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Rapid growth in the Chinese insurance market

by Thomas P. Laine

Before the early 1980s, when China began implementing its economic reforms and developing its socialist market economy, the average citizen had little need for insurance. The risks of becoming sick or disabled, of dying without adequate resources for survivors, of outliving one's assets, of property damage and so on were all taken care of by the government. With the development of the socialist market economy, however, all of this changed and people were increasingly made responsible for their economic security. In recognition of this fact, the Chinese government has put great emphasis on developing the insurance industry.

A brief history of insurance in China

Historians believe that a rudimentary form of insurance may have existed in China as early as 5000 B.C. At that time, boat operators found it advantageous to redistribute their cargoes to several boats as they approached treacherous rapids on their rivers. If one boat was lost, all the boat owners shared the loss and no one was wiped out.

In more modern forms, foreign business people first introduced insurance to China in the early 1800s. In 1805, the Canton Insurance Company was established in Guangzhou and in 1865 the first Chinese insurance company, the Yi He Insurance Company, was formed in Shanghai. By the turn of the century, China had a very advanced insurance industry, albeit one dominated by foreign insurance companies.

Following the establishment of the People's Republic of China, all insurance operations were nationalized in 1949 and replaced by the state-owned People's Insurance Company of China (PICC). In 1958, the domestic insurance business was suspended, as it was felt to be unnecessary because of the government's monopoly of economic activity and provision of universal welfare benefits. For the next 20 years, PICC's activities were confined to China's international business, principally marine and aviation.

In 1982, PICC resumed its domestic insurance business. PICC's monopoly ended in 1986 when a regional agricultural insurance company was formed. In 1988, another company, Ping An, was granted a license in Shenzhen, and in 1991, China Pacific Insurance Company was established in Shanghai; both are now major competitors of the PICC. Other domestic companies have since been licensed, including Taikang Life, New China Life (Xinhua Life), Taiping Life, HuaTai (a P&C company) and Tai Ping General Insurance Company.

PICC underwent a restructuring in 1996 after composite companies were required to separate their life and non-life operations. This resulted in the establishment of a state-owned holding company, PICC Group, with three wholly owned subsidiaries: PICC Property, PICC Life and PICC Re. The company was restructured again in 1999 when the holding company structure was dissolved and

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editorial

China and India—
New markets for life insurance

by Charles C. McLeod

Life insurance has generally not been a successful export industry for the United States. With the notable exception of American International, until 10 years ago very few American companies did significant amounts of business outside the United States. Further, since then there has been contraction and withdrawal from Canada and parts of Europe, so that today there are very few American life insurance companies doing business in Canada or Europe. In contrast, a number of the larger Canadian and European life companies have significant operations in the United States.

It is interesting to speculate on the reasons for this. One reason may be that, due to different legal and regulatory systems, tax regimes, the role of governments in pensions and health insurance, and culture, it is rarely possible to sell the same product, using the same administrative systems and the same distribution systems, in different countries. This contrasts with manufacturing industries where a product sold in one country may be almost identical to that sold in another. Another reason may be that the large U.S. life market, combined with the fact that few companies had more than a small share of this market, meant that U.S. companies had significant opportunities for growth at home without the need to expand internationally. It is interesting to note that many of the foreign companies that have expanded into the United States are based in countries with relatively small populations where there are limits to their growth—Canada, the Netherlands and Switzerland are examples of this.

This situation now appears to be changing as many U.S. companies are developing an international presence, particularly in Mexico (see *The Actuary*, November 2000) and Asia. Two common features of these new markets are large populations and a relatively undeveloped insurance market. This issue of *The Actuary* focuses on two of the largest potential new markets for life insurers—China and India. They have many features in common—very large populations, a growing middle class (particularly in India) and the very recent opening of their insurance market to foreign life insurance companies. Over the last five years, many of the largest American, Canadian and European companies have invested much time and many resources in studying these markets, looking for joint venture partners and applying for licenses—as described in this issue. Finally, some of these companies are able to start doing business in China and India, fully recognizing that it may be many years before they start to recover their investment.

American companies have been world leaders in many export industries such as aerospace and computers. Will life insurance become another?

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Rapid growth in the Chinese insurance market

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PICC Life was renamed China Life, PICC Property became just PICC, and PICC Re was renamed China Re.

The first foreign license was granted to AIG's subsidiary, American International Assurance (AIA), in 1992 for wholly owned life and P&C branches in Shanghai. Sixteen other foreign life insurance companies have since been granted permission to set up joint ventures with Chinese companies. As of this writing, nine have begun joint venture operations: ManuLife, Aetna/ING, Allianz, AXA, Colonial Mutual Group, Prudential (UK), John Hancock, Generali and Sun Life. The seven other foreign companies that have not yet begun operations are CGNU, Aegon, CNP, ING (which received separate authorization from the one above which ING acquired when it bought Aetna's international business), MetLife, New York Life and Nippon Life.

Other foreign insurance companies have acquired shares in Chinese insurance companies (limited to a maximum of 25 percent), including Fortis, which acquired 24.9 percent of Taiping Life in 2001 and ACE Ltd., which acquired 22 percent of Huatai this year.

Potential of the Chinese insurance market

China's insurance market, while the 16th largest in the world, is still small relative to the size of its population and economy. China's insurance premiums in 2001 were $25.5 billion, of which 67.5 percent or $17.2 billion was life and 32.5 percent or $8.3 billion was P&C. Insurance penetration (insurance premiums as a percentage of GDP) in China is only 2.2 percent, as compared to a world average (in 2000, according to Swiss Re's SIGMA) of 7.8 percent or compared to Taiwan's 7.4 percent and Hong Kong's 4.9 percent. Insurance premiums per capita in China are only $20.

China's insurance market has, however, been growing very rapidly, much more quickly than even its fast-growing economy. Life premium growth has been especially fast. Over the period 1993–2001, life premiums grew at an average annual compound real rate of 26 percent, about three times faster than GDP. After relatively modest growth rates in 1998 and 1999 (partly due to a reduction in policy interest rates to 2.5 percent in June 1999), growth accelerated again in 2001, when life premiums grew by 43 percent.

Life insurance growth has been fueled by the rising incomes of China's people, especially in urban areas.

Life insurance growth has been fueled by the rising incomes of China's people, especially in urban areas. The income elasticity of insurance in countries with emerging middle classes is usually much greater than one, meaning that insurance expenditures grow significantly faster than income or GDP. Other factors stimulating growth include:

- Increased individual saving for retirement, since the government social security system is under increasing financial strain, even with the recent reforms, and because parents recognize that (with China's one-child policy) their one child will not be able to support both them and his or her own family.
- The growth of the private sector and reform of state-owned enterprises provides more opportunities to sell group and pension business.
- The introduction of the agency distribution system and an increase in the number of insurance companies and agents.
- Parents using endowments as a way of building up funds for their child's university education or wedding.
- Guaranteed interest rates on savings policies, which in the past have exceeded bank interest rates.
- China's high savings rate of around 40 percent GDP and a shortage of other investment options.

China's non-life (P&C) market, in contrast, has been growing much more slowly, by an average annual real rate of six percent over 1983–2001. The slower growth is due largely to a low level of risk awareness among China's state-owned enterprises, increased competition leading to lower premiums and an undeveloped personal property insurance market (Chinese residents have only recently begun to own their own homes, and automobile ownership, while increasing rapidly, is still uncommon).

With the low insurance market penetration and with the rapid increase of China's incomes expected to continue, China's insurance market shows tremendous potential for continued rapid growth. Industry projections are for total insurance premiums to grow 12 percent annually over 2000–2005, with life insurance premiums expected to grow even faster.

Regulatory framework of the industry

China has developed its insurance regulatory structure largely just over the past ten years. A major step forward was the passage of China's Insurance Law in 1995, which is China's first comprehensive law governing insurance contracts, insurance

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business operations, supervision of the insurance industry, standards for agents and brokers, etc.

The establishment in 1998 of the China Insurance Regulatory Commission (CIRC) as China's insurance regulator was a second major step. CIRC took over the insurance regulatory responsibilities formerly handled by the People's Bank of China (PBOC). Chairman Ma Yongwei heads CIRC. CIRC's major responsibilities include:

- Formulating laws, regulations and policies on insurance industry
- Enforcing laws and penalizing wrongdoers
- Overseeing domestic and foreign insurance businesses and operations
- Approving new firms and branch offices and investment in domestic insurance companies
- Approving product terms and premiums.

The Insurance Law has since been supplemented by a number of regulations, including:

- Regulations for the Administration of Insurance Agents (1996)
- Regulations for the Administration of Insurance Brokers (1998)
- Regulations for the Administration of Insurance Companies (2000)
- Administrative Regulations on Foreign-funded Insurance Companies of the People's Republic of China (2001).

The last regulation is of particular importance to foreign insurers and was designed to adapt regulation to the further opening of the market to foreign insurers under WTO. The major changes include specifying the prudential criteria (e.g., having 30 years of insurance industry experience), allowing greater freedom in the choosing of joint venture partners and a more specific and transparent approval process.

CIRC has drafted proposed amendments to the 1995 Insurance Law, which have been passed by the State Council but await approval of the People's Party Congress. The major motivations for the changes appear to be to bring the insurance law into alignment with China's WTO commitments and closer to international best practice.

Two significant recent specific regulatory developments include the introduction of a solvency margin and a liberalization of investment rules. In 2000, China adopted solvency margin requirements based on the European Union model: four percent of reserves for long term traditional products, one percent of reserves for unit-linked products and 0.1 percent–0.3 percent of the net amount at risk.

The Insurance Law restricted the investment of insurance company funds to bank deposits, government bonds, financial bonds and other forms of investment prescribed by the State Council and CIRC. In practice, this limited domestic insurance company investments to bank deposits and government bonds until 1998. Since then, however, investment rules have gradually been liberalized and insurance companies can now invest in certain corporate bonds and stock mutual funds, within certain limits. China's Central Bank has cut interest rates eight times since 1998, putting pressure on insurers to find higher-yielding investments.

The actuarial profession in China

The study of actuarial science began in China in the late 1980s, and has been developing along with China's insurance industry. After more than five years' worth of effort, China's first actuarial society, the Society of Actuaries of China (SAC), was established last year; before then, foreign actuarial societies, including especially the Society of Actuaries itself, had done much to help the profession develop.

The SOA established the country's first graduate program in actuarial science at Nankai University in Tianjin in 1988, which now has eight professors teaching actuarial science. There are also now over 10 universities offering actuarial science programs in China. The SOA helped fund the Nankai/SOA Research Center, established in 2000. The SOA has also set up eight examination centers in China, as well as several SOA Reference Centers at universities, which receive complimentary copies of associateship level study notes and other SOA publications. There are also two examination centers for each of the Institute/Faculty of Actuaries (UK), the Institute of Actuaries of Japan and the Casualty Actuarial Society. Many foreign life insurance companies have also provided funding for actuarial education in China. There are now nearly 40 ASAs and about 15 FSAs working in China; seven of the FSAs are native Chinese.

The SAC, with Ms. Hongjian Bao as its first elected Chair, was formally established in July 2001, with support from CIRC. There are 43 Fellow Chinese Actuaries, all of who qualified under the initial entry examination set by CIRC in 1999. This 1999 examination was essentially an examination on Chinese life insurance legislation and practice. In the future, actuaries will qualify as Fellow Chinese Actuaries by completing an extensive series of examinations; passing the first nine (similar in content to the ASA exams) leads to the Associate Chinese Actuaries' designation. The Fellowship exams are not yet fully in place but will begin to be offered this year; the exams will consist of three required and two elective exams on subjects such as regulation, individual life insurance and asset/liability management. The SAC exams will have both a life and a P&C track (there is no separate casualty actuarial society).

Most actuaries in China work for insurance companies, CIRC or investment banks (but in the latter case they are usually no longer doing actuarial work). Even though Chinese actuaries of necessity are still young, some have already risen to positions of significant management responsibility in insurance companies.

From about 70 applicants who sat for the first actuarial exams in 1999, the number of students has increased dramatically, to an estimated 3,500 in 2002. China still suffers from a shortage of actuaries, but it is clearly making rapid progress.

Insurance companies

Ten years after the first foreign insurer entered it, the Chinese market is still almost completely dominated by domestic insurers. Though its market share has been steadily decreasing as a result of the new entrants, China Life remains by far the largest life insurer in China, with a 57.1 percent market share in 2001. The top three, China Life, Ping An and China Pacific, together had 95.3 percent of the market, while other domestic companies had 2.7 percent and the foreign companies 2.0 percent.

While the market shares of the foreign-invested companies are small, it is important to keep in mind that the companies are currently restricted geographically and can only sell individual life insurance. A better measure of the success of foreign insurers is individual life market shares in Shanghai, where AIA has 9.1 percent and Pacific-ING's joint venture operation has 4.3 percent.

Products and distribution

As in most Asian countries, life insurance products in China tend to be savings—rather than protection-oriented. For example, non-participating endowments are popular, with terms generally 10 to 25 years. The products are often sold as periodic endowments, meaning that a specified fraction of the face amount is paid every three to five years. Non-participating whole life is also popular.

Ten years ago, these two types of traditional products probably represented the large majority of individual insurance sold. In the last few years, however, spurred in part by the decline in interest rates, insurance companies, with the permission and even encouragement of CIRC, have introduced many new, more advanced products, including unit-linked (variable) products, participating whole life and critical illness riders.

Distribution has also been changing rapidly. Agents are the main distribution channels for individual life business, but this is a recent development. The agency system was introduced to China in 1992 by AIA in Shanghai and was swiftly adopted by the domestic companies, including PICC (now China Life), which had previously been distributed by salaried employees through its branch network. China Life now has around 500,000 agents (many part-time). Group life business still tends to be handled by a direct sales force.

Alternate distribution channels are also developing rapidly. In September 1999, CIRC allowed life companies to start distributing through institutional agents, such as banks and the post office. Each branch of a particular bank is free to tie up with a different insurance company. Bancassurance sales are growing, with Ping An and Taiping Life doing especially well in this market. If the strict Glass-Seagal-type barriers between banking and insurance fall, bancassurance would likely develop even more rapidly. In fact, last December, the Bank of China became the first Chinese bank to enter the insurance market, opening a branch in Shenzhen.

Direct marketing of insurance is still relatively uncommon in China. Several companies, including Ping An and New China Life, have begun experimenting with Internet sales.

Conclusion

While the Chinese insurance market is growing and developing rapidly, there are certainly still some clouds on the horizon. There is room for improvement in the areas of service, product development, management skills, financial management and technology. Asset-liability management is a problem, as the capital market is not fully developed and there are few long-term debt instruments available (China has 20-year government bonds, but very few). Agent sales abuses are a continuing problem, despite the efforts of CIRC and insurance companies to control it. Both domestic and foreign insurers face increasing competition as the market opens further after China's entry into WTO.

But these are just the growing pains of a future insurance giant that is beginning to take its rightful place in the world market. The World Bank predicts that by 2020, China will be the world's largest economy. With the insurance market likely to grow several times faster than the economy as a whole, the potential for the insurance market in China is breathtaking.

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The liberalization of the Indian life insurance industry

by Nick Taket

Life insurance in India

The life insurance industry in India was nationalized in 1956, and since that time had been the sole domain of the Life Insurance Corporation of India (LIC). In 1991, the Indian government started the process of liberalizing its economy. In April 1993, the government commissioned the Malhotra committee, *inter alia*, to examine the insurance industry and make recommendations for changes in its structure. The committee reported in 1994, and one of its findings was that the Indian population is under-insured, with only 22 percent of the insurable population having any life insurance coverage at all. The committee recommended, among other things, that the private sector be allowed to enter the insurance business. In 1994, the Indian government tacitly accepted this recommendation by stating its intention to include insurance, both life and non-life, in the liberalization process.

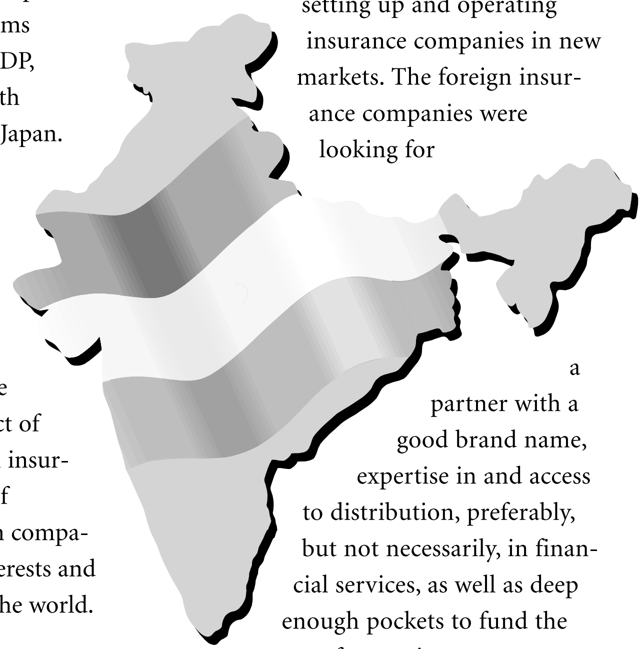
During the period of nationalization, the LIC had done an excellent job of providing life insurance coverage to the Indian population and continues to do so now. To give some idea of their achievement, in the financial year 2000–2001—which was the last year in which they had a virtual monopoly—the LIC wrote 20 million new individual policies with total premiums of Rs 91bn ($2.0 bn). As of March 31, 2001, the LIC had 114 million individual policies on its books, and it had a total individual premium income of Rs 311 bn ($6.7 bn).

The size of the Indian population, which is now slightly over one billion, provides an attractive market. While not all the population is able to afford insurance products, the middle class, which is estimated to be anywhere between 200 and 300 million, still offers plenty of potential. In India, life insurance premiums make up only 1.5 percent of GDP, which is low compared to North America, Western Europe and Japan. This, in addition to the rapid growth of the Indian economy and consequent increases in personal wealth and incomes, should ensure that the market has excellent growth potential. It is therefore not surprising that the prospect of the liberalization of the Indian insurance industry provoked a lot of excitement among both Indian companies with financial services interests and insurance companies around the world.

The search for a partner

It was clear at the outset that foreign companies would only be allowed to participate in the Indian market as minority shareholders in Indian insurance companies. For Indian companies, there was obviously the choice of starting an insurance company and developing its own insurance experience without the assistance of a foreign insurance partner. However, of the 18 new insurance companies licensed to date, only two have adopted this strategy. The majority of the Indian companies and all the interested foreign insurance companies started to identify suitable partners with whom to set up Indian insurance joint ventures.

In this financial dating game, the Indian companies were obviously looking for a partner with extensive insurance knowledge and a proven track record of setting up and operating insurance companies in new markets. The foreign insurance companies were looking for



a partner with a good brand name, expertise in and access to distribution, preferably, but not necessarily, in financial services, as well as deep enough pockets to fund the costs of a new insurance company. Both parties were looking for partners with excellent management quality, and given the past record of joint ventures around the world from all industries, they were looking for partners with similar corporate cultures.

My own company, Standard Life, UK, signed a joint-venture agreement in 1995 with the Housing Development Finance Corporation (HDFC), which, as well as being India's leading source of finance for home acquisition, is part of the HDFC group of companies that includes a mutual fund company and a bank. As a result, HDFC was able to bring to the partnership an excellent brand name, many years of Indian financial services experience, as well a large number of distribution opportunities. As one of India's most consistently successful companies, it would easily be able to meet its share of the costs of the new insurance venture and has unquestioned management quality. Most important of all, the cultures of the two partners were very similar.

Having signed the joint venture agreement, the two partners set about doing the research needed to develop an entry strategy to the market. It turned out that there was no need for this to be conducted in a hasty fashion, as a number of years were to pass before the insurance market was opened to private companies.

The Authority played a crucial role in enabling the new insurance companies to make a rapid start.

The Insurance Regulatory and Development Authority

While the various joint ventures were preparing their plans for the new market, the Indian government set up the Insurance Regulatory Authority as a non-statutory body to look into the future regulation of the insurance industry. They proceeded to do this by studying the methods employed in other countries and by consulting with all the interested parties. Among the bodies that they consulted were the National Association of Insurance Commissioners and the Office of the Superintendent of Financial Institutions.

A long period followed, with many false dawns, when it was thought that the necessary legislation would be passed, but circumstances always seemed to intervene to prevent progress being made. Finally, in November 1999, the Insurance Regulatory and Development Authority Act was passed, which not only enabled the entry of private insurance companies into the Indian market but also gave statutory status to the new insurance regulator, the Insurance Regulatory and Development Authority. The name of the regulator had been changed at the last moment to emphasize that the Authority was not only a regulator but also had an important role to play in developing insurance in India.

Now that the enabling legislation had been passed, the chairman of the Authority, Mr. N. Rangachary, was keen that the new insurance companies should start operations as soon as possible. He promised that the Authority would license the first companies by *Diwali*, the Hindu New Year that takes place in October or November, and that this would be his *Diwali* present to the nation.

The first difficulty the joint venture partners faced in applying for an insurance license was that the Authority had only just received statutory status and was itself involved in the process of drawing up the necessary regulations to allow it to perform its role. These regulations, of course, included those covering the process to be followed in applying for an insurance license! However, this was not the obstacle it might have been because the Authority adopted a very consultative approach to drafting the regulations, so that all the fledgling insurance companies had a very good idea of what would be required for the license application.

The Authority played a crucial role in enabling the new insurance companies to make a rapid start. In part this was due to their readiness to consult with the insurance companies, but also due to the excellent preparatory work that the Authority had done before it achieved statutory status. The members of the Authority and its staff skillfully blended and adapted all the different approaches to regulation they had found around the world to develop a regime that was suitable to the Indian environment.

Adoption of the appointed actuary system

As part of the chosen regime for life insurance in India, the Authority adopted the appointed actuary system used in the United Kingdom and some other countries. The roles and responsibilities of the appointed actuary in India include

- Providing actuarial advice to the management of the insurer;
- Submitting actuarial advice in the interests of:
  - The insurance industry and
  - Policyholders;
- Ensuring solvency of the insurer at all times;
- Advising management where action is required to prevent
  - Prejudicing interests of policyholders and
  - Contravention of the Insurance Act, 1938;
- Complying with the Authority's directions from time to time;
- Certifying the actuarial report of the annual investigation into the financial condition of the insurer;
- Ensuring Policyholders' Reasonable Expectations are considered in

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- Valuing liabilities and
- Distribution of surplus;

- Informing the Authority if:
  - an insurer contravenes the Insurance Act, 1938, or any other Act of Parliament,
  - a director fails to act in such a way as to allow the appointed actuary to carry out his or her duties and
  - an officer or employee prevents the appointed actuary carrying out his or her duties;
- Certifying that the premium rates, advantages, terms and conditions of products are workable and sound, the pricing assumptions are reasonable and the premium rates are fair.

The real work begins

When it became clear during the course of 1999 that the Indian Parliament would soon pass the legislation necessary to open up the insurance industry to private companies, HDFC and Standard Life decided it was time to set up a specialist team in Mumbai. The objective of the team was to develop the processes and systems that the new company would require, to apply for a license to operate an insurance company and to start HDFC Standard Life Insurance Company, as the new company was to be called. The team consisted of around 20 people drawn from HDFC and Standard Life with the appropriate knowledge and skills.

The licensing process was split into two parts—the first part was essentially a vetting of the promoters of the new insurance company to ensure that they were fit and proper to be considered for a license. The second part involved a detailed examination of the promoter's business plan so that the Authority could satisfy itself that the plan was viable, that the company would be able to comply with all the legislative requirements and that the issuing of the license was in the public interest.

Excitement within the team rose as we progressed through the licensing process, and as Diwali approached work intensified on the systems and processes that would soon be required if we were to obtain a license.

True to his word, Mr. N. Rangachary signed the first licenses for new insurance companies on October 23, 2000, and I am happy to say that my company obtained one of these. However, our delight at receiving the license was tempered by the knowledge that being granted a license would not be the final hurdle before the company began operations.

Once the license had been obtained, the newly licensed company would then have to employ an appointed actuary and seek the approval of the Authority for the appointment. But to become an appointed actuary, the actuary would have to first obtain a certificate of practice issued by the Actuarial Society of India. This certificate is similar to those issued in the United Kingdom, and certifies that the actuary concerned has sufficient knowledge and experience to become an appointed actuary. This requirement only became known at the last minute and led to much hurried form filling.

Even then the new insurer could not start selling products because the appointed actuary is required to certify the companies' products and file them with the Authority. The company then must wait for 30 days for the Authority to seek any clarifications on the products before they can start selling operations.

A tense period ensued while all these requirements were fulfilled. Finally, on December 12, 2000, we were able to sell one of the first life insurance policies to be sold in India by a private company since 1956.

Distribution

The Indian legislation provided for life insurance to be sold through individual or corporate agents who can offer only the products of one insurer, and there was no provision for brokers. The regulations require every agent to undergo at least 100 hours of training and then pass a formal examination before he or she can be licensed to sell insurance products. For corporate agents, this requirement applied to the full-time directors of the firm and only they could sell. While there were many corporate bodies who were very keen to distribute life insurance products, the number of directors willing to go through the training, sit for the exam and conduct all the selling was strictly limited. Up until July 2002, the vast majority of distribution has been through individual agents; distribution activity in respect to corporate agents has been limited to signing up corporates to become distribution partners in the future. The Insurance Amendment Act of 2002, which became law in July 2002, has paved the way for brokers to sell life insurance. It has changed the rules for corporate agents, so that now only one designated senior person and all sales staff are required to undergo the 100 hours of training and sit for the exam. At the time of this writing, many companies are gearing up to become major corporate agents, and this distribution channel is expected to become very significant. The broker channel is also expected to become significant, but as regulations for brokers are yet to be published it is unclear how this channel will develop in the future.

Table 1: Rural and Social Targets

Financial year of operation	Required percentage of policies which should be rural	Required number of socially disadvantaged lives
1	5%	5,000
2	7%	7,500
3	10%	10,000
4	12%	15,000
5	15%	20,000

Rural and social requirements

In order to ensure that the new private companies do not concentrate their efforts on the well-off in urban areas, the legislation requires a specified percentage of policies to be sold in rural areas and specified the number of lives to be insured in the socially disadvantaged sections of the population. The rural and social requirements increase as each year passes as shown in Table 1 above.

The need to meet these targets has posed many challenges for insurers. Many ingenious products have been designed and innovative methods of distribution have been developed by the new companies in their efforts to meet these rural and social requirements.

Where are we now?

At the time of this writing it is 18 months since the first life insurance policy was sold by a private company. To date, licenses have been issued to 12 new life insurance companies. Between them they have about 45,500 licensed agents, compared with the LIC, which has roughly 800,000. The amount of individual new business sold in the last financial year is shown in Table 2 below.

In the financial year 2001-2002, all the new private companies combined had a market share of 1.2 percent of the policies and 1.8 percent of the premium income. The new companies have much higher average premium sizes than the LIC, due in part to the fact that the new companies' distribution is mainly in the larger and richer cities, but also due to their targeting the wealthier segments within those cities.

Table 2: Individual New Business
Financial Year 2001 - 2002

	Private Companies	LIC
New policies ('000)	290	23,250
New premiums (Rs m)	2,666	148,433
New premiums ($ m)	55	3,043

While the new companies have been starting operations, the LIC has not been sleeping and has put considerable effort into improving its IT infrastructure and marketing. These efforts have reaped rewards in terms of improved service and record amounts of new business.

It is far too early to say how this market will develop in the future, but the new companies have made a good start. As they spread their distribution across India, their market share will surely increase.

Acknowledgments

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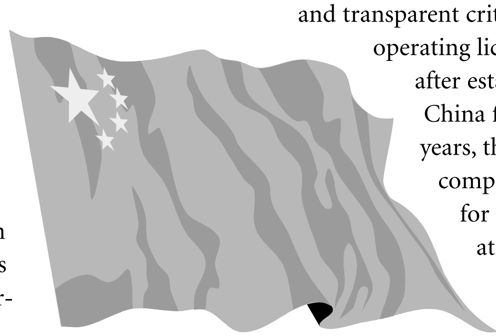
The Chinese insurance market

by Johnny Wong

Since 1949, China's insurance market had been closed to foreign insurers. Shortly after China embraced the "open-door policy" in 1978, a few foreign insurance companies, mainly from the United States and Japan, returned to the China market by establishing insurance representative offices (IROs). Gradually, starting in the early 1990s, the Chinese insurance market garnered much international attention and attracted a large number of foreign insurance companies to set up the IROs in China. It was only after 1992 that the foreign insurance companies were allowed to operate in China under a strictly controlled manner that had the least impact on the domestic insurance industry, was easiest to regulate and created the fewest difficulties in professional staffing and resources. Because of these concerns, foreign insurers are restricted to operate in a few open cities with limited business scope; e.g., no group insurance business is permitted. Foreign non-life insurers are permitted to establish branch operations in China. Foreign life insurers, except American International Assurance Co., Ltd., which operates as a wholly owned branch in China, have established or will establish their China operations in the form of a joint venture (JV) with local participation. Most of them are 50:50 JVs with a Chinese partner.



Undoubtedly, accession to the World Trade Organization (WTO) necessitates wide-reaching liberalization of China's insurance regulations and the lifting of these restrictions. For instance, in December 2004, three years after China's WTO accession, geographic restrictions currently imposed on the foreign insurers will be removed. The foreign life insurers will be permitted to write group life insurance and pension business in China.

How to get a PRC insurance license

Before China's accession to the WTO, the entry of foreign insurers into the Chinese market was very limited, without clear and transparent criteria for granting an operating license. For example, after establishing an IRO in China for at least three years, the foreign insurance companies could apply for an insurance operating license (operating license), but the approval was totally within the Chinese regulator's discretion. It was noted that during the long waiting period, the foreign insurers worked above, below and around both governments and Chinese insurance regulators in order to leap-frog their competitors for an operating license.

With China's WTO accession and the new regulations promulgated, "Administrative Rules on Foreign-funded Insurance Companies" (Administrative Rules) effective February 1, 2002, the "Rules of the Game" for foreign insurers in China have changed significantly. Under these new "Rules of the Game," as soon as foreign insurance companies fulfill certain criteria, such as the establishment of an IRO in China for at least two years, a minimum of 30 years of insurance experience, and U.S. $5 billion or more of total assets, they can, with their selected Chinese JV partners, apply for an operating license. In other words, there will no longer be any need for extensive prior political lobbying work before being invited to start establishment of a China operation (green light). Obviously, most foreign insurers can meet these criteria easily. However, at least in the next few years, the operating license application process will be based on a trial-and-error approval basis in which top-down as well as bottom-up political lobbying used after application submission will become more prevalent and important. Given the number of operating license applications already submitted or to be submitted for approval, it is expected that the total elapsed time for an operating license approval will most likely be impacted by Chinese regulatory fatigue and catatonia. Therefore, it will become increasingly important for foreign insurance companies to better understand how the Chinese insurance market will function under the new "Rules of the Game." The foreign insurers that are able to leverage this type of knowledge in relation to the change should benefit directly.

How to find a Chinese JV partner

In the past, foreign insurers would normally begin actively searching for an appropriate candidate as the Chinese JV partner after the green light was granted. Under the new Administrative Rules, there are no restrictions on, nor any prior approvals required for, the selection of the Chinese JV partner. However, Chinese banks and securities firms are still excluded from the qualified JV partner list. Most foreign insurers prefer to joint venture with a passive local partner who is willing to cede management control, at least for the first five to seven years when the JV operation is still immature. Besides, there will not be a need for foreign insurance companies to get the green light before starting the joint JV feasibility study and contract negotiation process. This is consistent with China's promises in the WTO protocol, such as effective market access and progressive market liberalization. Normally, during the process of Chinese JV partner selection, foreign insurers would utilize the relationships and connections of their IROs and seek external support to obtain a complete list of potential candidates that would meet their criteria. An initial list might include more than 100 potential candidates. Foreign insurers will be, to a certain extent, disappointed to find that most of the potential candidates in general have certain common weaknesses that are problematic to the new JV life insurance company. The weaknesses include bureaucracy, difficulties in understanding the capital-intensive nature of a life insurance operation, lack of experience in working with international financial institutions, lack of available capital for establishing a new venture and expansion, as well as inappropriate financial systems and controls. Therefore, in the post-WTO Chinese life insurance market, competition for good Chinese JV partners will increase rapidly.

Critical success factors

Like other developing insurance markets in Asia, China has a challenging operating environment that has tested even the best-managed companies in such a way that everyday frustrations are exacerbated, it becomes difficult to find good staff and partners, and bureaucratic torpor is widespread. As the market opens and develops rapidly, these difficulties and challenges will change over time. The most critical factors to a successful JV life insurance operation in China can be broadly summarized as a good management team with China-qualified people for both planning and implementation, proactive strategic policies supported by senior corporate management and a sense of timing and ability to plan for and react rapidly to a constantly changing environment. The China-qualified people are the people who possess an unusual combination of skills. For instance, they possess in-depth management and insurance industry knowledge and experience, thoroughly understand the Chinese culture and insurance operating environment, have developed connections/relationships and know how to deal with local/central-level government officials and the Chinese people. They are also sensitive to and stay flexible when dealing with the Chinese JV partner's and the regulator's responses and concerns.

Actuarial practices

China prescribes that products be priced using defined mortality tables, maximum pricing interest rate and maximum expense loadings. Most foreign insurers operating in China normally first price their products based on best-estimated-asset-share assumptions and then convert the determined premium rates into the local pricing basis for product-filing purposes. Adjustment and fine-tuning of the premium rates between the asset share and local pricing bases are sometimes required.

Except for life-time annuity, China adopts full preliminary term (FPT) net premium valuation methodology. Under the FPT methodology, there is no appropriate mechanism to cap the maximum allowable acquisition expense. It is thus regarded as a weaker valuation basis, particularly for the heavily savings-oriented products that are currently popular in the Chinese life insurance market.

For long-term life insurance business, the solvency requirements in China are based on a percentage of mathematical reserves and a percentage of sums at risk. Although this static solvency measurement system could only assess the financial condition of a life insurance company in China at a particular instant, which might be insufficient to oversee insurers' long-term risks exposed, it is still viewed as an appropriate solvency measurement system in China for the time being. It is mainly because the development of the Chinese life insurance industry is still in the early stages, and there is a great variation, in terms of experience and resources, in implementing a sophisticated solvency measurement system among the foreign and domestic insurers in China. Therefore, it is difficult in the current environment in China to implement a sophisticated solvency measurement system, like Risk-Based Capital (RBC) in the United States and Dynamic Capital Adequacy Testing (DCAT) in Canada, which can assess the risks associated with mortality and assets as well as management.

Challenges ahead

The undeveloped nature of the investment markets in China has resulted in a lack of suitable investment vehicles in which to invest the assets backing long-term liabilities. This obviously creates asset-liability mismatching problems for the life insurance industry in China.

Similar to other developing markets, the Chinese insurance industry is immature and suffers a serious shortage of insurance and actuarial professionals, in particular middle and senior management personnel. The greatest challenge faced by the foreign insurers operating in China is the issue of localization within the companies. Therefore, excellence in human resources policy and management is definitely vital for long-term success in the Chinese insurance market.

It is important to note that, at least for a few years after China's accession to the WTO, the insurance market in China will continue to be disorganized, and the contradictory practices will continue. Those foreign insurers that prepare themselves for and are ready to cope with such development will gain a huge competitive advantage in China.

Johnny Wong is a co-founder & principal of Prime Consulting China Limited in Hong Kong. He can be reached at **Johnny_pcg@attglobal.net.**

SOA election results

Neil A. Parmenter

Neil A. Parmenter has been elected SOA president-elect for 2002-2003. He will take office during the October SOA Annual Meeting in Boston. He will assume the SOA presidency the following October.

Parmenter is a Fellow of the SOA. He served on the Board of Governors from 1996–1999, and as vice president from 2000–2002. Parmenter has a long history of service with the SOA, including vice-chairmanships and chairmanships on E&E and retirement systems committees. He has also served as Pension Section vice-chairperson and chairperson.

Parmenter is currently a consulting actuary in Des Moines, Iowa. He was formerly senior actuary with Principal Life Insurance Company.

Vice presidents, board members elected

Three new vice presidents and six new Board members were also elected.

The newly elected vice presidents are Richard L. (Dick) London, director of actuarial science at the University of Connecticut Department of Mathematics; Edward L. Robbins, senior actuary, Allstate Life Insurance Co., Northbrook, Ill. and Shirley Hwei-Chung Shao, vice president and actuary, Prudential Insurance Company, Newark, N.J.

Elected to three-year terms on the SOA Board of Governors are: Tom Bakos, consulting actuary, Tom Bakos Consulting Inc., Harrisburg, Pa.; Janet M. Carstens, consulting actuary, Milliman USA, Minneapolis, Minn.; Mark E. Litow, consulting actuary, Milliman USA, Brookfield, Wis.; Josephine Elisabeth Marks, senior vice president, pensions & group investments, Maritime Life Assurance Co., Halifax, Nova Scotia; S. Michael McLaughlin, partner, Ernst & Young LLP, Chicago, Ill. and Kathleen R. Wong, vice president and actuary, AXA Financial, New York, N.Y.

Results of section elections

The following persons have been elected to 16 section councils to serve from October 2002 to October 2005 unless otherwise indicated. The new Smaller Consulting Firm Section held its first section council election in early July.

Actuary of the Future
Marc N. Altschull
Linda M. Sobolewski
Dorn H. Swerdlin

Computer Science
Frank G. Reynolds
Brian M. Septon
Hal S. Tepfer

Education and Research
Claire Bilodeau
Eli N. Donkar
Gordon E. Klein

Financial Reporting
Daniel J. Kunesh
Thomas Nace
Barbara L. Snyder

Futurism
Christopher J. Fievoli
Curtis E. Huntington
Robert G. Utter

Health
John C. Lloyd
Bryan F. Miller
Karl G. Volkmar

International
H. Carl Khor
Paul M. Sauve
Marc Slutzky

Investment
Bryan E. Boudreau
Steven W. Easson
Michael J. O'Connor

Long Term Care Insurance
Mark D. Newton
James M. Robinson
Steve P. Sperka (one-year term)
P. J. Eric Stallard

Management and Personal Development
Kitty Hsiao-Yuan Ching
David C. Miller
K. H. Kelly Rendek (one-year term)
Daniel L. Shinnick

Nontraditional Marketing
Christopher H. Hause
Brian L. Louth
Nancy A. Manning
Robert P. Stone (one-year term)

Pension
Kenneth A. Kent
Tonya B. Manning
Michael L. Pisula

Product Development
Keith A. Dall
Abraham S. Gootzeit
Kelly A. Levy

Reinsurance
Michael E. Gabon
John O. Nigh
Timothy J. Tongson

Smaller Consulting Firm (election held in July—first council)

George W. McCauslan, chairperson (term expires 2005)

Mitchell I. Serota, vice-chairperson (term expires 2005)

Daniel P. Cassidy, secretary/treasurer (term expires 2003)

Allen D. Booth (term expires 2003)

Ian G. Duncan (term expires 2004)

Kenneth W. Hartwell (term expires 2003)

Pamela L. Marlin (term expires 2005)

Marcus A. Robertson (term expires 2004)

Carl Shalit (term expires 2004)

Smaller Insurance Company
Stephen C. Frechtling
Julie A. Hunsinger
Susan L. Keisler-Munro

USAMO awards held in Washington

The 31st USA Mathematical Olympiad (USAMO) award ceremonies were held at the Department of State in Washington, D.C. on June 23-24, 2002. The USAMO is the highest level of the American Mathematics Competition, of which the SOA is a contributing member. Pictured are the top 12 winners and SOA representative Stephen A. Meskin, FSA.

Back row: Alex Sue, Po-Ru Loh, Gregory Price, Steve Byrnes, Anders Kaseorg, Daniel Kane, Michael Hamburg. Front row: Meskin, Ricky Liu, Alison Miller, Neil Herriot, Tiankai Liu, and Inna Zakharevich.

ce corner

The power of three: SOA, LIMRA and LOMA combine on three major conferences in 2003

by John Riley, SOA managing director of continuing education

Building on five years of successful partnership in producing The Annuity Conference, SOA, LIMRA and LOMA are launching two additional events in the spring of 2003. The Life Insurance Conference will take place on March 12–14, 2003 at the Hilton in the Walt Disney World Resort in Orlando, Fla. The Pension Conference will run concurrently with The Annuity Conference and take place at the Marriott Baltimore Waterfront on April 6–8, 2003.

Life products are enjoying a renaissance as consumers recognize how well they mesh with "new, old-fashioned" financial priorities. The Life Insurance Conference will focus on the marketing, product design and sales, as well as operational and strategic issues specific to the life industry. The three-track conference agenda includes an opening general session and will conclude with Disney's Leadership Program.

The Pension Conference will concentrate on a number of hot topics: retirement trends and changing demographics; plan sponsor concerns; trends in plan design; legislative updates and many others. Given the level of common professional interests, registrants for The Pension Conference and The Annuity Conference will attend a joint keynote and will also be able to participate in any of the concurrent sessions.

Speaker recruitment for all three conferences is ongoing this fall. If you have an interest in conducting a presentation, please contact John Riley at *jriley@soa.org*. For program updates, visit *www.loma.org*.

Fall seminar activity

Visit *www.soa.org* to review a bounty of continuing education opportunities. Courses include: Investment Actuary on November 6–8 at the Chicago Hilton & Towers; Disability Income on November 14–15 at the Westin Michigan Avenue in Chicago; Beginning and Advanced Risk Management on December 4–6 at the New York Marriott Financial Center in New York City; Critical Issues in Underwriting on December 5–6 at the Tampa Marriott Westshore; 2001 CSO: Strategies for Solving the Business Problem on December 9–10 at Disney's Broadwalk Hotel in Orlando and Improving Profitability in New Business Operations on December 9–10 at the Broadmoor Hotel in Colorado Springs, Colo.

John Riley can be reached at jriley@soa.org.

Life is more than "Actuaria" for this songwriter

by Megan Potter, SOA associate editor

Jenny Bowen, ASA, a vice president with Jefferson Pilot Financial in Greensboro, N.C., and member of two subgroups of the SOA Risk Management Task Force, is also a songwriter. Yes, a songwriter. And while actuarial work and songwriting may seem like contradicting activities, Bowen is achieving success in both fields.

After Bowen received a Bachelor's degree in math with a physics minor from Graceland College in Lamoni, Iowa, she chose to pursue a master's degree in romance languages and literature, a decision based in part on her senior year of high school spent in France as a foreign exchange student. While in the final year of her master's degree coursework at the University of Missouri—Kansas City, Bowen began working in the actuarial department of National Fidelity Life Insurance Company. "I didn't even know what an actuary was before I started the job there," Bowen stated. "After a while, I learned about actuarial exams, and decided to pursue that." Bowen became an Associate of the SOA in 1985.

Bowen enjoys her current role at Jefferson Pilot. "My position is pretty unusual. I get to use my creativity and communication skills quite a bit. I report to the corporate actuary, and I have three main duties. I act as a liaison between our group insurance operation in Omaha and the CFO here in Greensboro. I also monitor excess capital in our life insurance companies. And I have increasing risk management functions, including developing a value-at-risk inventory. All three of these roles require me to be an excellent communicator."

Bowen discovered her talent for songwriting when she composed a song for her parents' 50th wedding anniversary. Bowen's more than 25 years of piano and organ lessons, combined with her literary background, has made her a successful songwriter. The very different mindsets required to perform actuarial work and to write songs are sometimes difficult for Bowen to achieve. "I realized that over the years, in order to perform well in corporate America and pass actuarial exams, I had turned away from my creativity and lost touch with my emotions-two elements

Lyrics for "Actuaria"

Words and music by Jennifer K. Bowen
Copyright 2001 by Jennifer K. Bowen

Chorus: Actuaria is a state of mind.
Actuaria: it isn't easily defi … yi … yined. Oh, no.
Hysteria can't be far behind
Actuaria.

Late at night, to get to sleep,
if you try counting sheep
Do you worry that one won't survive?
Do you wonder if you're under some magical spell
That makes numbers and graphs come alive?

Chorus: Actuaria is a state of mind.
Actuaria: it isn't easily defi … yi … yined. Oh, no.
Hysteria can't be far behind
Actuaria.

In your efforts to replace
each appearance with fact
Do you find you've begun to enjoy
Every moment that you spend dealing in the abstract?
Well, it's clear now there's no turning back.

Chorus: Actuaria is a state of mind.
Actuaria: it isn't easily defi … yi … yined. Oh, no.
Hysteria can't be far behind
Actuaria.

Calculation, demonstration,
iteration and such
Mean elation and celebration
to you.
Complication and frustration
are the standard results
For all but the annointed few.

Chorus: Actuaria is a state of mind.
Actuaria: it isn't easily defi … yi … yined. Oh, no.
Hysteria can't be far behind
Actuaria.

Life is more than "actuaria"...

continued from page 14

essential to songwriting. The songwriting has allowed me to regain this focus."

Which comes first-the music or the lyrics? "I usually write the music first, often completing the song's music entirely before writing the lyrics," revealed Bowen. "Currently, I have the music completed for five songs that still need lyrics. Some people have suggested that I collaborate with a lyricist, but I really want to develop my own lyric writing," she added.

Bowen admits that it's taken her a while to strike a balance between her analytical inclinations and her creative side. "In the early days, my songs were more like essays set to music," she explained. "Now I concentrate on making my songs more emotional, telling a story and painting a vivid picture. My songs are becoming more personal." Bowen also credits feedback from friends, family and business acquaintances in helping her grow as a songwriter. "People have very definite opinions about music, and they're happy to share them with you," she explained.

Sometimes it's difficult for Bowen to relax enough to be able to let her creative side take over. "I find myself thinking of songs while I'm walking the dog or swimming," she said. "However, I am unable to compose songs while I'm swimming laps because I'm too focused on counting the laps. If I just swim around, though, I am able to come up with songs-a lot of them have images of flying and water."

Two of Bowen's songs have won honorable mention awards in the John Lennon Songwriting Contest, an international contest that is open to amateur and professional songwriters. The two songs, "Keep Your Eyes on the Horizon" and "Danse Tous Les Jours," were songs Bowen wrote for her father and her French foreign exchange student mother, respectively, on the occasion of their 80th birthdays. "My brother tells me that I have a strength in writing songs for particular occasions," she revealed. Bowen has also written a song for Horsepower, a non-profit organization that uses horses for therapy. They are using her song in a corporate fundraising video.

Bowen has sent her songs to various artists, but most have rules regarding unsolicited music, and she hasn't gotten a response. "I'm enjoying entering contests right now," she said. "The John Lennon Songwriting Contest is the main one, but I've also submitted songs to a few others." She recommends The Songwriter's Market, edited by Ian Bessler, as a great resource for those interested in getting their music published.

Bowen has found one way to combine the two very different worlds of actuarial science and songwriting. One of Bowen's songs, "Actuaria," was composed after a joking comment by a co-worker. "He just said, why don't you write a song about actuaries?" she recalled. Lyrics to this song are available on the previous page.

With the help of a producer in the Greensboro area, Bowen has recorded some of her songs (including "Actuaria") on a CD. For more information on how to purchase this CD, please contact her at *docbowen@bellsouth.net.*

***Megan Potter can be reached at* mpotter@soa.org.**

Retirement research grant program includes actuarial science

The Center for Retirement Research at Boston College is soliciting proposals for the Steven H. Sandell Grant Program for Junior Scholars in Retirement Research.

The Program promotes research on retirement issues by junior scholars in a wide variety of disciplines, including actuarial science, demography, economics, finance, gerontology, political science, public administration, public policy, sociology, social work and statistics. Grants of up to $25,000 will be awarded for each successful applicant.

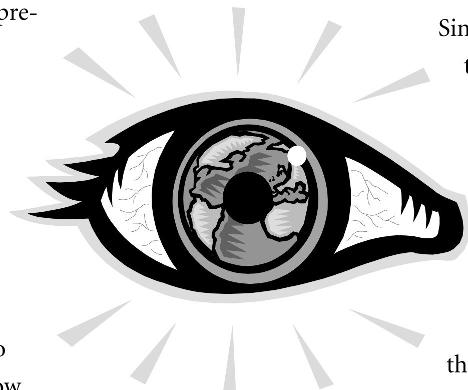
The Program is funded through a grant from the Social Security Administration (SSA). The number of awards issued will depend on funding availability. Successful applicants will be eligible to apply for access to restricted data sets and will present their results to SSA.

The deadline for proposals is November 15, 2002. Awards will be made in January 2003 and final projects will be due within a year of the award. Information is available on the Web at *www.bc.edu/crr* and from Kevin Cahill, the Center's Associate Director for Research, at 617-552-1459.

What you want from the SOA

by Meredith Lego, SOA marketing manager

Your vote is in! This past summer, the SOA, spearheaded by the Strategic Planning Committee, led by Larry Zimpleman, completed a comprehensive membership and candidate online survey. The survey, conducted by Eric Research, provided meaningful guidance to the SOA about how to deliver the best possible value for your dues and exam fees. Due to the great participation levels, we collected feedback from nearly a quarter of the SOA's members and candidates—well above industry response norms according to our researchers. Thanks to everyone who contributed and completed the survey!



Member priorities versus the SOA's performance

How did the SOA fare? Member respondents were generally satisfied that the SOA serves their professional needs and advances the profession. However, many indicated that the SOA provides only average value for membership dues. To improve satisfaction, respondents indicated that the SOA must:

- Improve promotion of the actuarial profession to employers and society as a whole
- Maintain and enhance the value of the credentials, especially the ASA
- Provide content through continuing education or publications that highlights emerging issues and new practice areas.

Simultaneous to improving these areas, respondents indicated they want the SOA to stay focused on delivering valuable products and services, such as experience studies and continuing education opportunities that are helpful with daily job activities.

Regarding the SOA's role in the profession, 82 percent of respondents agree that the FSA is valued as a relevant credential by employers, 60 percent agree that the actuarial profession has a strong future in today's changing business environment, and 55 percent agree that the SOA should be more proactive in preparing members for globalization. This being said, written comments by respondents about how the SOA should advance the profession provide valuable input for the Board. These include:

- The level of exam standards and content necessary to ensure that the value of the FSA and ASA credentials is maintained and enhanced in the marketplace
- The SOA's role in determining the profession's image
- The encroachment of competing professions
- The need for the SOA to better serve its various member segments, such as pension, Canadian and international actuaries
- The SOA's role in promoting non-traditional opportunities for actuaries
- The need for the SOA to provide more cost-effective services, such as distance learning, that are relevant and meet the needs of our members
- The need for a volunteer structure that will increase participation by volunteers and ensure consistency of initiatives as the presidency of the SOA changes hands.

Competing professions

How can the SOA help you be more competitive in the marketplace? To ensure that the SOA can address any challenges posed by competing professions, we asked the opinion of survey takers. Not surprisingly, both members and candidate respondents saw a greater challenge posed by competing professions in areas where actuaries may expand presence and influence, rather than in areas where actuaries have been dominant. On the whole, MBAs, accountants and financial engineers/analysts provide the greatest competition for jobs in members' areas of work. Interestingly, pre-ASA candidates indicated an entirely different competitive set, naming financial analysts, risk analysts and statisticians as their major sources of competition for jobs.

Members and candidates alike feel that the competing professions are more widely recognized by employers, have a fresher image (with the exception of accounting) and teach better business management skills. To that end, respondents felt that the SOA should promote a more dynamic image of the actuarial profession and help the membership acquire business management and interpersonal skills to be competitive with others in the job market.

To answer the question of how the profession can increase demand for actuaries in the marketplace, the SOA also conducted a survey among employers to determine what skills they seek from employees who analyze, manage and mitigate risk. Look for the findings of the research in a future issue of *The Actuary*.

The Board will further evaluate how the SOA can better serve members in different geographic regions and what role the SOA will play in the international actuarial community.

Candidates

Candidates, including pre-ASA exam takers and ASAs pursuing an FSA, were asked questions about their satisfaction with the SOA and their views of the exams. Candidate respondents rated the SOA's performance in advancing the profession and meeting their professional needs similar to member respondents. The greatest opportunity respondents reported to improving their satisfaction lies in providing information and resources for career development and job searching. Like the membership, candidates also indicated they would like the SOA to continue its dedication towards maintaining and enhancing the value of the credential.

Since the education and examination committees are currently reviewing the education and qualification requirements for the ASA and FSA designations, candidates were asked some specific questions about the SOA exam content and process. When asked about the practical-theoretical balance of the curriculum, candidate respondents rated it as too theoretical. Additionally, a majority of candidate respondents did not feel that nation-specific content should be introduced into the curriculum (63 percent of pre-ASA candidates and 59 percent of ASAs sitting for the FSA). A majority of ASAs and a larger majority of pre-ASA candidates favor some adjustment to the amount of time currently needed to complete the FSA. Candidates replied that travel time should either be shortened or should be more predictable.

Finally, there is strong support for the SOA to consider partnerships with colleges and universities as an alternative means for actuarial training.

Improving service to you

This member and candidate survey provides a road map for the SOA to prioritize activities over the next few years that will ensure we deliver products and services focused on your needs. According to the survey, the SOA will look into:

- Evaluating the current product and service mix
- Providing you with more up-to-date information
- Determining how to be more responsive to industry trends
- Providing research that supports your daily practice and anticipates your future needs
- Providing relevant publications, statistics and continuing education.

The SOA Board of Governors will use the data to evaluate priorities for our Strategic Plan. This includes intensifying the relevancy and visibility of your profession by exploring how to match basic and continuing education to marketplace needs. The Board will further evaluate how the SOA can better serve members in different geographic regions and what role the SOA will play in the international actuarial community. Finally, of utmost importance is measurement of our progress over time. The Board plans to conduct the member and candidate survey again in two years and will use the results to measure how progress is being made.

The survey is one way in which the SOA can assess how to provide you with the best quality of service. To further demonstrate its commitment, the SOA will open its new Customer Service Center in the fourth quarter of 2002. The Society is also redesigning the SOA Web site to provide easier access to exam information and research.

To learn what you had to say about the SOA and what actions the SOA will take to improve your satisfaction, the Board of Governors welcomes you to view the entire 2002 Membership and Candidate Survey results. For a description of the survey findings or to view the final report prepared by Erin Research Inc., look for the 2002 Membership and Candidate Survey Results on the right hand side of the SOA homepage, *www.soa.org*.

***Meredith Lego can be reached at* mlego@soa.org.**

Is "conventional wisdom" an oxymoron?

Overview from Executive Leaders' Symposium and Clambake, prepared by Robert D. Shapiro

On July 22, 2002, 135 insurance executives convened in Lake Geneva, Wisconsin for a half-day symposium on globalization and convergence, with the general theme "What happens when the many become the few while the world becomes smaller?" The proceeds from the symposium and related golf outing benefited the youth education initiative of the Actuarial Foundation.

Five industry leaders, representing a broad swath of the financial services marketplace, comprised the panel. They were:

- Jacques E. Dubois, chairman, CEO and president of Swiss Re America Holding Corporation and chairman of Swiss Re Life & Health North America.
- Franklin W. Nutter, president of the Reinsurance Association of America.
- Thomas D. Stoddard, managing director of Credit Suisse First Boston in the Investment Banking Division covering the insurance sector.
- Stanley B. Tulin, vice chairman and CFO of AXA Financial, Inc. and EVP of AXA Group.
- Bradley M. Smith, chairman of Milliman USA, session moderator.

The speakers provided several different perspectives on the often-discussed concepts of "convergence" and globalization. Both Tulin and Stoddard expressed skepticism regarding the reality of broad convergence and globalization activity. Tulin pointed out that few companies successfully distribute both life and property and casualty (P/C) coverages to their customers, citing historic insurance product silos and ingrained consumer buying habits. Stoddard suggested that these buzzwords are used too broadly, predicting instead that convergence and globalization will occur in a limited number of areas and at times when market conditions support such movement. Because there are few truly global players, with Europe focused on the United States and Asia, North America focused on Asia, and interest in Latin America coming and going, Stoddard believes "internationalism" is a better trend description then "globalization."

Panelists discuss globalization and financial convergence with symposium attendees.

Dubois discussed the benefits of selected global markets for international insurers like Swiss Re, describing attractive features as well as pitfalls of emerging markets such as Asia, Latin America, Central and Eastern Europe and South Africa. With growth rates expected to exceed those in mature markets and barriers to entry falling, Dubois sees emerging markets continuing to attract significant foreign investment.

Tulin discussed historic drivers of consolidation and globalization, identifying significant recent changes, as well as how his organization, AXA, fits into this evolving picture. Historically transactions have been driven by: (1) the general desire of insurers to have a presence in the U.S. life and savings market and a toe-hold in China; (2) the rich acquisition currency available to high P/E European insurers; (3) the need for growth capital in many sellers; (4) the principle that "size" matters and, until recently (5) the booming economy. However, the recent bear market/recession, changes in purchase accounting and general investor skepticism have slowed transaction activity. Companies have changed their focus from doing deals to strengthening their operations and balance sheets.

Tulin provided background on AXA's transaction history, illustrating AXA's current strong and balanced global position. He characterized AXA as opportunistic, excellent at acquisitions and divestitures, and an excellent integrator of insurance and asset management. Although Tulin sees convergence (i.e., one-stop-shopping) as more rhetoric than reality, he did point out that one "success story" has been the combination of life insurance and asset management.

Stoddard discussed in detail the steep decline in insurance M&A markets over the past several years. Reasons for this abrupt decline in M&A volume, according to Stoddard, include lower valuations, weaker and costlier equity markets, negative investor sentiment, new risks and uncertainties (e.g., market conduct, terrorism, etc.) and a general "bunker mentality." Stoddard described the post-merger integration and digestion that emerged in some deals, as well as differences between the life and property/casualty insurance markets. A hard market has emerged in P/C, in part because of 9/11, and this has made organic growth attractive vis-à-vis the acquisition market.

Looking to the future, Stoddard sees a new game emerging. The demutualization boom has largely run its course, leaving a number of new but often-vulnerable stock companies. Recent hard markets have led the P/C industry to raise substantial capital. The boom/bust phenomenon in P/C will likely continue, and the playing field between the United States and Europe has been leveled. All this points to an eventual resumption of M&A activity, but only when market conditions stabilize. Valuations should also increase, Stoddard says, but it may take a while to do so.

One of the more interesting subjects discussed was how to position the industry and the government to deal with future terrorism risk. Dubois pointed out that terrorism risk severity and frequency are not measurable, and that private insurers need time to build up their covers and capacity. A public-private partnership is needed, at least for a limited time, to address the gap between high demand and limited supply of terrorism coverage. Current government excess reinsurance proposals call for an industry deductible for P/C exposure in the range of $10–20 billion as well as a company-specific deductible (House version). Life and A&H participation is still being examined.

Tulin argued against life companies limiting their terrorism coverage or looking for a government backstop. The September 11th death toll of 3,000 was a very small percentage of the total number of life industry death claims in 2001. Tulin said that if a terrorist attack were large enough to imperil the life industry, many other American core institutions would also be imperiled, and much broader government assistance would be needed.

Nutter described key trends currently driving change in the P/C reinsurance industry. The search for security, and the need to mitigate volatility and severity of claims, are guiding financial decisions and related consolidation activity. One consequence is that medium-sized reinsurers are being squeezed. Size has become important, with a future market that is likely to contain a combination of large general reinsurers plus a handful of niche players.

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Along with size and strength, strong underwriting and technical analysis are essentials in today's "back to basics" approach to the business. Broker consolidation continues. The lack of excess capital in the industry augurs for a continued hard market. Finally, Nutter pointed out that U.S. reinsurers are increasingly developing an offshore presence, while at the same time Bermuda reinsurers are establishing a presence onshore.

A number of challenges were posed by the speakers as they shared their experiences. How does a company achieve scale economies in global expansion, given the tooling up, regulatory, product and other adaptations that have to be made in each distinct culture and market environment? What form of public-private partnership is best for dealing with catastrophes such as 9/11 where frequency and severity are unpredictable? Where can convergence be expected to occur and where will it be muted?

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