INTERNATIONAL SECTION NEWS

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Chairperson's Corner

by Angelica Michail

"If you want one year of prosperity, grow a seed,
If you want ten years of prosperity, grow a tree.
If you want 100 years of prosperity, grow people."

— Chinese Proverb

The purpose of the International Section is to encourage and facilitate the professional development of its members in international areas of practice. The Section Council pursues projects and activities consistent with that purpose. However, some areas of the world have not been included in the realm of international practice. Perhaps this is because the actuarial profession and/or insurance, pensions, and social security programs are either non-existent or just starting to develop there.

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Japanese Life Industry in Transition

by Stephen Conwill

The Japanese life insurance industry is in the midst of a dramatic transformation. Although one wave of restructuring is nearly complete, we anticipate an ongoing and important shift in the competitive dynamics of the industry. Restructuring and refocusing activities will place significant demands on financial and human capital for years to come.

To convey a sense of the changes that have already occurred, this article describes the Japanese life insurance industry in 1990 and at present.

A Look Back To 1990

Ten years ago, a strong consensus among industry observers would have characterized the Japanese life industry in the following terms:

Financially solid – Conservative asset valuation and net level reserving were viewed as providing a strong backbone of capital.

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In This Issue

Editor's Note

by Randy Makin

It has been written by one humorist that an editor is one who knows how to separate the wheat from the chaff, and then publishes the chaff. I'm happy to say that there's no chaff in this newsletter. We have had a number of writers rise to the occasion to keep our readers updated on global changes in the insurance world.

Articles on Asia occupy a large part of this newsletter, and rightly so. In fact, this very day I spoke with a well-known actuarial recruiter who discussed two new positions in Hong Kong and Tokyo, respectively. To help us understand recent developments in Asia, Stephen Conwill has been kind enough to discuss recent changes in Japan, while Samuel Zhou has written about China, and Won How Lo on Taiwan. Rounding out articles on Asia is one by Hassan Kamil of Malaysia reviewing their new professional code of conduct, an overview of Asia by Pat Kum, and a reprint from Watson Wyatt on Indonesia.

Covering Latin America, we have an article by Ronald Poon-Affat on the SOA in Brazil. For those who don't know, Ronald has also reprinted extracts from a previous *International Section News* in a

Portuguese-English, dual-language edition. Be sure to thank him for his hard work on this. Elisa Wever has written an article on bancassurance in Latin America, while Jim Toole summarizes the origin of and goals of the Latin American Committee.

For developments that apply world-wide, Bruce Moore talks about

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This newsletter is free to Section members. A subscription is $10.00 for nonmembers. Current-year issues are available from the Books Department. Back issues of Section newsletters have been placed in the Society library and on the SOA Web site (*www.soa.org*). Photocopies of back issues may be requested for a nominal fee.

International Accounting Standards. For SOA developments, Martha Sikaras, our new manager of International Affairs, looks at the SOA Ambassador program, and Lisa Kuklinski-Ramirez has detailed the two most recent Section Council meetings.

But everything can't be covered in a newsletter. In particular, we can't fit in the people who make this happen, their personalities, or their friendships. So we want to encourage all who possibly can to come to the Annual Meeting, Oct. 16-18, in Chicago and meet us at sessions sponsored by this Section. Mike Gabon has been good enough to list these for us in his article. Above all, try to come to the International Section Breakfast at 7:30 a.m., Wed., Oct. 18, to hear reports from around the world, and join us at the Cultural Center Reception, Tues., Oct. 17. We look forward to seeing you there!

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An Update on Taiwan Actuarial Community

by Won How Lo

The Actuarial Institute of the Republic China (AIRC) serves as an educational and professional organization, administering its own examinations leading to Associateship and then to Fellowship. Founded in 1969, AIRC not only provides these programs, but also represents all the actuaries licensed to practice in Taiwan, regardless of their specialties. Three examination tracks are currently offered by this organization: life, property/casualty, and pension. Membership conversion from other foreign professional associations may be granted by providing additional years of service in Taiwan. As of May 31, 2000, individual members of AIRC totalled 1,061, which includes 139 fellows and 215 Associates.

The SOA members have dominant positions in AIRC. Currently, there are approximately more than 20 FSAs and more than 170 ASAs who also are AIRC members. The SOA has one of the largest number of individuals taking its exams, second only to the group taking the AIRC exams. The Japanese Institute of Actuaries exams has the third largest number of exam takers; however, this number is slowly decreasing.

Aside from the two exam periods held each year, the annual actuarial conference, usually in November, is the most important event for AIRC. Last year's meeting was well attended, and was held in Taipei from November 30 to December 1, 1999. On behalf of the SOA, Dr. Yuan Chang was our keynote speaker. His topic on "Current Debates on U.S. Social Security" not only gave the audience an update on some of the key issues that U.S. Social Security is confronting, but also conveyed the importance of the involvement of different professional participation, other than the traditional engagement. Stuart Wason, president of the Canadian Institute of Actuaries, along with August Chow, FSA, FCIA, began with the introduction of the Canadian Appointed Actuary's system, followed by an engaging role play with Dr. L.J. Chen joining Wason and Chow. The three roles include the Appointed Actuary, the management and the insurance regulator which showed the performance ability of actuaries. Other SOA speakers included: Dr. K.B. Ling, Dr. K.D. Jou, J.H. Dong, K.H. Chu, Siew Chui Mei, Yin Lawn, Jason Yao, Dr.C.C. Chang, C.C. Yen, S.S. Yah, C.J. Lin, Jeremy Kan, P.H. Pang and Dr. C.R. Hao. In short, the yearly conference was a success, due to the various prepared speakers and their attentive colleagues.

AIRC has been actively participating in solvency standard issues, including the "Appointed Actuary" system. The Taiwan insurance regulator's office believes that this system can be developed and will flourish in the near future with the help of AIRC. Apart from the traditional insurance, social security is becoming more diverse and widespread, creating a need for an actuarial professional's opinion and advice on issues such as the National Pension Plan and National Health Insurance. With the continuous growth of Taiwan's economy, it is anticipated that the actuaries will play an even more prominent role in providing greater opportunities toward the world market.

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Highly stable – The industry had grown steadily for 30 years, but there had been remarkably little change in the relative positions of market players. The famous "convoy" system was designed to assure that even the smallest operations survived.

Resistant to change – Industry evolution was slow, with only gradual acceptance of new product, marketing, and risk management ideas.

A difficult market to enter – Capital requirements were viewed as high in relation to perceived chance of success and potential return. Each new entrant struggled to find a viable niche in which to operate.

While there were elements of truth to this characterization, even ten years ago, there were signs of change to come. Let's reconsider this historical view in the present day.

A View from 2000

Financially Solid

Three of the 30 insurance companies operating in Japan in 1990 have been declared insolvent — with companies being seized by regulators in 1997, 1999, and 2000.

These insolvencies may not contradict the view that the industry was financially sound in 1990. While the present Japanese life insurance industry is clearly under-capitalized, the pressures now faced by the industry are the result of a multitude of events and corporate practices conspiring collectively to weaken the industry.

Some of the factors leading to the dramatic decline in industry strength include the following:

- *The dramatic decline in equity values between 1990-1992.* Unrealized gains on equities were a key component of "capital."
- *A steady drop in interest rates during most of the 1990s.* Reinvestment rates well below those needed to support long-term liability guarantees have resulted in the much discussed "interest gap."
- *The effect of Japan's prolonged recession on asset values.* Balance sheets have been pummeled by declining real estate values and increases in delinquent loans.
- *The effect of Japan's prolonged recession on the industry's core business* — increasing lapse rates creating investment and liquidity strains; declining sales exacerbating high overhead costs.
- *A material increase in competitive forces.* Competition is both external to the insurance industry (e.g., competition with banks and brokerage firms for savings) and within the industry, as many new foreign and domestic players are licensed.

> ***"While the present Japanese life insurance industry is clearly undercapitalized, the pressures now faced by the industry are the result of a multitude of events and corporate practices conspiring collectively to weaken the industry."***

Looking back with the extreme benefit of hindsight, industry problems could have been substantially avoided if restructuring and risk management were implemented in the early 1990s. In practice, given the 30 years of stability leading up to 1990 and Japan's cultural tendency towards incremental change, it is easy to understand why management was slow to act.

Highly Stable

Stability would hardly characterize the current industry, although we may be moving from a period of instability to a period of healthy but rapid change.

The competitive landscape has changed dramatically, with the entry of major new players through acquisition and the rise to prominence of many new entrants once viewed as niche players.

Among the earlier market entrants, AFLAC and Alico Japan are both important competitive forces to reckon with. Their new product and broader management strategies are carefully watched within the industry.

Among the other companies to enter the market before the wave of new entries that started in 1996, five (Sony, Prudential, ORIX, INA, and ING) have achieved premium incomes at or above $1 billion.

An additional two companies that entered or expanded operations recently through acquisitions (GE and AXA) have achieved premium incomes in excess of one billion dollars.

Finally, Tokio Anshin, the life subsidiary of Japan's largest property and casualty company, reached the billion dollar premium level after only three years of operation.

In a market with aggregate premium of approximately $300 billion, these companies still represent a relatively small portion of the total market. Nonetheless, most are sophisticated and aggressive players who will drive the ongoing realignment of the insurance sector.

Resistant to Change

The pace of change has picked up dramatically since 1996, due in part to explicit deregulatory measures, and in part to an acceleration of market driven

Market Penetration by the Newer Entrants

Company or Classs of Companies	Entry Years	Fiscal 1999 Premium Income (U.S.$ billions)
Alico	1973	3.2
AFLAC	1974	6.6
Other Earlier Greenfields	1976 - 1995	10.6
Recent Greenfield Wave	1996 - 2000	3.9
Entry through acquisition	1998 - 2000	7.4
Total Newer Companies		31.7

change resulting from the weakness of the mainstream firms.

On the product side, for example, we have seen the introduction of variable annuities, the development of new generations of variable life, and a growing divergence in price and product design from company to company.

Similar to past or present trends in other markets, we are seeing a steady move away from traditional tied agents and tentative but interesting moves toward direct distribution.

Driven by necessity, companies have begun a long process of operational restructuring aimed primarily at bringing expenses in line with market realities but in some cases, aimed at increasing operational flexibility.

Finally, the role of the actuary — long underutilized in Japan — is slowly being enhanced as management reflects on the effect of historically inadequate risk management practices.

A Difficult Market to Enter

The difficulty of market entry to Japan, relative to other countries, has often been exaggerated. It is a simple fact that market entry is difficult in any jurisdiction, and a successful acquisition or greenfield operation requires a long-term commitment of capital and quality human resources.

Japan has required a larger capital commitment than is typically needed in an emerging market. But the long history of successful new entrants, including Alico (1973), AFLAC (1974), Sony (1981), INA (1982), ING (1986), Prudential (1988), and ORIX (1991 — the year it acquired a small branch from United of Omaha), suggests that the potential for success may have been overlooked by companies considering the Japanese market a decade ago.

Since 1996, we have seen the establishment of 12 new companies by domestic firms, three new foreign greenfields, and five acquisitions of Japanese companies by foreign firms. We expect additional acquisitions and greenfield operations over the next few years. If the market was unusually hard to enter in the past, there is empirical evidence that the situation has changed.

Recent Restructuring Activities

While restructuring has occurred broadly across the industry, much of the publicity has focused on the weakest segment.

By 1995, there were hints of restructuring to come. Several companies were rumored to be facing severe capital pressures and began looking outside of Japan for capital infusions. At the same time, expected deregulation and a recognition of increasing success among new entrants were creating increasing interest in Japan among the foreign players.

In the spring of 1997, the pace of change moved up a notch with the failure of Nissan Life. Nissan's somewhat unexpected and highly publicized failure helped to promote a flight to quality — away from the weaker mainstream insurers towards either more stable mainstream players or well-capitalized new entrants.

Increased lapse rates and continued asset pressures forced two mid-sized mutuals — Toho and Daihyaku — to seek foreign capital and partners through "oldco/newco" transactions in 1998 and 1999, respectively. While both transactions brought some stability to the insurance market and continuity for employees, both companies subsequently failed in the face of ongoing asset side pressures. Both transactions brought aggressive, well-capitalized foreign players (GE and Manulife) to high profile positions in the Japanese life industry.

The Daihyaku transaction was followed by AXA's acquisition of Nichidan, a sizeable stock company, in a more straightforward transaction. Two smaller but still notable acquisitions occurred when Aetna acquired Heiwa Life, and Winterthur acquired Nicos.

These transactions are particularly dramatic when one considers that there are only forty-five life insurers in Japan, twelve of which are recently formed life subsidiaries of property and casualty companies.

A Few Numbers

For those who remember the Japanese life insurance market as dominated by a handful of large firms, the figures in the table above are interesting.

Although the aggregate premium of these newer companies is remarkable in

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and of itself, more interesting is the diversity of the various operations.

Included are companies with widely varying distribution, product niche, corporate culture and management philosophy.

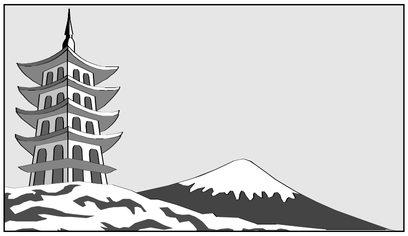
What Is Ahead?

In spite of the remarkable competitive restructuring that has occurred over the past five years, it is likely that we are still in the early stages of a longer-term trend.

Among the companies that are now viewed as Japan's mainstream players, it is unlikely that more than three or four will remain among the top ten firms a decade from now. Some will chart a course and remain — in substantially their present form — among the major players. Among others, we are likely to see mergers, failures, or simply slow and steady declines.

The diversity of competitive threats — and the multiple paths to success achieved by the more recent players — make it impossible to predict who will gain market share as the mainstream firms decline. However, in thinking about the competitive challenge faced by the mainstream companies — and for these mainstream players to develop a focused response — it is important to continually reflect on this diversity, illustrated by the list below:

- Foreign niche player moving to mainstream (e.g., AFLAC, Alico)
- Life subsidiaries of non-life companies (e.g., Tokio, Yasuda)
- Professional distribution (e.g., Sony, and Prudential)
- Direct distribution; internet sales (e.g., Zurich, ORIX, others)
- New product focus (e.g., Skandia, and others)
- New market segment (e.g., "401k" players, soon to come)
- Banks or brokerage firms (soon to come)
- New mantra (e.g., Softbank)
- Sophisticated multi-national (e.g., ING, AXA, and Zurich)
- Multi-Financial Service Provider (e.g., GE Capital)
- Strategic mergers among traditional players (e.g., Daido/Taiyo)



These competitors are coming at a time when the mainstream players are undercapitalized and are still exposed to large financial market risks.

Management risks trying to respond to these competitive threats on all fronts without adequate focus. Many mainstream players face very fundamental structural and risk management problems that need to be faced first before an effective response can be developed. For Japan's actuaries and the few foreign actuaries on the front lines, this is the fundamental task.

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Many of us pursued actuarial careers because we were employed by companies with actuarial student programs. We may not even have taken that first exam without the promise of financial help for the series of exams. Of course, the increasing salaries, status, and career challenges that follow successful completion of an exam kept us moving toward the ASA and FSA designations. As we developed, we also contributed to the expansion and enhancement of the actuarial profession and actuarial practice.

In many areas of the world, potential actuaries are not as fortunate because financial assistance is not available to encourage them to pursue the profession and help build the financial infrastructure of their countries. Below are two opportunities to help these individuals.

At the July Council meeting (see minutes in this newsletter) we decided to encourage and support a culture of taking actuarial exams in Mexico by approving $1,000 to help send a professor to Puebla, Mexico, to teach Course 1 techniques and strategies. The Latin American Committee developed the project which is expected to be implemented before the end of this year. The SOA provided the additional $4,000 needed for the project.

The Clearinghouse Scholarship Program is in need of funds for actuarial students in developing countries in Asia, Africa, and the Middle East. Scholarships are awarded to eligible candidates to help pay for examination fees and study notes. Donations may be contributed to the general scholarship fund or matched to candidates in specific countries. Maybe you can help.

Please contact Jim Toole (Latin America Committee), myself (Clearinghouse Scholarship Program), or Martha Sikaras, SOA staff (for both programs) if you want to learn more about these opportunities or if you (or your company) want to donate to the Clearinghouse Scholarship Program.

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New Trend of Life Insurance Products in China

by Samuel Zhou

Life insurance business is growing rapidly in mainland China. The business volume of life insurance has increased dramatically in recent years, and the annual growth rate is about 40% from 1980. Every year, several new companies have entered into the market. However, the life insurance products were limited to the traditional non-par. Until 1999, there was not any kind of participating, universal, or variable life insurance products in the mainland China. This situation is changing.

According to the strict regulations, the application of funds of an insurance company is limited to bank deposits, government and financial bonds, and other investment vehicles stipulated by the State Council. The narrow investment channel resulted in a tight relation between life insurance companies' investment earned rates and bank deposit rates. In June 1999, People's Bank of China adjusted the one-year term deposit interest rate from 3.78% to 2.25%. China Insurance Regulation Committee (CIRC), which regulates the insurance market, reacted accordingly. The pricing rate of long-term life products was adjusted from 5% to 2.5%, and the new rate should be applied to all policies issued newly. This was a big challenge for life insurance companies since the saving-oriented products had always been of the biggest volume among all life business, and the temptation to purchase these products suddenly fell sharply. Few people wanted to buy saving-oriented non-par products at a guaranteed interest rate 2.5% for whole life or even long term life. Life companies' business was shrinking.

Insurance companies cannot but face up to the austere environment. Some companies have enhanced the traditional non-par products. Such provisions include reduced paid-up, policy loan, conversion option, guaranteed insurability option, and so on. But they did not work well. Some companies changed their leading products from saving-oriented to protection-oriented products. It was a matter of course, but it could not prevent the premium income decreasing due to the lower premium rate of protection products.

"Insurance companies cannot but face up to the austere environment. Some companies have enhanced the traditional non-par products....But they did not work well. Some companies changed their leading products from saving-oriented to protection-oriented products."

Most companies choose product innovation to cope with business shrinkage. Maybe this is a way out. Several companies began to design participating or non-traditional products. In October 1999, Ping An Insurance Company of China launched the first unit-linked product in mainland China. This product sold successfully. In Shanghai, more than 70,000 people bought it, and the premiums reached 300 million RMB within half year. New China Life fol-lowed up. Other companies, such as China Life, Zhong Hong Life, Tai Kang Life and AIA, designed traditional participating products that were in favor with the market. Pacific Insurance Company designed the first universal life product recently.

CIRC encourages product innovations. Wu Xiaoping, the vice-chairman of CIRC, said that the life insurance business was now faced with a critical period.

Non-traditional products will hopefully fill up business volume after the interest rate adjustment. These products also reduce the interest rate risk. The interest rate risk of existing traditional products may cause tremendous losses for the Chinese life insurance industry.

Now the life business in China is evolving and transforming. Industry factors and the economic environment both affect and outline this development. Innovation may develop in two main directions: one is with the policyholder sharing experience surplus (the most is investment surplus), another is flexibility and transparency. Currently, few investment vehicles available limit the experience surplus; flexibility requires higher level of management and system supporting, and transparency needs market understanding, so it cannot go any further unless something changes. At the same time, regulation must keep pace with industry development. Resources, especially professional resources, are another big issue. In short, opportunities always go with challenges.

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The Actuarial Society of Malaysia — Professionalism Course

by Hassan B. Kamil

The Actuarial Society of Malaysia (ASM) introduced the Professional Code of Conduct (PCC) to the members in December 1998, and formally incorporated the PCC in the Constitution in May 2000. The ASM had numerous discussions with the members and made changes to the PCC throughout 1999 before concluding with the final PCC early this year.

Currently, the ASM is an observer member in the International Actuarial Association (IAA). Despite the introduction of the PCC, the ASM has not met all the requirements to be a full member of the IAA, as there is no disciplinary process in place as part of the PCC. The ASM has 25 Fellow members, and it is not possible to have a neutral disciplinary process, as most of the members are quite close to one another. Most likely, the ASM will have to rely on the foreign actuarial organizations such as the SOA or the Institute in U.K. for disciplinary proceedings depending on the respective member qualifying body.

In July, the ASM had its first professionalism course with record attendance by almost all the Fellows in Malaysia. We also had two attendees from Singapore. The course was conducted by Mr. Huw Wynne-Griffith, FIA, ASA, who is a senior partner of Barnett Waddingham in London.

Mr. Griffith presented some slides on the importance of a Code to a profession and the actuarial profession fiduciary relations with other parties. He introduced some rules on decision making by asking oneself these questions:

1) What would another actuary say?
2) What would the press say?
3) What would the judge say?
4) What would the family say?

A profession is defined by seven characteristics:

1) specialized skill
2) training
3) detachment and integrity
4) relations with client
5) collective responsibility
6) restrictions on attracting business and
7) regulating competence and conduct

Later in the session, all members were presented with 10 case studies for breakout group discussions. The case studies portray various business situations where an actuary is involved. The group discussed the possible actions to be taken by the actuary that would comply with the Code of Conduct. The case studies relate to many real-life situations, and the members had a wonderful time acting the various roles with their colleagues.

The case studies have also created some awareness to some members of their practices which may be construed to violate the Code of Conduct. Personally, I have seen some changes in the work my staff has been doing after attending the course. They are now more aware of the professionalism requirements as an actuary.

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Latin America Bancassurance

by Elisa M. Wever

The lure of high growth and profit potential of a region that is both under-banked and under-insured is naturally attracting investors. At the core of financial services in Latin America are banking and insurance. There are clear synergies between these core businesses, and effectively implementing strategies that take advantage of those synergies will be key to the long-term success of financial services conglomerates in the region.

Regulations in many Latin American countries allow banks to underwrite and distribute insurance products through their networks, either directly or indirectly. Most major banks in the region are in the process of implementing or refining their insurance strategy. At the same time, many foreign insurers who want to enter these markets see an opportunity in forming an alliance with a bank. In addition to boosting the bank's income, bancassurance has the potential of redefining the economics of traditional insurance as well as increasing the size of the potential market[1] :

- Acquisition and ongoing operating expense benchmarks of traditional insurance businesses are not applicable to a bancassurance setting because:
  - Banks have captive client bases. They can use demographic and financial information about their clients to generate warm leads for insurance sales, resulting in significant distribution efficiencies. Productivity four or five times greater than for typical career agents is not uncommon for bancassurance sales people. Typically, bancassurance sales people do not get a commission for sales; instead, they are paid a salary plus an incentive based on achieving sales targets of banking and insurance products. Increased productivity and lower sales compensation costs result in lower acquisition expenses.
  - Banks can leverage their infrastructure to give rise to significant savings in administrative and overhead costs. Bancassurers can experience operating costs as low as 25% to 50% of those of a traditional insurance company.
- Expense savings mean that banks can profitably serve market segments that traditional insurance agent networks generally ignore.

As a result of the opportunities that the region and the synergies of these businesses offer, we are seeing more and more bancassurance transactions where a foreign insurer acquires a stake in a start-up bancassurance venture. Naturally, the valuation of these start-ups is heavily weighed on the promise of the future business potential. How can banks and their insurer/partners transform this potential into a business reality and reap the profits? What are the key ingredients of a winning strategy?

- *A strong level of management commitment to bancassurance.* Bancassurance must rank high on the bank's agenda and aggressive targets must be set for insurance sales penetration of the client base.
- *A good knowledge of the bank's customer base.* Client demographic and socio-economic profiles are critical to developing a segmentation strategy that can be used to design products and time the pitch. Because of the relative frequency of contact with their customers, banks can time their insurance product offerings with a client's life events (e.g., change in marital status, purchase of a home) to achieve higher closing ratios.
- *Simple and easy to understand products aimed at satisfying clients' needs.* Products must add value to customers to create a competitive advantage. The marketing strategy should aim to capitalize on the bank's image and take advantage of the natural extension of existing banking relationships. Packaging with existing banking products can make offerings unique and enhance the customer value chain.
- *An effective training and incentive strategy for staff.* To be successful, banks must properly train their staff and set clear and meaningful incentive targets for insurance sales. Sales objectives for insurance must be set just as for other banking products.
- *Business processes and systems platforms that fully integrate bancassurance within the bank and leverage the bank's resources.* The aim is to develop processes that are seamless and efficient to minimize staff intervention and knowledge requirements. The role of the systems platforms is to support these processes end-to-end.
- *A detailed business plan that defines goals and the steps to achieve them.* Financial projections are the core of the business plan and integrate all elements of the bancassurance strategy, reflecting their financial impact. They provide a benchmark against which to measure the success of the operation. Financial projections should be built using a "bottom-up" approach, reflecting year-by-year sales of all insurance products in the planning period as well as best-estimate experience, economic, and product-specific assumptions.

As banks take advantage of the bancassurance opportunities that the Latin America region offers, they will need expertise in product design, underwriting, administration and claims handling. Many Latin American banks are selling stakes in their bancassurance ventures to foreign insurers. This innovative approach to insurance development allows banks to realize some of the inherent value of their customer bases and to fill expertise gaps quickly, and it allows insurers access to clients that would not be otherwise available. Together with a commitment to adopting the elements of a winning strategy, this can translate the potential into a business reality and allow both partners to reap the resulting profits.

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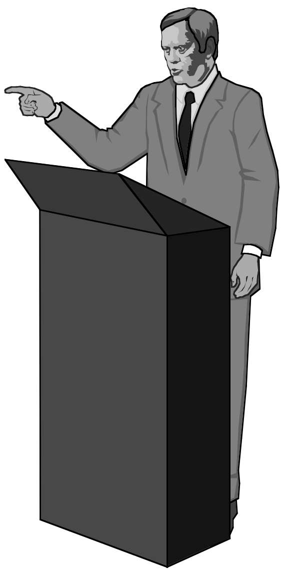
[1] *Bancassurance refers to the distribution of insurance products through bank networks, fully integrating insurance as a core bank product.*

SOA Presentation in Sao Paulo

by Ronald Poon-Affat

On June 13, 2000, there was an introductory presentation regarding the Society of Actuaries to a group of Sao Paulo-based actuaries. I thought that it might be of interest to share the program content with other international actuaries who may be thinking of undertaking a similar presentation.

The invitations were sent to the chief actuaries of all insurance companies, auditing/consulting firms and reinsurers that have a presence in Sao Paulo. For the convenience of participants, we decided to undertake the presentation after working hours. In the end we had 30 attendees, which can be considered to be quite a good turnout.



Our presentation made use of official SOA presentation material. I was quite impressed to discover that the Society has an ample amount of supporting material to assist in such presentations (video, PowerPoint presentation, “Actuaries Make a Difference” brochures, and, last but not least, “Ask an Actuary” buttons).

The program kicked off with the Society of Actuaries 20-minute video of “Actuaries Make a Difference.” Then, Jorge Noronha undertook an excellent one-hour presentation of the Society of Actuaries official PowerPoint presentation regarding the new syllabus, the examination schedule, and the cost of courses.

After the coffee break, three participants accepted my invitation to make ad-hoc presentations. They were Antonio Westenberger, Antonio Gonzalez, and Shumei Kuo.

Antonio Westenberger heads up a Brazilian actuarial consultancy and is also a professor at Sao Paulo’s prestigious University of Sao Paulo. He explained the advantages for Brazilian actuaries to undertake the SOA’s exams. His contribution was extremely valuable since he was able to put forward arguments as to why he believed that the SOA exams complemented the Brazilian actuarial qualification, making reference to the need of maintaining one’s competitive advantage in the global marketplace. Antonio also provided a brief update regarding his recent meetings with the Society of Actuaries, and he advised that the University of Sao Paulo will be an official SOA exam center from May 2001 on.

Antonio Gonzalez and Shumei Kuo, both FSAs, provided very honest accounts of their personal experiences of studying and working as American actuaries in international markets. While they both stressed the difficulties and sacrifices in studying for the exams, they emphasized the opportunities and the doors that the SOA qualification opened. Both speakers underlined the importance of employer support during the qualification process.

A lively question and answer debate followed the official presentations. I wish to address two issues which will most definitely be of relevance to other markets:

1) Is the SOA qualification relevant out of the United States? A resounding YES was the response. Both Antonio and Jorge pointed out that the new syllabus focused less on U.S. legislation. However, it was also pointed out that even international students studying for the U.S. qualification will find it useful to understand U.S. legislation, which, after all, drives product development and reserving methodology.

2) What steps will be taken to make local Brazilian companies aware of the SOA? The concern here is that local Brazilian companies may not be convinced of the need to provide study leave and financial support to assist their students’ pursuit of the SOA qualifications.

In all honesty, their second concern is a very real and understandable concern that many international countries will face. We can start by raising the SOA’s presence at the annual Brazilian Actuarial conference and by hosting SOA sponsored conferences; for example, the GAAP presentation that has already been presented in Buenos Aires and Mexico City is an option.

At the end of the conference (it ran for three hours, which we originally planned for two hours) we distributed the names and telephone numbers of all attendees. The main message was that it was up to them to form study/support groups and start interacting; we (the Associates and Fellows based in Sao Paulo) can only offer guidance and encouragement.

Ronald Poon-Affat, ASA, MAAA, FIA, CFA, is the Ambassador for the Society of Actuaries in Brazil, a member of the International Section Council and director and vice president of General and Cologne Re, Sao Paulo, Brazil. He can be reached at his e-mail address: raffat@gcre.com.

SOA Ambassador Update

July 2000

SOA Staff Changes

On June 5, Martha Sikaras assumed the role of Manager of International Affairs. The position will now be staffed full-time and headquartered in Schaumburg, IL. Martha is a ten-year SOA veteran whose previous responsibilities included coordinating the Fellowship Admissions Course (FAC) as well as serving as the staff liaison to the over 500 volunteers within the SOA's examination system. She is fluent in Spanish and has a conversational grasp of French. Martha will assume the staff liaison responsibilities for the Ambassador program as well as the various committees under the International Issues area. She can be reached by phone at 847/706-3596; by fax at 847/273-8596 and by e-mail at *msikaras@soa.org.*

Education System 2000

The PowerPoint presentation, developed in cooperation with the International Section and the SOA's Core Studies department, is a useful tool for ambassadors to use in explaining the SOA's new exam system. Ambassadors who would like to receive a copy of the presentation or other information on the new exam process should contact Martha Sikaras.

SOA Committee Information

The SOA is pleased to welcome the newly organized Latin America Committee. Jim Toole will serve as the chairperson with Joshua David Bank, Michael Bayard Smith, Fernando J. Troncoso, and Elisa M. Wever as its first members. This committee joins the previously established China Region Committee and the Southeast Asia Committee in some common mandates:

1. Encouraging and supporting the SOA educational programs
2. Supporting and assisting in coordinating research initiatives in the region
3. Supporting and participating in outreach opportunities to build the image and awareness of the profession in coordination with the International Actuarial Association

Ambassador Regional Coordinators

During a recent teleconference, plans to initiate a Regional Coordinator system for the Ambassador Program were finalized. The role of the coordinator will be to recruit, screen, manage, and maintain regular contact with the ambassadors in their region. While the International Section has oversight responsibilities for the Ambassador Program, the regional coordinator may or may not be a member of the International Section. The SOA staff will be supporting this initiative by providing regular electronic mail updates on the SOA's International activity. Each ambassador will be contacted annually prior to their anniversary date. The purpose of the call would be to take care of any administrative details, to solicit information on the actuarial profession in their country and to motivate the ambassador to continue in his or her role. Notes from these calls will serve as the basis for the Annual Ambassador Report to be compiled by SOA staff. Our intent is to provide a strong sense of community among all of our ambassadors.

New Ambassador Recruiting and Management Procedures

- Applicant contacts SOA or is suggested by a Regional Coordinator or other member.
- Application package sent by SOA.
- Completed application received at SOA. The Manager of International Affairs will follow up if the application is not received within a month.
- Regional coordinator receives a copy of the application and provisionally approves the appointment.
- Section Council confirms appointments at their next meeting.
- SOA office sends confirmation notice to the new ambassador. If the country does not have one, a Country Web Page (CWP) questionnaire is included. Otherwise, the existing CWP is reviewed by the new ambassador and provides any recommendations for changes.
- The regional coordinator calls to welcome the new ambassador and discuss the work plan.
- An annual joint call with the SOA staff and Regional Coordinator is conducted one month prior to the anniversary. The status of the work plan will be discussed as well as the work plan report for the newsletter (unless the ambassador is speaking at the annual meeting). The ambassador is asked about any relevant SOA issues and for any suggestions.
- The Section Council reaffirms appointments at each annual meeting.

Current Regional Coordinators are:

Latin America -	Jim Toole, *jim.toole@milliman.com*
Europe -	Hubert Mueller, *muelleh@tillinghast.com*
Asia-Pacific -	Hans Wagner, *HWagner@axa.com.au*

Any questions on the new procedures may be directed to Jim Toole or Martha Sikaras at the SOA office.

Clearinghouse Scholarships

The Clearinghouse Scholarship Program (CSP) was initiated by the SOA's Committee on International Issues to match low-income candidates taking examination in examination centers identified as being in developing countries with potential corporate or private sponsors. Candidates must live in a country where the annual per capita income as reported by the World Bank is less than $1,000. Currently, qualified countries include Bangladesh, China (not Taiwan or Hong Kong), India, Indonesia, Pakistan, Sri Lanka, Ghana, Kenya, Nigeria, Zimbabwe, and Egypt. Potential corporate donors and scholarship applicants are encouraged to inquire about the program by reviewing the SOA Web page at *www.soa.org/ international/ clearinghouse.html* or by contacting the manager of International Affairs.

ASIAN ACTUARIAL ACTIVITIES

An Update on Actuarial Activities in Asia

by Patricia Kum, Coordinator of Asian Services

As Hong Kong gears up for the December 1, 2000, implementation of the compulsory Mandatory Provident Fund (MPF), the SOA China Region Committee (CRC) and the Actuarial Society of Hong Kong (ASHK) together organized a one-day seminar to shed some light on "the Impact of MPF on Hong Kong's Financial Services Industry" on April 11, 2000. Insurance and consulting actuaries, economists, service providers, investment managers, regulators, and government policymakers were invited to speak at this seminar that attracted 86 actuaries and practitioners. It was also the aim of the CRC to assist SOA students in Asia gain credit for the Professional Development program. The seminar qualified for six units of SOA PD credit.

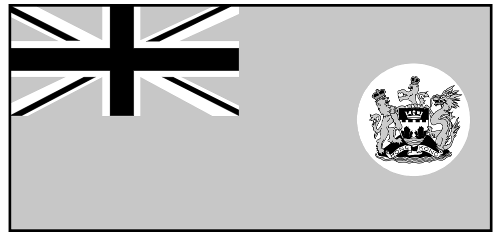
Seminars

Stuart Leckie, immediate past president of ASHK, addressed the audience in an opening speech with an overview of MPF. He highlighted the need for pension provision, the current world trend and provided some insights on how the other countries (U.S., U.K., Australia, and Singapore) are tackling the aging population problem. Ian Perkin, chief economist of the Hong Kong General Chamber of Commerce, spoke on MPF's economic impact. Believing that significant economic effects existed but were manageable, Perkin said there was a need to handle employee/er concerns and the "real" and psychological impacts. There will be winners and losers now, but in the longer term there will be more winners — employees gain some retirement funding and employers protect employees' loyalty. The economy will ultimately benefit.

William Wong, assistant vice president, MPF Financial from Manulife International; Estella Chiu, chief actuary at HSBC Life Group; and Desmond Chan, vice president & regional pension director of American International Assurance, covered MPF from the service providers' point of view. Their segment included the impact of MPF/ORSO interface, master trusts and industry schemes, implications of MPF features, risks and benefits on top of MPF, actuaries' role in MPF, and marketing issues and educating consumers.

Raymond Tam, executive director, Service Supervision of the Mandatory Provident Fund Authority, touched on the current development of the MPF system and the future regulatory development. A panel formed by the morning speakers and chaired by Stuart Leckie discussed the actuarial impact of MPF.

Speaking on the impact of MPF on the life insurance industry, Kin-Chung Chan, chairman of the SOA China Region Committee and director of



Marketing and Operations at CMG Asia Life, shared with the audience his views on the consequences on companies' life insurance product portfolio and profitability, the effect on agents and sales methods, and the opportunities and challenges for actuaries working in a mandatory scheme environment. Lindsay Mann, chief executive officer at AXA Investment Managers, covered the subject of the impact of MPF on investment managers. He believed there would be a convergence of institutional and retail business — "instividual" business, and there would be a greater concentration of control of Hong Kong assets in the hands of investment managers in the long run.

The seminar closed with an afternoon panel discussion led by Bernard Chan, legislative councilor of the Hong Kong SAR government, to discuss the lessons Hong Kong's financial services could learn from other countries' experiences with MPF. The panelists included Lindsay Mann, Kin-Chung Chan, and Michael Button, who is a managing director at Watson Wyatt. We would like to thank all the speakers and moderators for their generous time in preparing for the seminar and the participants for their enthusiastic support in helping to make the seminar a great success.

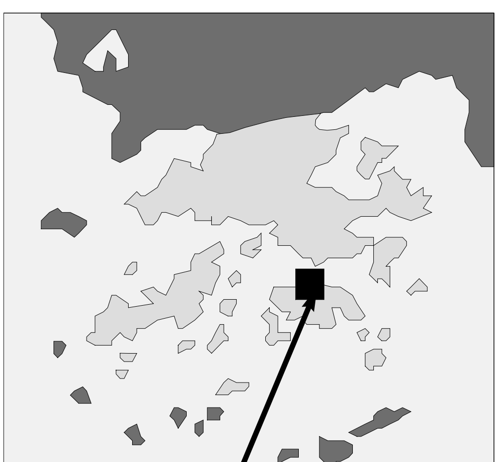
I am also pleased to report that local actuarial bodies, companies, and universities in Asia have taken the initiative to apply to the SOA for PD credit status for some of the actuarial programs and seminars they have organized in Asia. The Actuarial Institute of the Republic of China Conference, held late last year, was approved as eligible for 10 units of SOA PD credit. Recently, two in-house programs sponsored by Swiss Re Life and Health, "Financial Underwriting — An Asian Perspective" and "Insurance Distribution and the Internet: Insurance Company's Perspective" received SOA-approved eligibility status for PD. Each program qualified for four units of PD credit. The Sino-French Institute of Applied Mathematics (ISFMA) Symposium on Actuarial Science — Theory and Practice at Fudan University held from July 31-August 5 received SOA-approved eligibility status for PD.

The professional development candidates who attended the entire program will be eligible for 15 units of PD credit if the material is appropriate for their plans. A two-day intensive seminar in Hong Kong on "Actuarial Applications of Markov Chains" has been organized by The Actuarial Society of Hong Kong, Hong Kong University, and ASTIN. Approved for 15 units of SOA PD credit, this seminar is instructed by Professor Jean Lemaire, chairman of the Insurance and Risk Management Department of the Wharton School, University of Pennsylvania. For the benefit of SOA members, it is hoped that more companies and actuarial bodies and institutions in Asia will follow suit.

With the aim to meet the needs of SOA members in Asia, the SOA will for the first time organize Course 7 closer to home, in Hong Kong. Scheduled for August 28-31, the course will be held at the University of Hong Kong. SOA has plans to assess the need and interest for APC and FAC to be held in Asia in the future. Another event to note is the SOA Professional Development Program Update by August Chow, an SOA PD Committee member, on September 4 in Hong Kong. As his last talk in Hong Kong on PD matters was in April 1999, he will discuss the latest changes to the SOA PD program and share some of the observations and experience on the SOA PD programs previously submitted by students in the hope that students and advisors can better prepare for the program.

President meets members in Asia

Meetings with various SOA member groups, local actuarial bodies, and government bodies have been set up for SOA President Norman Crowder when he travels to Asia from August 28-September 8. His trip will cover Singapore, Malaysia, Taiwan, Hong Kong, Beijing, Tianjin, and Shanghai. Speaking on a hot topic in Asia, "Risk Based Capital," President Crowder will update members on SOA's Big Tent development and major SOA initiatives in progress. In China, he is expected to meet officials from the China Insurance Regulatory Commission, the China Ministry of Labour, and Social Security to discuss recent actuarial developments in China and to offer SOA's continued assistance on the development of their actuarial association and profession.



Nankai Conference

Nankai University will establish a Risk Management and Actuarial Research Centre in September this year with the support of the SOA, CMG Asia, Sun Life Assurance of Canada, and Swiss Re Life and Health. To mark this milestone, a conference on risk management and actuarial research is being organized by Nankai University and CRC from September 7-8 in Tianjin. The professional goals of the research centre are not only to accelerate the development of Chinese actuarial education, but also to intensify the exchange between Chinese and international actuarial circles. President Crowder will officiate at the opening ceremony and give a keynote speech. A representative from the China Insurance Regulatory Commission has been invited to give a congratulatory note address. The two-day conference will feature both international and local expert speakers. Catherine Prime, Stuart Wason, Yuan Chang, Allan Affleck, Li Zhenghuai, and Fu Anping cover topics such as "Risks and Risk Management in the Insurance Industry," "Insurance Product Development," "Insurance Regulation and Supervision," and "Pension Planning." The organizers intend to apply to the SOA for PD status for the conference.

Patricia Kum is coordinator of Asian Services at the Joint Actuaries Office in Hong Kong. She can be reached at her e-mail: patkum@netvigator.com.

International Accounting Standards for Insurance

by Bruce D. Moore

The International Accounting Standards Committee released an Issues Paper on Insurance late last year. The Insurance Steering Committee has been working for almost two years on a project that will ultimately result in an Accounting Standard for insurance. The actuarial professional has been heavily involved in that effort, primarily through a special committee of the International Actuarial Association focused on this issue. The result of this project will have broad implications for the insurance industry, including ultimately U.S. insurers as well. The IASC released its Issues Paper in December 1999, with a comment deadline of May 31, 2000. A copy can be obtained from the following Web site: *www.iasc.org.uk/frame/cen3_113.htm.*

This article reviews the background of that project, the processes by which the actuarial profession and others are providing input to that, and some of the more important issues.

Background

A number of important trends during the 1990s have influenced the development of International Accounting Standards. The internationalization of capital markets has led to a need for accounting standards that could be used for multinationals to access capital outside their home country. The increasing use of complex financial instruments such as derivatives has led to a need to reexamine accounting standards at both an international level and individual countries. (FASB is actively reexamining the accounting for financial instruments now). The convergence of banking, insurance, and other financial services industries has also led to a need for more consistent accounting between financial services industries. The deregulation of insurance markets and the ever-increasing market share of multi-national insurers has led to a need for common standards in insurance for both general purpose financial reporting and for regulatory purposes.

This globalization of capital markets and the trend of large multinational companies to list their shares on several international stock exchanges (and report different earnings according to the accounting regime dictated in each) prompted the International Organization of Securities Commissions (IOSCO), in 1994, to challenge the International Accounting Standards Committee (IASC) to develop a set of consistent accounting standards that could be used in those circumstances and to have the task completed by the end of 1998.

The IASC accepted this challenge by undertaking a major drive to strengthen all of the international accounting standards. The first step was to review and update all standards generally applicable to all industries by the end of 1998. Industry specific standards such as insurance were to be handled after that date. In some areas, compromises had to be made to meet the December 1998 target. For financial instruments, the standard adopted, IAS 39, has many similarities to FASB 115. But there is also an on-going project by another multinational accounting working group to revisit accounting for financial instruments with a goal of moving towards full fair value accounting.

The actuarial profession also noted the increasing importance of international activities, and as a result formed the International Forum of Actuarial Associations (IFAA) as a section of the International Actuarial Association (IAA) in 1995. In 1998 the IAA restructured itself and took over the role of the IFAA. North American actuarial leaders such as Paul McCrossan and Walt Rugland played important roles in these developments. The IAA now serves as the primary voice of the actuarial profession on international matters.

The IAA had its first interaction with the IASC in working together on an accounting standard for employee benefits, which was part of the broad overhaul of IAS. The IAA got involved a bit late in that process, and it was a challenge to reach a workable compromise with the accountants on some issues. Having learned from that experience, the IAA geared up its efforts on the insurance accounting standard much earlier in the process.

The initial meeting of the IAA insurance accounting committee took place in April 1997. It is chaired by Sam Gutterman, and other members from North America include: Mo Chambers, Dick Robertson, and Bruce Moore. The IAS Steering Committee on Insurance had not yet been formed. However, an IASC Discussion Paper on financial instruments had just been released in March of 1997, with a clear intent to move towards fair value accounting for all financial instruments and a conclusion that insurance policies should generally be considered to be financial instruments.

The IAS Steering Committee on Insurance was formed in late 1997. Its members are from public accounting firms and insurance companies, representing countries around the world. The actuarial profession has been an active contributor to its work. Paul McCrossan represents the IAA as a non-voting member at the meetings. The IASC manager for this project, Peter Clark, occasionally attends the IAA Insurance Accounting Committee meetings. In addition, there is very active exchange of ideas via e-mail. The IAA Committee had provided input on earlier unpublished drafts of the IAS Issues Paper. In addition, a number of actuarial position papers have been shared with the Steering Committee.

There have been a number of other IAS issues affecting the actuarial profession, and the IAA Committee on International Accounting for Insurance has been busy with those as well. (The IAS standards for employee benefits are handled by a different IAA committee). These issues include such areas as provisions and contingencies. A separate IAS project on discounting, an area of obvious importance for insurance, has recently started. Sam Gutterman is the actuarial representative on that committee. Wayne Upton of the FASB staff, a person well known to most U.S. actuaries involved in financial reporting, is also actively involved in both the insurance accounting project and the discounting project.

The IAS Insurance Steering Committee started its work in 1997 and met several times in 1998 and again in 1999. This work culminated in a publication in December 1999 of the Issues Paper covering the broad high level issues of insurance accounting. The comment deadline was May 31. The next step of this committee will be to review the comments received and release a Draft Statement of Principles for comment, followed by a similar process for a final Statement of Principles and finally an Exposure Draft of the Standard.

The target effective date for a new Insurance Accounting Standard is 2004. Throughout this project, an assumption stated by the IASC is that by the time the new insurance standard is in place, a new standard requiring fair value accounting for substantially all financial instruments will also be in place. So the asset side of the balance sheet for insurers will be on a fair value basis.

Developing Responses to the IASC Issues Paper

As noted above, the International Actuarial Association is taking the lead on this for the actuarial profession. The interaction over the last two years has been intense, and there are many parts of the Issues Paper where the impact of earlier actuarial input is clearly evident.

In January of this year, there was a joint meeting of representatives of the IASC Steering Committee and representatives from the IAA Committee to discuss key issues. The IAA Committee on Insurance Accounting conducted an intensive effort to develop an official actuarial response to the IASC. This process was (and continues to be) very open, with most of the work shared via e-mail with over 150 committee members and interested parties. There was a three-day drafting session in London in early April, with an additional final review last May in Jerusalem. The IAA responses will provide specific comments on the preliminary views expressed or questions raised in the Issues Paper, with more in-depth papers on a number of key issues of concern to actuaries (e.g., impact of the cash value floor for liabilities, the role of the actuary, reflecting the issuer's risk credit risk in fair values, catastrophe and equalization reserves).

There has been a lot of activity outside the actuarial profession as well. In the U.S., the NAIC has a committee dedicated to responding to IASC proposal. The AIMR also has a committee to respond to the IASC (with a broader-than-just U.S. perspective). FASB helped stimulate insurance industry interest in this by publishing *Preliminary Views on Reporting Financial Instruments at Fair Value* with the same May 31 comment deadline. While many U.S. insurers have shown little interest in International Accounting Standards (which are not now intended to replace U.S. GAAP for U.S.-based securities issuers), similar issues raised in the FASB document do get their attention. On the actuarial side, the American Academy of Actuaries has a Working Group on International Accounting Issues and recently formed a separate task force chaired by Burton Jay to address fair value issues raised in both the IASC and the FASB documents.

The Casualty Actuarial Society and the Society of Actuaries also have committees working on this and on the broader research and education efforts that will be necessary in moving toward reliable system of fair value accounting over the next few years.

In Canada, the actuarial and accounting professions have been actively reviewing the IASC issues paper and a joint response to the IASC. The Canadian insurance industry associations are also actively reviewing this. Outside of North America, there also has been active review, including strong interaction among accounting and actuarial professions in a number of countries — the U.K., Australia, the Netherlands, Japan, and Germany being notable examples. There has also been a lot of insurance industry activity in response to this. Parallel to the case with banking, there is strong resistance by some major insurers to having fair value flow directly into income statements and balance sheets, and that will likely be reflected in their responses.

The Issues

The IASC's Issues Paper is a very impressive document and reflects a lot of progress over the last two years. It is essentially a review from first principles of how insurance contracts ought to be accounted for. The issues document itself is over 200 pages, with an additional 200 pages of appendices. We cannot cover all the issues here, but we'll highlight some that are of interest, and particularly those where the actuarial and accounting professions appear to have differing opinions at present.

1. The project is defined to cover insurance contracts, not insurance companies. Insurance contracts are defined broadly and include contracts where payment is in services (e.g., managed care organizations), and a number of other types of contracts not normally issued by insurance companies.

2. The actuarial positions throughout argue that given the assumption that fair value will be used for financial instruments, the predominant asset class held by insurers in most

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International Accounting Standards for Insurance
continued from page 15

jurisdictions, liabilities should be accounted for on a fair value basis as well.

3. The Issues Paper suggests "unbundling" of insurance contracts in some instances. This includes unbundling the investment deposit from the risk and service features, along the lines of the treatment of investment contracts under FAS 97, as well as the unbundling of implicit derivatives à la FAS 133. The actuarial response argues that both types of unbundling are extremely difficult to do well in practice, are unnecessary if all components are accounted for on a fair value basis, and consequently should not be done.

4. The Issues Paper makes a distinction between "general insurance" contracts, defined as those contracts that commit the insurer to a pricing structure for not more than 12 months, and "life insurance" contracts, defined as those with price structure commitments greater than 12 months.

   More descriptive terms for this would be short-term and long-term contracts. In any case, the actuarial response points out that there is no clear separation into two types of contracts. The IASC guidance for general insurance and life insurance are virtually identical. In addition, many insurance contracts currently viewed as general insurance have price commitments over 12 months, while some contracts currently characterized as life insurance have pricing commitments of less than 12 months.

5. The Issues Paper adopts a concept proposed by the actuaries of providing for risk margins in determining the fair value of insurance liabilities. This is a recognition that the fair value of a contract, often termed the "exit value" at which the holder could sell the contract, is not necessarily the expected value of the future payments under the contract. In illiquid markets, of which insurance is certainly an example, as in active ones, the buyer of the contract will often require a risk margin be added to the expected payments to provide an incentive for purchasing the cash flow stream.

6. The concept of a deferred acquisition cost asset is rejected as not qualifying as an asset under the IASC basic framework.

7. The unearned premium reserve for short-term contracts is replaced by a provision for unexpired risk — the present value of future claims and expenses to be covered by premiums already received but not yet earned.

8. Catastrophe and equalization reserves are rejected in the issues paper, although it is noted that this was a split decision. The actuarial response pointed out that there is no uniform actuarial view on this issue as well.

9. Property/casualty loss reserves and by implication, the unexpired risk reserve, will be discounted.

10. The Issues Paper suggests that there is a case for the policy cash value as a floor unless fair values are adopted. This is an area of strong actuarial disagreement, but also an area where the accountants' views seem to be fairly firm. The strength of the accountants' position is apparently the result of extended discussions of the recognition of the "embedded value" in demand deposits in bank accounting. The actuarial response will point out that the circumstances are very different for life policies. This is a crucial issue, as the combination of a cash value floor and the elimination of DAC would take us back close to the pre-GAAP accounting systems used in the U.S. in the 1960s on the liabilities side; with fair value accounting on the asset side. Similarly, for short duration contracts, use of the premium refundable in the event of cancellation would put us back close to the old unearned premium reserve.

11. Future dividends will be allowed for in determining fair values, based on policyholders' reasonable expectations of what they would receive given the assumptions underlying the projections. Unallocated surplus will be reported as equity, including portions that will ultimately be allocated to policyholders.

12. On an issue familiar to many, the actuaries argue that deferred tax provisions for insurance should be discounted.

13. An interesting issue generating a lot of controversy is whether the issuer's credit standing should be reflected in valuing its liabilities. The actuaries involved in this, almost without exception, find the notion that an insurer's liabilities would be reduced, and its earnings increased, as a result of a ratings downgrade to be preposterous. But many accountants seem to find it hard to believe that anyone would disagree with that.

There is extensive discussion of what disclosure would be desired. This includes the impact of regulatory solvency requirements, the impact of changes in assumptions on results, and the impact of the market value margins on the total liabilities in earnings. In general, the actuarial position is in agreement with extensive disclosures.

The actuarial response also describes our standard processes in many countries today and indicates the actuarial profession's readiness to develop standards to make sure that the actuarial work products under the new IAS Standard for insurance are reliable, consistent, and auditable.

Bruce D. Moore, FSA, MAAA, FCAS, is a partner with Ernst & Young LLP in New York. He can be reached at bruce.moore@ey.com.

Recovery and Regulatory Changes in Indonesia

by Richard Holloway

Editor's Note: Reprinted with permission from the Watson Wyatt Asia Pacific Insurance Review*, May 2000. Action should not be taken on the basis of this article without specific guidance.*

Following one of the worst periods in the history of Indonesian life insurance industry, it has been showing signs of recovery. This, coupled with some regulatory changes designed to improve the financial condition of companies, provides encouraging signs for an industry that has been severely battered and bruised through the recent economic and political problems.

Recovery

Prior to the economic crisis, the life insurance industry had been growing strongly. Total premium income more than quadrupled in size over a 6-year period, growing from Rupiah 0.8 trillion in 1992 to Rupiah 3.6 trillion in 1997, implying a nominal average growth rate of 35% and a real growth of 25%. The collapse of the Rupiah at the end of 1997 and the ensuing economic and political upheaval have both caused a variety of problems within the industry. Many policies were surrendered and new U.S. dollar-denominated business all but disappeared.

Many commentators were skeptical about the pace of recovery in 1999, particularly with the prospect of the Presidential elections hanging over the country. In practice though, 1999 was a good year for the industry. Total premium income was Rupiah 5.4 trillion, based on data submitted by 49 of the 58 companies in the market, as compared to Rupiah 4.9 trillion for the entire industry in 1998.

Although the whole industry has recovered to an extent, it is the foreign joint venture companies that have been experiencing much of the growth. The financial crisis badly affected the image of many domestic conglomerates and banks. This has resulted in a "flight to quality and security" from which the joint venture life insurance companies have benefited.

Regulatory Changes

A summary of the major regulatory changes introduced post-crisis is provided below:

- ***Foreign Equity Cap***

Prior to the economic crisis, foreigners could hold up to 80% of the equity in an insurance joint venture. The recent economic environment has made it impossible for the majority of the domestic partners in the joint venture to raise additional capital.

There have been several situations where foreign joint venture companies have not been able to inject much needed capital without contravening the limits on foreign equity. As a result, the regulator has relaxed the foreign shareholder maximum of 80%. However, although a foreigner can dilute the domestic equity, it cannot buy existing shares owned by the domestic partner. New companies do still need a domestic shareholder; at the time of establishment the foreign shareholding is still capped at 80%.

- ***Capital Requirement***

After much discussion about the inadequate level of capitalization of the industry, the Government finally issued a ruling on July 2, 1999, stating that new insurance companies will be required to have a minimum paid-in capital level of Rp100 billion. Previously the regulations had required minimum paid-in capital levels of Rp2 billion and Rp4.5 billion for domestic and foreign joint venture life insurance companies, respectively. Existing insurance companies are, however, unaffected and are still governed by the previous low levels.

- ***Solvency Margins - Risk Based Capital***

Following much debate among the industry, the regulator has formally

introduced more onerous solvency margin requirements. These are based on a risk-based capital (RBC) approach, similar to that which is found in Canada. Each insurer has to meet solvency margin requirements in a stated proportion to various risks.

The solvency margin is being phased-in over a five year period. Initially insurers are required to hold 5% of the calculated solvency margin by the first quarter of 2000 increasing to the ultimate level of 120% of the calculated solvency margin by the end of 2004.

Possible Implications For Insurers

Each of these changes are designed to improve the financial soundness of the industry. If the regulations are strictly enforced, the new solvency margin requirements will focus more attention on the capital requirements of the business. This is likely to affect many of the smaller companies, with a likelihood of industry consolidation in the short to medium term.

In addition to understanding how to calculate the new solvency margin, it will also be important for companies to project the solvency margin and capital requirements in the medium term. The requirement to hold more onerous solvency margins may also impact on product profitability and prompt consideration of alternative product designs.

Other Changes

Other recent changes include the approval of investment linked business (which was previously considered to be

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Recovery and Regulatory Changes in Indonesia
continued from page 17

indirectly prohibited by the reserving regulations) and a relaxation on the rules for foreign investment whereby up to 20% of an insurer's total assets can now be invested overseas. Companies have already started to successfully introduce single and regular premium unit linked plans, several of which are linked to funds in a variety of currencies. Matching of US dollar liabilities with overseas assets is also becoming more prevalent.

The Future

Despite the well-publicized economic and political problems, there are signs that the life insurance industry in Indonesia is recovering. Prospects for growth in the short term are good. Although we expect some consolidation within the industry, the absence of an array of attractive acquisitions means that growth will be largely organic in nature.

Richard Hollowa, is managing director, Watson Wyatt's Singapore office. He may be reached at richard_holloway@ watsonwyatt.com.

International Sessions at the Annual Meeting

by Michael Gabon

Following are summaries of sessions and events sponsored by the International Section at the upcoming Annual Meeting. Plan to attend the sessions and join us for a Tuesday early evening reception at Chicago's Cultural Center and breakfast on Wednesday, Oct. 16-18.

Who Wants To Be an Offshore Reinsurer? IF 34, Monday, Oct. 16

This session provides reinsurer, regulator, and rating agency perspectives on the use of reinsurance with offshore entities. In doing so, onshore ceding companies will be better informed, as will those firms considering entry into the offshore market place.

Penetrating the Great Wall of China PD 53, Tuesday, Oct. 17

For several years only a few foreign insurers were permitted to provide life and health insurance in China. In recent years, regulators have been more receptive to the entry of foreign insurers to service the population of over one billion. This session will provide you with a better understanding of the opportunities and obstacles of the insurance marketplace in China.

International Nontraditional Marketing CS 69, Tuesday, Oct. 17

As companies seek profitable growth, international expansion and utilization of nontraditional marketing methods are often given consideration. This session allows you to participate in a case study discussion of a company developing its strategy for entering a foreign market place, using alternate marketing methods.

Critical Illness: Surviving 5 Continents PD 85, Tuesday, Oct. 17

Critical Illness, introduced in the early 1980s, made its way around the globe in insurer product portfolios in a little over a decade. Attend this session to gain a background and basics. Attend the follow-up session to discuss experience, issues, and opportunities in offering the product in markets outside North America.

Savings and Retirement Plans in Developing Countries PD 86, Tuesday, Oct. 17

Latin America, Southeast Asia, and Eastern Europe are recognized as regions with relatively untapped private insurance markets. However, recent changes in social security systems have dramatically changed the playing fields. This session presents opportunities insurers are exploring in the public and private savings and retirement market segments of the above regions.

Early Evening Reception FT 102, Tuesday, Oct. 17

Join friends and colleagues while savoring the food, entertainment, ambiance, and taking a guided tour of the Cultural Center, one of Chicago's most historic buildings.

International Section Breakfast SM/PD 111, Wednesday, Oct. 18

Join Section members to hear more about the Ambassador Program and briefings from our SOA Ambassadors. In addition, participate in discussions about issues facing the International Section.

Cultural Center Reception

For those who are attending the Annual SOA meeting in Chicago, we want to invite you to Tuesday night's Cultural Center Reception, hosted by the International Section, "Section of mystery and culture," in the Cultural Center, one of Chicago's historic buildings.

CHICAGO CULTURAL CENTER
78 EAST WASHINGTON • CHICAGO

Enjoy the stained glass dome and mosaic tiles in G.A.R. hall as you listen to international music and sample a selection of hors d'oeuvres.

The Cultural Center will be providing tours of the building.

This reception is open to all attendees. There is a non-refundable charge of $25 for International Section members and $35 for non-Section members, to be included with your registration. Bus transportation will be provided to and from the Cultural Center.

We look forward to seeing you there!

Birth of the Latin American Committee

by Jim Toole

The Society of Actuaries is a global educational and research organization. The needs of its publics, from regulators to members to students to corporations, span six continents. While the Society thinks globally, it needs to be able to act regionally in order to both understand and better address the needs of its publics. To that end, the Latin American Committee (LAC) was formed to help the Society coordinate and manage its activities in Latin America. As such, the LAC mission statement below directly relates to the SOA mission statement:

1) Encourage and support the SOA educational program
2) Support and assist in coordinating research initiatives in the region
3) Promote high standards of professional competence and conduct of members within the region
4) Serve interested publics from within and without the region
5) Serve members from within and without the region
6) Support and participate in outreach opportunities to build the image and awareness of the profession in coordination with the International Actuarial Association

Committee Members

Coordinating regional efforts is a challenge that is being addressed by building a network of relationships to encourage cross-communication. The committee chair serves as a member of the International Policy Committee, another member is from the Casualty Actuarial Society (CAS), and it is expected that a third will be the Latin American regional Ambassador coordinator and a member of the International Section Council. This connection is particularly important to ensure that the objectives of the committee and the Ambassador Program remain aligned, and, more importantly, to ensure that local actuaries receive a consistent message from the SOA.

The committee currently consists of five standing members:

- Josh Bank
- Michael Smith (CAS)
- Jim Toole (Chair)
- Fernando Troncoso
- Elisa Wever

It is expected that the committee will expand in the future to a maximum of nine members.

Local support and information about local conditions will be provided by the SOA Ambassadors (see related article page 11). Local projects requiring support or information regarding outreach opportunities will filter through the Ambassadors. Where Ambassadors are not available, other individuals may be solicited. Ambassadors will be encouraged to participate in quarterly calls with standing members to discuss projects and issues.

While the LAC is dedicated to supporting ambassadors in the region, the committee members must take a regional perspective, with time and energy to follow through on ideas which need upstream support from the Society. One example of this is the translation into Spanish of a presentation on the new E&E system recently provided by the International Section Council to the ambassadors.

The committee is fortunate to have Martha Sikaras as its staff liaison. Martha has been with the Society since 1990 in various capacities, most recently as education coordinator and coordinator of the Fellowship Admissions Course. She speaks Spanish, and with her E&E background, is a perfect fit with the Committee's objectives.

Current Activities

Our initial focus is to try to encourage and support a culture of taking actuarial exams in Latin America. We feel these efforts are of significant value both to our membership and the exam takers, and ultimately to the developing insurance industry in those countries. While foreign investment in the region has been growing rapidly, the availability of bilingual SOA/CAS qualified actuaries has not kept up with demand.

Latin American actuaries are generally trained and accredited through university-based systems. While in no way do we see the exams as supplanting that process, we feel the exams provide additional actuarial education and a reliable benchmark for international companies in selecting and retaining employees. The new SOA exam system lends itself to international exam takers.

We are taking a long-term approach to building the supply of SOA/CAS qualified actuaries in Latin America by encouraging exam taking at the university level. The LAC is currently involved in an experimental project to try to increase the rate of exam takers and the percentage of exam passers in Latin America. To that end, we have contacted Warren Luckner, former professor and member of the SOA staff, to teach a Course 1 exam prep course at the University of Puebla in Puebla, Mexico, in advance of a national actuarial student congress. Both students and professors from the major universities with actuarial programs will be in attendance, and it is hoped that good results will be self-perpetuating. If the results turn out to be favorable, other seminars in other countries may be held.

Other possible LAC activities include:

- Encourage companies to provide support to its employees for the SOA exams
- Facilitate cross-border internship and employment opportunities
- Help ambassadors in the region achieve their goals and be more effective
- Assist the Education and Examination committees in providing appropriate credit for university-based training and written theses prevalent in the region
- Establish reference centers at key universities
- Assist the Professional Development committee in identifying and promoting PD opportunities
- Research and recommend options for translating early exams
- Identify and coordinate resources for grading exams written in Spanish

If you are interested in contributing or feel the committee might be of service to you, please contact Jim Toole at *Jim.Toole@Milliman.com* or any member of the committee. We look forward to hearing from you.

International Section Council Minutes

4/4/00 6:00 p.m. EST

Roll Call:

Angelica Michail, Jim Toole, Lisa Kuklinski-Ramirez, Hans Wagner, Randy Makin, Michael Gabon, Ronald Poon-Affat, Hubert Mueller, Joshua Bank, August Chow, Lois Chinnock, and Chelle Brody

January Meeting Minutes

The Council approved the January 5, 2000, meeting minutes.

Treasurer's Report

Lisa reported that the International Section' funds were $48,878 at the end of 1999.

Spring and Annual Meetings Update

Josh provided an update on the Spring Meeting sessions:

Las Vegas:

1. Pension Reform in the 21st Century
2. Brazil Pension Headaches

San Diego:

1. Actuarial Education
2. International Accounting Standards Update
3. La Dolce Vita

- Don't miss Pension Reform in the 21st Century! We are looking forward to a very lively debate between Robert Myers and a representative from the Cato Institute.
- The Actuary of the Future's Ambassador Program session scheduled for the San Diego meeting has been cancelled.
- Actuarial Education and Certification Around the World has been tentatively cancelled for the Las Vegas meeting.

Michael reported that the annual meeting sessions have almost all been recruited. The planned sessions are:

- Pensions Around the World (Public and Private)
- Critical Illness
- Reinsurance/Offshore regulation
- International Non-Traditional Marketing
- China – Update on Life Insurance Market
- Breakfast with the Ambassadors

The reception at the Chicago Cultural Center is a go! Council members are asked to bring world-music CDs, to provide a musical backdrop for the festivities. Free tours of the Cultural Center will be available and are expected to last 30 to 45 minutes.

Hubert outlined several suggestions for European sessions. His idea for a Central Europe session can be incorporated into Henryk Walerys' discussion of the pension market in Poland scheduled for the Annual Meeting. Two other ideas (life insurance market, unit-linked products) can be considered as session topics for Spring/Fall 2001.

Newsletter Update

Randy reported that the size of the upcoming newsletter would be more "manageable." Articles will include Tbilisi, the International Association of Insurance Supervisors, Australia's Life Insurance Tax Act, PD in Asia, publication Survey results, Korea, unit-linked business in Europe, and the International Section Council's January meeting minutes.

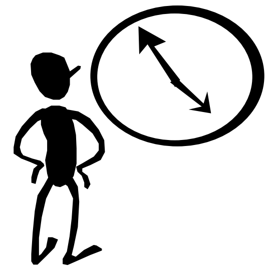
Ronald informed us that the special Brazilian edition of the newsletter is now on the presses. Ronald also reported that Tillinghast and the SOA will co-sponsor the next edition.

Ambassador Program

Hans' presentation on the recent changes on the E&E system has been mailed to the ambassadors and has received excellent feedback.

The gifts for long-service ambassadors are ready and are awaiting distribution. Angelica and Jim will co-sign a thank you note to accompany the gifts.

The ambassador mailing list (including e-mail addresses) has become outdated. Several Council members voiced the need for a dedicated resource to maintain the mailing list and follow up on ambassadors' annual reports.



The International portion of the SOA Web site is completely revamped and looking great. Country Web pages are up and running. The next step is to build up the International Section Council Web site. All Council members are asked to bring their ideas to the next conference call.

Examinations

August Chow mentioned that the PD Committee had a discussion about whether students in remote locations, as well as students in financial hardship, can obtain the required 20 SOA-approved PD credits by obtaining the SOA audio tapes and conducting a self-study. The student's advisor must agree that the self-study meets the educational objectives.

August also encouraged local consulting firms and accounting firms to invite students to their actuarial education sessions, and can facilitate obtaining SOA PD approval for these sessions.

Finally, the SOA has a budget to hold seminars internationally. Several Council members suggested one seminar per year per international region.

International Meetings and Seminars

Cancun 2002 – Jim contacted Nancy Behrens to see how the International Section can assist in planning this meeting. Topics for several sessions have already been assigned to the SOA to develop and recruit.

Latin America Initiative

The SOA International Policy Committee and SOA Board have approved Jim's proposal to form a Latin America Committee. This group will be responsible for addressing the needs of students,

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International Section Council Minutes
continued from page 21

ambassadors, and local actuarial organizations in Latin American countries. This committee would complement the China Region Committee and the South East Asia Committee. The new committee listing will be posted on the SOA Web site.

Candidates for next ISC Election
Names are needed by May 12. Please send information to Angelica after first verifying that, if elected, the candidate would be willing to serve on the ISC.

Council of Chairpersons Meeting
Angelica and Jim will attend the upcoming May meeting.

SOA Staff Changes
The SOA intends to recruit one full-time manager to support all of the SOA's international activities, including this Section's ambassador program. Chelle will be leaving the SOA in June. Chelle, thank you for everything. We will miss you!

Next meeting
The Council agreed that the next meeting would take place the week of July 10. Lois will poll for availability in June.

International Section Council Minutes

7/10/00 6:00 p.m. EST

Roll Call:
Angelica Michail, Jim Toole, Lisa Kuklinski-Ramirez, Randy Makin, Michael Gabon, Ronald Poon-Affat, Hans Wagner, August Chow, Lois Chinnock, and Martha Sikaras

Welcome to Martha Sikaras in her new role as manager of International Affairs.

April Meeting Minutes
The Council approved the April meeting minutes with August Chow's clarifications on Examinations.

Treasurer's Report
Lois Chinnock reported that the International Section's funds were $59,602 at the end of the first quarter.

Spring and Annual Meetings Update
Spring Meeting –
San Diego Session on "Actuarial Certification and Education Around the World" was well attended. Angelica will ask Josh to provide a report on the other spring sessions. Thank you to all presenters.

Annual Meeting -
Mike Gabon reported that speaker recruitment was in good shape. The International Section Breakfast and the International Reception at the Chicago Cultural Center are all set.

Newsletter Update
U.S. Edition – Randy Makin made an urgent call for articles for the upcoming newsletter. Proposed articles included the newly formed Latin America Committee, an "advertisement" for the International Reception at the Annual Meeting, and a call out for international PD programs.

Portuguese Edition – Ronald Poon-Affat reported that the Brazilian edition is currently being published.

Ambassador Program
Angelica Mikhail, Jim Toole, and Hans Wagner reported that they would hold a conference call to codify the ambassador Program rules.

The Council confirmed the appointment of Jorge Noronha as ambassador for Argentina. He will replace Chip Moes. Singapore and Germany are close to being recruited. Mexico currently does not have an ambassador and the need for one (given that Mexico is part of NAFTA) was expressed.

A communication letter updating the ambassadors on current events was mailed to Ambassadors and will be distributed to the Council.

Ronald reported that a presentation on the new exam structure was made in Brazil. Thirty people attended the presentation, including five SOA members. Several interesting questions were raised in the presentation, including:

- Can credit be given for fulfillment of local (in this case, Brazilian) actuarial certification standards? This question will be forwarded to Curtis Huntington and the SOA E&E Chairperson.
- What types of study time programs do employers offer? Members of the Council from various types of firms (insurance companies, consulting, U.S., foreign) will compare notes and provide some examples.

Examinations
August Chow reported that the PD Committee will soon promulgate information on how candidates can obtain a limited number of PD credits by obtaining SOA audio tapes and conducting a self-study.

In addition, the SOA Board approved $50,000 for FSAs to travel to Asia to conduct seminars where local students can earn PD credits.

Latin America – Request for Funding
Jim Toole presented a proposal for funding from the Latin American Committee

(LAC). In order to encourage and support a culture of taking actuarial exams in Latin America, the LAC has proposed to send a professor to Puebla, Mexico, to teach Course 1 techniques and strategies to students and professors, tying into a national student congress. The total estimated cost for this seminar is $5,000. The Council unanimously agreed to contribute $1,000 to the LAC for this seminar. These funds are available from the amounts budgeted for committee support.

Election of Officers

Since there were only four members remaining on the conference call at the time this agenda item came up, the Council decided to conduct the chair-person election by e-mail and the vice- chairperson and secretary/treasurer elections at the October meeting. Although the Section by-laws specify that four council members constitute a quorum for decision-making, the group felt there should be more council members participating in the chairperson election process.

Council of Chairpersons Meeting Report

Angelica and Jim attended and found it valuable to learn about other Sections' experiences.

Next meeting

The Council agreed that the next meeting would take place 2:00 - 5:00 p.m., Sunday October 15 at the Chicago Annual Meeting.

Record Sessions for International Section Track Posted on the SOA Web site

Atlanta Spring Meeting, May 1999

Session 72PD ***Life in the Americas***

Panelists discuss development in Latin America that many experts believe will lead to one of the highest growth individual and group life insurance markets in the world.

San Francisco Annual Meeting, October 1999

Session 36PD ***The New European Union***

The panel considers the various challenges and opportunities presented by the new European Union.

Session 125PD ***International Valuation-Coming Soon to a Country Near You***

The panel discusses how the National Association of Insurance Commissioners, the Financial Accounting Standards Board, and the International Accounting Standards Committee are changing the next century's insurance valuation framework.

"Coming Soon" to the SOA Web site San Diego Spring Meeting, June 2000

Session 3PD ***Actuarial Education and Certification Around the World***

Panelists compare the education, examination, and on-the-job experience and actuarial requirements around the world.

Session 21PD ***International Accounting Standards Update: Life Insurance and Reinsurance***

Panelists discuss international accounting standards.

Session 39PD ***La Dolce Vita! Current Developments in the Southern European Marketplace***

Panelists discuss the key cultural, financial, and business issues that affect the way insurance is produced, marketed, distributed, and administered in the Southern European and Mediterranean regions.

(Over)

Election Results

Congratulations to the newly-elected members of the International Section Council:

- **August C. Chow,** *William M. Mercer, Toronto*
- **Shumei R. Kuo,** *Aetna, Hartford*
- **Jorge M. Noronha,** *INMARK NMG, Miami*

Also, thanks and much appreciation to retiring Council members - Angelica Michail, chairperson, Joshua Bank, and Jeong Han.

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