Japanese Institute of Actuaries deserves all the congratulations they received.

It is my hope that the leaders of the Japanese Institute will take to heart the advice of a senior actuary, who urged them to take a leadership position in the world's actuarial profession in the future. These are capable, intelligent, experienced professionals, and it will be most helpful for the rest of us if they share their insights and ideas, as we all work to meet the needs facing our profession in the next millennium.

Linden Cole, FSA, retired in 1998 as managing director of the Society of Actuaries. He can be reached at lindencole@compuserve.com.



Linden Cole



“It is my hope that the leaders of the Japanese Institute will take to heart the advice of a senior actuary, who urged them to take a leadership position in the world’s actuarial profession in the future.”

Since my wife and I had eaten at the Sizzler Steak House the previous night, we particularly appreciated a gourmet banquet, not that we (and a whole lot of Japanese people) didn't enjoy the Sizzler's food too. Parenthetically, we also had a French lunch and French

many younger Japanese actuaries present, as well as the senior people. The food on the buffet (both Western food and Japanese food) was absolutely wonderful. We had to earn it by listening to more speeches first (translated into English as necessary), as the Japanese attempted to

China Region Committee Meeting Minutes

Monday, September 30, 1999, Hong Kong

Attendance:

K.C. Chan, Howard Bolnick, Wilbur Lo, Stuart Leckie, Shu-yen Liu, Dominic Lee, Estella Chiu, Chelle Brody (via phone), Patricia Kum

Introduction

President Howard Bolnick was able to attend the CRC meeting as he was invited to Hong Kong to speak to the members of the Actuarial Society of Hong Kong. He commended the China Region Committee (CRC) members for the good job the committee has been doing.

Previous Minutes

Minutes of the previous meeting on August 30, 1999 were unanimously approved.

Matters arising

Chinese visitors to the SOA Annual Meeting

Ms. Chelle Brody provided the committee with an update on the logistics and program for the Chinese delegates at the Annual Meeting and the CIRC delegates' visit to the SOA home office. Linden Cole will host the CIRC visit at the headquarters. President Bolnick plans to meet the CIRC delegates during their visit to the home office. Chair Chan informed the committee that CMG Asia will sponsor HK\$20,000 towards the funding of the trip of Professor Liu's group to the SOA Annual Meeting. CMG will also bear the traveling expenses of the CIRC delegates when they are in Hong Kong for a meeting with the Insurance Authority at the end of October. He added that insurance companies are welcome to help with the sponsoring of the Chinese delegates' travelling expenses. Yu Dong Hai, an ASA, will be attending the SOA Annual Meeting.

Action: Ms. Brody will forward a copy of the CIRC visit program to President Bolnick.

Chairperson's Report

Chair Chan reported that according to Fu Anping of the China Insurance Regulatory Commission, the Dalian Conference may take place in November 1999, but it will be on a smaller scale. Danny Chung, Dominic Lee and Chair Chan will be invited to attend this conference.

Update on Healthcare Seminar

Estella Chiu provided a run-down on the program outline and the list of speakers. We have invited Douglas Henck to give a morning wrap-up speech and are waiting for his confirmation. There could possibly be two speakers from the P.R. China. In order to cover the speakers' accommodation and travel costs, it was agreed that registration fee would be set at HK \$950 for members belonging to any actuarial society. The target audience may include medical association members. The speakers' presentation materials should be forwarded to the SOA Professional Development Committee for their review for approval of PD credit. Chair Chan suggested that CMG's public relations company could assist with issuing press invitations for the seminar.

Action: Patricia Kum will send out confirmation letters to the speakers by next week and also contact CMG's P.R. company regarding issuing press invitations.

Actuarial Education Focus

a) Update on the Nankai program direction

The SOA-Nankai agreement will be expiring in year 2000. The new Nankai proposal seeks to obtain an examination fee waiver for Nankai students, to continue to send overseas teachers to Nankai University on an availability basis, and to set up an Actuarial Research Centre at Nankai University.



Chair Chan indicated that a conference could be organized together with the launch of the Nankai Actuarial Research Centre. SOA seed funds of \$5,000 would be needed and two research projects could be arranged to jump-start the Research Centre. This would be a wonderful opportunity for U.S. actuaries to gain experience in China and for Nankai students to be trained and to acquire practical modeling skills. He thought perhaps the International Actuarial Association China Committee would consider organizing and supporting the conference at Nankai. President Bolnick suggested to tap on the IAA's International Professional Education Fund for this conference, perhaps through Stuart Leckie. Mr. Leckie was concerned whether this would be the best use of resources since there were also other universities in China. He agreed to incorporate the Nankai element for discussion at the IAA China Committee meeting in San Francisco on November 18, 1999. Chair Chan expressed his concern about the lack of time and resources available to spearhead the Nankai project and thought that Mr. Lee would be the best person to head such a project. Mr. Lee gave his consent and he will follow-up with Nankai regarding the project during his visit to their 80th Anniversary celebrations in Tianjin in

(continued on page 18, column 1)

China Region Committee Meeting

continued from page 17

October 1999. Ms. Kum would check with President-Elect Norm Crowder regarding his availability to attend the Research Centre launch next year. Since resources form a barrier for the CRC to implement projects, President Bolnick suggested that the committee consider forming a Section in place of the committee. Sections are allowed to charge membership dues which would provide for the much needed funding of projects. Ms. Brody recalled that this idea had been considered before.

Action: Ms. Brody will retrieve the notes on the pros and cons of creating an Asian Section and Ms. Kum will review the Committee guidelines.

Mr. Lee has studied Dr. Kailin Tuan's proposal on the actuarial profession in the People's Republic of China and did not totally agree with the proposal. President Bolnick thought that the internship program suggested in Dr. Tuan's paper could be coordinated by the CRC. Chair Chan and Mr. Lee

informed the committee that this idea had been presented to insurance companies before and response had been quite poor. Companies generally preferred to arrange for internship candidates on their own. The AIA has started its own internship program.

b) Update on Chinese actuarial exams

Mr. Lee informed the committee that the exams have been postponed to October 9, 1999.

c) Feedback on Teacher Support Program

Ms. Brody reported that Ms. Shu-yen Liu would be presenting the Teacher Support Program proposal at the International Section Council meeting in San Francisco. If the Teacher Support Program is implemented, Chair Chan indicated that CMG is willing to sponsor the subsidy for one teacher candidate.

Finance Affairs Focus

Ms. Liu reported that the China Development Fund fundraising campaign has come to a halt due to the uncertainties and

concerns about the direction of the Joint Actuaries Office. President Bolnick reassured the committee that nothing had changed and the committee would still have the full support of the Joint Office. Ms. Liu highlighted the problem of not having a bank account in Hong Kong to facilitate the fundraising drive and proposed that the Actuarial Society of Hong Kong (ASHK) open a third bank account to accommodate the donations to the China Development Fund. Donors will be advised to make their checks payable to the Actuarial Society of Hong Kong and also to specify on the checks that the donations are for the China Development Fund. Mr. Leckie, president of the ASHK, agreed with the arrangement. The fundraising drive will be reactivated.

The meeting adjourned at 8.00 pm.

Submitted by Pat Kum

Teacher Bank Needs Deposits and Withdrawals

New Program Facilitates International Teaching Assignments

The Committee on International Issues has developed a Teacher Bank. This program features a Web-accessed questionnaire for teachers who are SOA members and looking for overseas teaching assignments, and another questionnaire for institutions located outside North America that are seeking such teachers. The Bank works on a self-serve basis with interested parties contacting each other directly. The SOA plans to get feedback from the users and annually update the information.

If you would like to participate (i.e., make a "deposit or withdrawal"), the site can be accessed from the SOA homepage (www.soa.org) by pressing the Academic Relations button. The questionnaires are listed under Overseas Teaching Opportunities.

SOA Annual Meeting — Section Council Minutes

October 17, 1999, San Francisco

Attendance: Jim Toole, Angelica Michail, Randy Makin, Bruce Moore, Hubert Mueller, Hans Wagner, Jay Han, Ric Geisler, Lisa Kuklinski-Ramirez (by phone), Lois Chinnock, and Jeanette Selin

Introductions and Approval of Minutes

Members were introduced and minutes from the 9/27/99 International Section Council conference call were approved.

Treasurer's Report/Dues

Jim Toole reported a balance of \$54,000 available in the International Section fund as of June 1999. The Council voted to maintain the \$15 Section fee into the next year. Lois Chinnock indicated that \$4 of the \$15 was earmarked for the administrative fee assessment. Ongoing expenses include the Section newsletter, Section breakfast, seminars co-sponsored with other Sections, and conference calls.

Open Positions

The council voted and elected the following members to fill the vacancies:

- Secretary/Treasurer - Lisa Kuklinski
- E&E Liaison - Jim Toole volunteered to fill this position (and will also investigate the role of the International Section E&E liaison)
- Newsletter Editor - Randy Makin will replace Kevin Law. Suggestions were made for an assistant editor.

Teacher Subsidy Proposal

The proposal requested funding from the International Section, as well as oversight from an assigned committee member. China Region committee member Shu Yen Liu was not available to provide information on the proposal; however, the International Section Council was asked to provide input. Various Council members questioned whether support of this proposal fell clearly within the charter of the International Section and voiced concerns about the political ramifications of this proposal. The members agreed that support of this proposal was not within

the role of the International Section Council and voted not to approve Section funds.

Ambassador Program

Jeanette Selin provided an update on the activity of the Ambassador Program. There are currently 28 Ambassadors and 12 country Web pages on the SOA Website. In order to better promote this program, council members decided to split up the world as follows:

- Jim Toole will concentrate on the Americas
- Hubert Mueller will take Europe
- Hans Wagner will cover the Asia Pacific region
- This sub-committee of three and Jeanette Selin agreed to meet immediately following the International Section meeting to further discuss this action.

Newsletter Update

Randy Makin mentioned the upcoming deadline for the next issue — December 1, 1999 — and mentioned that he was still seeking articles. The following articles were proposed: Tokyo Colloquium (August '99) — Jeanette Selin offered to speak to Linden Cole, who attended the meeting, to find out if he would be willing to write a short article on the meeting; IAS — Bruce Moore agreed to submit an article around mid-December; India — Randy Makin agreed to request an article from a contact in India; EAAC in Hong Kong in 2001 and in the Philippines in 2003 — Jay Han volunteered to submit an article; Pacific Insurance Conference — Bruce Moore will contact Shu Yen Liu to request an article. Ms. Liu may also be able to provide two additional articles on China. Tax reform in Australia — Hans Wagner agreed to submit an article for the March 2000 issue.

Brazilian Newsletter

Ronald Poon-Affat was not present to provide an update on the effort to translate the *International Section News* into



Portuguese. The council agreed that approval from the Section chairperson and vice-chairperson was required, and that they could provide up to \$5,000 for the translation costs. Angelica Michail will follow-up with Ronald for an update, and this issue will be discussed at the next meeting.

Spring Meeting

The Section program developers were not present for update. Jim Toole stated that participation was low at the international sessions at the spring meeting. He didn't feel that the effort put in by speakers/recruiters justified the low attendance and questioned whether these sessions are as valuable as anticipated. Angelica Michail suggested that the International Section team up with other Sections to jointly sponsor sessions. Possibilities for sessions include:

- International accounting standards
- The Euro and how it's working
- Pension privatization (Chile, Argentina, Poland, etc.)
- International education requirements
- Healthcare trends

1999/2000 Professional Development

Required PD credits (35) for the new E&E system were discussed and Sections have been asked to contribute ideas for the practice areas. Lois Chinnock assured the Council that a committee has been set up to provide information and clarification on this request. Bruce Moore suggested a PD seminar on U.S. GAAP development worldwide.

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Life in China: Part Two

by Cao Qing Yang

Editor's Note: Executives who attended our 1998 Strategic Issues Conference were given up-to-the-minute briefings on a number of emerging insurance markets in the Asia-Pacific region. Here's what one expert had to say about the People's Republic of China.

Taxation & Investment

In 1997, mainland China made a big adjustment in its tax policy toward the insurance industry. Before that, an insurance company paid a 5% business tax and a 33% income tax, with two caveats: PICC paid a 55% income tax and whole life, health and annuity operations were exempt from the business tax.

The 1997 adjustment raised the business tax to 8%, except for foreign insurance companies established before 1997 and insurance companies with

foreign investments, whose business tax rate remained unchanged until this year, when it was raised to the 8% rate. At the present time, there is no inheritance tax in mainland China or specific tax regulations pertaining to a policyholder's premium payments, maturity benefits, surrender values, and so on.

According to mainland China's Insurance Law, the capital of life insurance companies can only be used in the form of bank deposits, state and financial bond transactions, and other ways stipulated by the state council. A local-national insurance company is not allowed to be involved in other securities or corporate investments. In comparison, foreign life insurance companies operating in Shanghai have access to more investment channels, including corporation security, investment by share, and entrusted



foreign exchange loans.

At present, bank deposits are the primary investment channel for insurers. These investments can only generate a small return. Since 1996, the government has made four downward adjustments in the bank interest rate, which has decreased from 10.98% to 5.22%. The interest rate of state bonds has been reduced from 9.6% to 6.5%. At present, local-national life insurance companies achieve an average investment return of around 6.5%.

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Section Council Minutes

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Council of Section Chairpersons Meeting

Angelica Michail will attend the meetings in November 1999 and May 2000. The Council approved her request for the Section to provide funds to cover her expenses to attend the meetings.

Next Meeting

The Council agreed to attempt four meetings a year — three by phone and one face-to-face at the Annual Meeting. Suggested months for conference calls were December 1999/January 2000, March 2000, and June 2000. Since the calls will involve members in Europe, Australia, etc., the Council determined the best time to schedule meetings to get the most participation would be 6:00 p.m. E.S.T. The Council tentatively decided the next call would take place the week of January 3rd. Lois Chinnock will survey the members as to the preferred date.

IAA 2002 Cancun Meeting

The Council decided that the International Section should support the meeting. Jim Toole agreed to speak to Luis Huerta at CONAC to determine how the International Section Council

could support the meeting (perhaps include a Section member on the planning committee).

Miscellaneous

- Jeanette Selin provided a review of the publications survey results and will send hard copies of the results to the Council. Interest was expressed in reinvestigating reciprocal arrangements.
- Jay Han inquired about setting up an actuarial club in Seoul, Korea.
- Angelica asked for ideas for research projects in the coming year.
- The Council presented the past chair Bruce Moore and member Ric Geisler (who are rotating off the Council) with thank you gifts for their contributions to the International Section.

Supervision & Self Discipline

In 1995, the Insurance Law mentioned earlier took effect in mainland China. Since then, the People's Bank of China (PBOC) has promulgated three sets of regulations: "Provisional Regulations on the Administration of Insurance Industry" (1996), "Regulations of Insurance Agent (trial)" (1997), and "Regulations of Insurance Brokers (trial)" (1998).

As the supervisory organization of the insurance industry, the PBOC oversees the establishment, modification and

level falls below this, the PBOC will ask the company to improve its financial status through reinsurance, business transfer, or simply suspending underwriting. The PBOC has the right to declare steeply insolvent companies bankrupt after certain court proceedings.

Before they can be sold, the head office of the PBOC must examine and approve the provisions and premium rates of long-term life products. For all other products, the PBOC requires only the submission of provisions and premium

One of these is investment restrictions. You will recall that local-national life companies can only make bank deposits, buy and sell state and financial bonds, or make a few other minor investments. What's more, the terms of permitted investments are greatly restricted. While life insurers are averaging a 6.5% return on investment, the interest rate they promise in life insurance products is around 6.5%. Obviously, their after-tax profit is very low — in some cases, non-existent. Nevertheless, Chinese companies continue to guarantee relatively high interest rates on their products for fear of losing their market share.

A second challenge is product design. At present, most products are traditional and those with a savings component comprise more than 60% of total premium income. To offset the disadvantages of limited investment, life insurers must either redesign existing products or launch new products. At present, however, participating, universal, and variable insurance products can not be sold in mainland China. Product design also is hampered by the lack of experience data, such as morbidity tables. Finally, what we need most here is an array of health plans. Unfortunately, rising medical expenses, a lack of cooperation between medical providers and insurance companies, and high claims rates make many companies reluctant to step into this market.

Another challenge is agent administration. Fewer than 5% of the 350,000 agents in mainland China have a university education, a rate that's relatively higher in Beijing (9%) and Shanghai (8%). Forty percent of agents leave their companies within one year and less than 10% stay in the same place for three years. The public image of agents needs improvement. Eager to broaden market share, life insurance companies are neglecting the vocational and moral education of agents, as the rising number of lawsuits filed against agents attests.

Professional training is a fourth challenge. Mainland China has not established its own actuarial examination or reporting system and there are fewer than 30 ASAs in the country. We lack

"Because of the country's existing healthcare system, few individuals have complete medical records."

termination of insurance companies. The bank also supervises the scope of insurance company business operations, solvency and investment, the terms and conditions of major products and their premium rates, and the activities and qualifications of insurance agents and brokers. The PBOC has the power to penalize companies or individuals that violate industry laws and regulations.

An insurance company that operates nationally must have registered capital of RMB¥ 500 million or more, while one operating regionally must have no less than RMB¥ 200 million. All companies must reserve 20% of their registered capital.

An insurance company may take one of two forms in mainland China: a limited-liability shareholding company or a state-owned company. Senior-level personnel must be qualified for their positions, and companies must have at least one actuary recognized by the PBOC. Insurers whose premium income reaches a designated level may apply to set up a new branch.

Solvency and investment supervision occurs through regular checks and an annual report system.

The lowest solvency margin acceptable to the PBOC is actual assets less actual liabilities. If an insurer's solvency

rates, which it then keeps on file. Another PBOC requirement is the insurers must cede 20% of their accident business to PICC (Reinsurance).

The 1997 "Regulations of Insurance Agent (trial)" establishes a supervisory body that keeps watch over agents' activities and ensures they have acquired their certificates through examination. Records of these agents also must be filed with the PBOC. Violators are fined or disqualified as agents or brokers forever.

In late 1997, some irregular practices emerged in the life insurance market, which forced the PBOC to tighten its regulation and supervision.

To date, 19 provinces and cities in mainland China have set up insurance associations, which supervise and coordinate with each other. In 1997, all companies signed the "Guild convention," guaranteeing a well-ordered, fair and competitive market. So far, however, there is no life insurance guild organization at the national level and those at the local level play a minor role.

Restrictive Factors

As you can see, life insurance has become one of the fastest-growing industries in mainland China. But there are several problems that — if left unsolved — will hinder further development.

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Life in China: Part Two

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experienced underwriters and senior managers knowledgeable about new developments in the international insurance arena. We also face a shortage of accounting, computer and investment personnel. Although more than 10 universities now offer insurance courses and several well-known associations (among them, SOA, LOMA, and CII) have established examination centers here, the shortage of qualified and experienced staff will not be alleviated in the near future.

A final challenge is supervision and regulation. Life insurance companies use the same accounting standards as non-life insurance companies, which needs to change. And because there is no complete standard of classification for life insurance business, the data we get is far from accurate.

Market Analysis

Despite these challenges, mainland China's economy and insurance markets continue to grow, as a closer look at some recent statistics shows.

In 1997, the country's GDP reached RMB¥ 7.47 trillion, insurance density was 1.4%, and insurance penetration was RMB¥ 90. Seventy percent of life insurance premium income came from the more developed areas of the country, with 40% coming from Beijing, Shanghai, Guangdong, Jiangsu and Zhejiang province, even though they represent only 17% of the total population. Insurance penetration was highest in Beijing at RMB¥ 550 (US\$ 66), followed by Shanghai at RMB¥ 440 (US\$ 53). According to "The Survey of China Resident Expenditure in 1998," 19% of families in 12 large cities purchased a life insurance policy in 1997. Public awareness of life insurance continued to grow; in fact, a year-end consumer survey ranked it among the top ten issues in 1997.

As mentioned earlier, life premium

Market Milestones

To date, mainland China's evolving insurance market has passed through three distinct phases:

Monopolized Market (1982 to 1992)

- China's market is overwhelmingly dominated by state-owned People's Insurance Company of China (PICC), whose market share exceeds 90%.
- The range of available life products — among them, industrial, endowment, annuity and accident policies — is quite limited and the emphasis is on group business.
- Public awareness about insurance is weak.

Monopoly with Competition (1992 to 1994)

- Ping An Insurance Company of China, Ltd. and the Pacific Insurance Company of China, Ltd. are established in close succession.
- Foreign insurance companies begin to enter China with AIA and Tokio Marine & Fire opening subsidiaries in Shanghai and broker Sedgwick attaining to an operating license.
- Premium income increases steadily; as a result, competition among companies grows more and more intense.
- AIA's introduction of the life agent system causes China's individual life insurance market to immediately take shape.
- Life insurance begins to attract more attention from the public.
- PICC still has 80% of market share.
- At the end of 1994, total life premium income hits RMB¥ 15 billion, but future development is seriously undermined by a shortage of insurance professionals.

Market Competition (1995 to present)

- In 1995, China issues the Insurance Law, which establishes a regulatory framework for life insurance and mandates that companies can not combine property and life insurance operations; as a result, PICC reorganizes, becoming PICC (Group), which has three wholly-owned subsidiaries known as PICC (Life), PICC (Property), and PICC (Reinsurance).
- Several new life insurance companies emerge, including two local-national companies (New China and Tai Kang) and one joint-venture company (Zhong Hong Life).
- Individual business develops rapidly, with some 350,000 agents selling hundreds of products.
- Market competition intensifies. As a result, some companies resort to irregular practices, such as setting improperly low premium rates and improperly high agent commissions.
- The government responds by strengthening regulatory supervision.
- New companies — both foreign and local-national — make every effort to gain a foothold in the Chinese market.
- Life premium income continues to climb, reaching RMB¥ 21 billion in 1995 and RMB¥ 33 billion in 1996. In 1997, life premium income reaches RMB¥ 60 billion (56% of total premium income), surpassing property premium income for the first time.

income grew 82% in 1997, reaching RMB¥ 60 billion by year-end. One factor behind this amazing growth was the guaranteed interest rate of life insurance products, which was higher than that of bank deposits. This attracted people to buy life insurance. In October 1997, the one-year deposit interest rate decreased 1.8%, dropping from 7.4% to 5.67%. In November, consumers engaged in the panic buying of life insurance; premium income that month reached RMB¥ 20 billion (one-third of life premium income for all 1997).

Another factor was the life agent distribution channel. In 1997, life agents had spread from a handful of large cities to most areas of mainland China except Tibet. As we saw earlier, their number grew to 350,000 in 1997. In 1998, they generated RMB¥ 22 billion of individual life insurance premium income, a 290% increase over 1997.

The country's social security system is a third factor driving the growth of the life insurance sector. Because the system provides insufficient protection, more and more people who work in non-state-owned enterprises have been purchasing



Business analysts predict the proportion of individual life business to grow from the present 35% to more than 50%.

The diversification of individual investment also will influence the life insurance industry. Bank deposits now account for 80% of individual investments in mainland China; by the end of 1997, these deposits exceeded RMB¥ 4.6 trillion. The residential housing reforms currently underway may divert a large part of this capital to the real estate market, as may an impending investment fund.

Investment diversification will have an unfavorable effect on the popularity of savings-feature life insurance products. At present, 70% of mainland China's premium income comes from these products. If life insurance companies do not offer investment-related and participating products over the next several years, we'll have difficulty growing our business.

Insurance brokers will become an important distribution channel for life products. Direct marketing channels such as on-line and mail-order sales will emerge.

With the adjustment of national economic policy, the differences between coastal and inland areas will be reduced

Such alliances will improve the managerial capabilities of local-national companies and, consequently, their competitive edge in the marketplace.

Finally, life insurance companies will continue work on their technology infrastructure with the goal of delivering more convenient and value-added customer service.

As you can see, mainland China's life insurance industry has made considerable progress during the past several years. Compared with the international life insurance industry, however, we still are at the preliminary stage and expect to face many challenges along the way. In fact, Southeast Asia's financial crisis has given us both lessons and valuable experience. I believe the future of mainland China's life insurance industry lies in a steady and sustained development strategy — and I'm confident of our prospects.

Cao Qing Yang, FLMI, is deputy manager of the Business Department, The People's Insurance (Life) Company of China.

“At present, participating, universal and variable insurance products cannot be sold in in mainland China.”

life insurance policies for themselves.

What does the future hold for mainland China's life insurance industry? In a word, lots.

The country started to improve its social security system in 1998. The establishment of a retirement pension and social health insurance system will result in new opportunities for life insurance companies. It also will influence the business structure of life insurance.

gradually. As a result, the life insurance market will be broadened. In the next five years, the wealthy rural area in the southern part of mainland China will become an attractive market.

We also will see further opening up of the life insurance market. In 1998, three foreign companies — AXA/ National Mutual, Aetna, and Allianz — gained access to this market via joint ventures with local-national companies.

European Theater

by Chris Carson

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A common currency and regulations that apply across national borders make Europe a likely battleground for U.S. life insurers that want to expand their market.

In the 1980s, Europe did not appear as a viable business opportunity to many U.S. life insurers. Regulatory regimes varied greatly among countries. Several countries were economically unstable, and currency fluctuations hampered insurers' ability to price products accurately. Individual markets varied so much that single product platforms were impossible, and suitable distribution channels were difficult to develop.

Now, however, the launch of the euro and new regulations have converted Europe into a single market that is more uniform and more accessible to U.S. insurers than ever before.

Europe is a viable market of nearly 380 million people that is now underpinned by a currency that many economists believe will replace the U.S. dollar as the "international currency." However, Europe will not meet the business-development criteria for every U.S. insurer. Numerous caveats and anomalies still exist across the Continent and, in combination or on their own, any of these issues could undermine the success of a U.S. insurer seeking to do business in Europe.

To gain a clear and balanced picture of the potential Europe offers, an insurer must consider the current position of the market and the opportunities this presents and then consider its own profile to determine the best way forward.

Current Position

With the implementation of the 3rd Life Directive in 1994, Europe moved to a "home country regulatory system" that

is far simpler and arguably more effective than the U.S. system of state regulation. The new system has removed the need for a U.K.-based company, for example, to gain German regulatory approval for a new product before it is sold in that country. In contrast to the U.S. system of state-by-state approval, this has removed one of the major constraints to product innovation and greatly reduced the time required to bring a product to market.

The second major byproduct of the directive has been the creation of a

cross-border market in Europe where none previously existed. In years past, only German companies wrote business in Germany and only French companies wrote business in France. However, since the directive has been implemented, cross-border business has grown rapidly as companies began to take advantage of the economics of scale offered by manufacturing products from a single base. In less than five years, the cross-border business has grown in size to 60% of the German market. This is a new area of growth in Europe that is

Market Comparison

	United States	Europe (EU)
Population	263 million	371 million
Total life premium Income 1996 (\$million)	\$379,307	\$312,845
Life Insurance per capita 1996	\$1,459	\$836
Currency	U.S. dollar	Euro for initial 11 member states, country currencies for non-members.
Political structure	Led by federal government but supported by state governments.	Country governments lead but supported by increasingly powerful federal government.
Language	English dominant	Multiple languages
Culture	Homogenized but increasingly segmented.	Highly segmented with increasing homogenization.
Life insurance Regulation	At state level with each state regulating products/activities of companies active in that market.	At country level with Home country regulator retaining supervision of cross-border operations.
Corporate tax structure	Standardized at federal level. Some differences at state level.	No federal level. Different regime in each country.
Personal tax structure	Standardized at federal level. Some differences at state level.	No federal level. Different regime in each country.

Source: A.M. Best Co., JBI Associates (Luxembourg)

ideally suited to a U.S. company looking to develop business.

The launch of the euro currency is another factor that is having a dramatic impact on the market. With the launch of the euro, insurers can now manufacture a life contract in Spain and sell it in France without worrying whether currency fluctuations will erode their margins. This will greatly reduce the uncertainty in pricing products and should help cost-efficient operators develop a competitive advantage.

The introduction of the euro has also helped to stabilize the economic situation for the initial 11 member countries, and there are clear signs that the rest of Europe may follow. The interest rates in the nonmember countries are now beginning to drop in line with the euro rate as these countries seek to bring their economies in line with their main trading partners. This means Europe is no longer a collection of disparate economies but is becoming a single economic entity with a single monetary policy.

If Eastern European countries enter the monetary union, the euro will be supported by a market with a population of over 450 million, nearly twice that of the United States. If this happens, it becomes even more likely that the euro will replace the U.S. dollar as the international trading currency. In preparing for such a situation, U.S. companies may want to consider how their business would be affected in a world where the statements of the European finance minister have a greater impact on their balance sheet than those of the chairman of the Federal Reserve Board.

The tax differences between the various countries at both the personal and corporate level have combined to create what is probably the most complex area of the European market. This has led to the situation whereby a German's tax position on a pension is completely different from an Italian's. As a result, it is still impossible to design a single product platform that can be replicated from country to country. A German product may need significant changes before it can be sold in the Netherlands, for instance. Likewise, the computation of corporate tax for a French life insurer is entirely different

from that of an Irish or Spanish life company.

To what extent there will be true tax harmonization in Europe is unclear. While the Germans are pushing harmonization as a major item on the European agenda, the other countries appear eager to retain their existing freedoms in this regard. While nothing is clear at this stage, it seems unlikely that Germany will be successful in the short term and even so, any changes would need years to be phased into existence.

While global brands, television, music and now the Internet have dramatically homogenized European culture, one key difference remains — language. As long as the French speak French and the Spanish speak Spanish, products will need to be tailored for each market. In fact, the 3rd Life Directive requires companies to provide policy terms and conditions in the policyholder's native language. Likewise, cultural or market conditions often require a company to use, for example, a different waiver of premium definition in Italy and Greece.

Developing effective distribution is likely to be the make-or-break issue for any insurer exploring expansion into Europe. While the main distribution channels operate in a manner similar to their U.S. equivalents, this is a complex area and the relative importance of each channel varies greatly from country to country.

At a general level there are two key issues worth noting. First, bancassurance has grown rapidly in the 1990s and now accounts for upwards of 50% of new business in most of southern Europe. Secondly, the financial services industry is experiencing a wave of new entrants that pose a major threat to insurers.

In the United Kingdom, these new entrants include the major supermarkets, drugstores and just about anyone else who has a customer database. The resultant battle to develop and retain effective distribution is intensifying, with many of the insurers finding themselves left on the outside looking in.

Market Opportunities

The most promising market opportunities for U.S. companies include:

- **Pensions and long-term savings products**

Over the next 10 to 20 years, the pensions market is likely to be a growth market. While the same demographic pressures now facing most industrialized nations will drive this growth, the European problem is exacerbated in comparison to the United States because European countries have traditionally provided a higher level of state pension. The market has grown rapidly as these countries have sought to reduce this burden and have offered more incentives for private pensions. However, as lower interest rates have exposed the inefficiencies of the traditional European product designs, insurers are now struggling to develop products that can meet the growing demand of the new pensions market. The resulting gap may be fertile ground for U.S. insurers who have developed innovative and flexible pension products and who can administer them efficiently.

- **401(k) equivalent**

An interesting offshoot of the pensions market is the emerging European equivalent of the 401(k) market. This is one area where Europe believes the United States got it right, and most countries are now seeking to establish some form of similar equity-backed retirement savings vehicle. As these schemes are introduced, margins around administration are likely to decrease. This could create opportunities for efficient U.S. companies that are comfortable operating in such an environment.

- **Health care**

While most European countries are loath to allow the development of an expensive private medical system like that of the United States, they now realize they can no longer support the cost of their own state systems. As a result, the market is now opening up to private medical and long-term care insurance, product areas where numerous U.S. insurers have great experience.

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• **Variable and universal life products**

For some time, the majority of the European market has been dominated by the sale of “with profits” products similar to participating products sold in the United States. While in recent years investment-linked products have begun to establish a toehold in the Continental market, they account for only 5% of new business in markets such as Germany. The reason for this slow acceptance seems to be a general consumer reluctance to move away from the more guaranteed nature of participating products. However, in the current low interest-rate environment, insurers are now cutting bonus rates. That is forcing advisers and consumers to consider the merits of other product structures. In terms of opportunity, it seems worth considering whether the U.S.-style variable and universal life products could be adapted to fill this product gap.

• **Credit Insurance**

This is a niche area in Europe that is relatively underdeveloped in comparison to the United States. Consumer spending and therefore consumer lending, are expected to increase across Europe as economic conditions improve. These factors should, in turn, fuel the need for credit insurance. However, to date, only GE Capital’s Consolidated Financial Insurance has developed a significant multicountry presence in this market.

• **Internet products**

The Internet represents a new frontier for the marketing of life insurance in Europe and one that is ideally suited to

Top Tier Comparison	
Leading European Companies	U.S. Operations
Allianz (Germany)	Allianz, Jefferson of New York, Fireman’s Fund
ING (Netherlands)	Equitable of Iowa, Life of Georgia and other life companies.
AXA (France)	Equitable Life and several fund management companies.
Fortis (Netherlands & Belgium)	Several life and fund management companies.
Prudential (UK)	Jackson National Life
Aegon (Netherlands)	Multiple life and fund management companies.
Top U.S. Companies	European Operations
Prudential	Operations in Italy.
Metropolitan Life	Sells in Portugal and Spain through Genesis Seguros Generales, a joint venture with Banco Santander.
Principal	Principal International Espana, Spain
New York Life	None
Northwestern Mutual	Frank Russell Co., an investment management firm, with an office in London and 90 associates in Europe
John Hancock	John Hancock International Services in Brussels, Belgium; Hancock International Private Equity Management, London; John Hancock Advisors International, London and Dublin.
Source: Company Web sites	

single-site manufacturing and cross-border marketing. However, only a few companies have developed their Web sites to the point that an individual can apply directly for a product, and those that have tend not to market this function openly. What does seem certain is that the Internet will increase

in importance as a distribution channel. If this holds true, U.S. companies with experience in developing business through the Internet may be able to gain an advantage over their European competitors.

Comparing Europe's Largest Insurance Markets

	FRANCE	GERMANY	ITALY	SPAIN	UNITED KINGDOM
1996 Population (in thousands)	55,652	81,818	57,269	39,742	57,881
Life premium Income 1996 (\$ million)	\$81,784	\$54,826	\$15,606	\$11,519	\$89,098
Life premium income per capita 1996	\$1,232	\$557	\$206	\$222	\$1,182
Currency	Euro	Euro	Euro	Euro	Pound Sterling (Euro by 2002)
Primary distribution channel	Banks	Tied Agents	Banks	Banks/Agents	Brokers
Main product lines	Life Investment products	Regular premium participating endowments	Single Premium, participating endowments	Tax incentive savings plans	Even split between participating and unit-linked products
Market comment	Tax incentives for life products being removed. Incentives for pension products likely to increase. Banks and unit-linked products continuing to increase market share with unit-linked products likely to grow in prominence.	Tax treatment for life products likely to change under new government. New entrants focusing on large and relatively under-insured market. Brokers, direct marketing companies and unit-linked products gaining market share.	Banks continue to dominate distribution but financial consultant channel beginning to emerge. Sales dominated by investment products with some movement to emerging unit-linked product types.	Banks dominate distribution through tax incentive savings plans. Low interest-rate environment is forcing insurers to develop more unit-linked products. Pension reform now becoming a major issue.	Europe's leaders in product innovation now face uncertain status in their home market as pension reforms highlight industry inefficiencies. Continued consolidation of companies in short term with battle for distribution key.

Source: Bacon & Woodrow, JBI Associates (Luxembourg)

Acquire or Start Anew

A U.S. company that wants to enter Europe has two options: acquire an existing business or start a new company. Which route a company chooses is likely to be governed to a large extent by its own profile and the scale of its ambitions. To illustrate this point, consider the example of two very different insurers that sought access to the German market.

CGU, then called Commercial Union, is a U.K.-based multinational composite insurer. The company decided that the most effective way to enter the German market was to acquire a company established in the market, which it did after identifying the right target. On the

surface, the case seems to be a typical example of how big companies do business. What is not apparent is that the company first identified Germany as a market where it wanted to be and then began considering how best to enter. During the review, executives considered their strengths in their home market and concluded they had nothing new to bring to the German market. They simply wanted to take their share of what they considered a market primed for growth.

On the other hand, Scottish Amicable, a mid-sized mutual life company that is also based in the United Kingdom, was constrained by its limited access to capital. The company realized that Germany was a market with numerous niche prod-

uct opportunities that matched many of Scottish Amicable's product strengths in its home market. The company's limited access to capital ruled out acquisition as a viable option. The company then considered the development of a new life company that could market in Germany and other European countries further down the line. After a complete review of the pros and cons of numerous options, the company elected to base its new "international" life subsidiary in Ireland's tax-free zone. Three years after launch, the company was writing over \$18 million in annual new business premium.

The key point for American companies is that neither CGU nor Scottish Amicable was better acquainted with the German

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market than most U.S. insurers. Other than proximity, their European base gave them no specific advantage when considering how best to develop business in Germany, but both companies saw an opportunity in Germany, assessed their options and moved forward accordingly.

While each case required a very different level of capital, it seems likely that each company employed similar criteria, perhaps 15% return on capital, to approve such a commitment. The difference is that a large company usually buys its way into a market while a medium-sized or niche company may find a start-up operation a more suitable way to develop business.

In the case of acquisitions, there is no standard template that can be provided to guide a company when assessing the value that can be gained from acquiring another business. A company must be clear about what it hopes to gain from an

likely choices for foreign companies looking to set up a new company within Europe. The centers offer equal access to the entirety of the European Union. An English-speaking culture and numerous tax advantages are the positives for Dublin's International Financial Services Centre, while Luxembourg offers a more Continental culture and easier access to German, Dutch and Belgian markets. Ireland has benefited from its strong links with the U.S. and is now home to the pan-European operations of American International Group Inc., Beneficial Financial and Western Life. Luxembourg is the base for the likes of Massachusetts Mutual Insurance Co., Standard Management Corp. and The Hartford Group.

Opportunities Abound

Many of the traditional barriers that prevented U.S. companies from doing business in Europe have been reduced or



then develop its preferred route to market, be it acquisition or start up, and work to minimize the business risks inherent in each.

Chris Carson is a management consultant with London-based Bacon & Woodrow, a member firm of the Woodrow Milliman network.

“In the case of acquisitions, there is no standard template that can be provided to guide a company when assessing the value that can be gained from acquiring another business. A company must be clear about what it hopes to gain from an acquisition....”

acquisition and value this accordingly. However, keep in mind that any acquisition that provides a base for future cross-border expansion may be more attractive to a U.S. company than a rival European company.

While U.S. companies must consider numerous issues before deciding where to base a cross-border start-up company, the decision usually hinges on selecting a tax-efficient base with a business-friendly regulator. In this regard, Dublin and Luxembourg have emerged as the most

even eliminated in recent years, and while numerous obstacles remain, Europe as an insurance market is arguably more open to U.S. companies now than at any time in history.

A balanced view of the issues is required before the decision to expand into Europe can be made. In considering these issues, companies must focus on their own strengths and weaknesses and what they bring to the market and contrast this against the opportunities available. From this assessment, the company can

A Message from President-Elect...Think *NAAJ*

by Rob Brown

As the 1999-2000 president-elect, I recently chaired my first Council of Section Chairpersons. Even before this meeting, my impression of the Sections as the SOA leadership's main connection to the grassroots of this organization was that your contributions are vital to advancing the profession. And, I came away from the meeting even more impressed with the heavy lifting the Sections do. Your hand on the pulse of your practice area assures solid continuing education content for our meetings. Your focused publications and sponsorship of relevant research and other SOA projects are hitting the mark for our members.

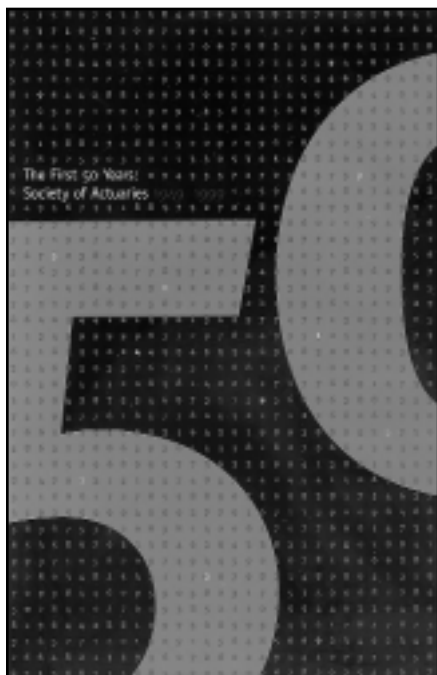
I am especially impressed with your publications. I receive — and read — copies of all the Section newsletters, plus the commemorative monographs produced by the Sections for the 50th Anniversary. What a volume of work, pertinent to so many practicing actuaries! My immediate thought was that much of this material is worthy of going to review for the *North American Actuarial Journal (NAAJ)*.

WHY THE *NAAJ*?

The *NAAJ* is the premier publication of the Society of Actuaries and its only refereed journal. Two myths about the *NAAJ* are 1) that it is only seeking scientific research done by Ph.D.s, and 2) that if an article has already appeared in another publication it can't be published in the *NAAJ*. In fact, from the beginning, the *NAAJ* has hoped to have a mix of scholarly, scientific papers, articles practical for today's practicing actuary, and wider topics that would appeal to nonactuarial readers. The "Guidelines to Authors" in the *NAAJ* states that "In general, we are looking to publish papers in the *NAAJ* that provide a springboard for the further development of education, research or improved practice." Much of what I see in the Section newsletters certainly meets that criterion, and I believe would have a good chance of being accepted by the *NAAJ*. The only truth to the second myth is that you cannot submit an article that has appeared in another refereed journal or that is copyrighted by another organization. Articles in other SOA publications are certainly eligible.

Many practicing actuaries today have limited time to write articles and may think the *NAAJ* process is too daunting. But, I've been through the process, and it is relatively painless. Why not look through what you've written for Section newsletters or *The Actuary* and consider submitting your best work to the *NAAJ*? You can find guidelines on the SOA Web site under "Publications" or you can request them from Cheryl Enderlein at 847/706-3563.

Still reluctant? Give me a call at 519/888-4567, ext. 5503, or e-mail me at rlbrown@math.uwaterloo.ca and we'll talk. Let the profession share your valuable insights.



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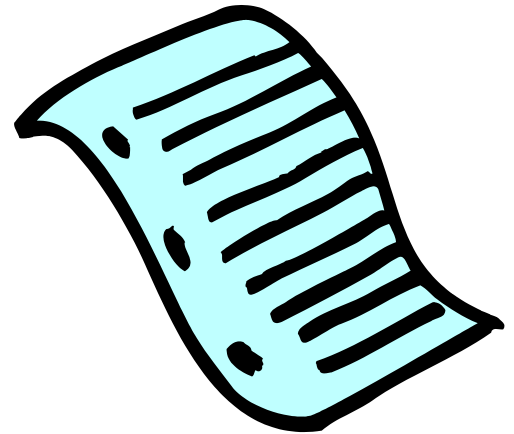
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Letter to the Editor...

Mr. Kevin M. Law
Newsletter Editor (SOA International Section)
Pan-American Life Insurance Company
601 Poydras Street
New Orleans, LA 70130



11-18-99

Dear Kevin,

I was reading with interest the article on "Life in China: Part One" in the October 1999 issue of *International Section News*.

One comment which surprised me, in the third column on page 12 was:

"In addition, the agent retention rate is quite low (more than 4% of agents quit during their first year of employment)".

Is the 4% figure really the correct one?

Yours sincerely,

Chris O'Brien
Chief Actuary
Royal & Sunalliance
(chris.obrien@rsa18.royalsun.com)

Editor's Response: We want to thank Chris for bringing this error to our attention and correct this statement saying, "more than 40% of the agents quit during their first year of employment."



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