



SOCIETY OF ACTUARIES

Article from:

International Section News

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Chairperson's Corner
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Wednesday, June 24, 1998

8:00-9:30 a.m.

87TS HEALTH-CARE FINANCING AROUND THE WORLD
 The leader of this session is Dr. Chiu-Cheng Chang, who covers various characteristics of healthcare financing and alternative financing systems around the world. Several countries are featured to illustrate each alternative system.

10:00-11:30 a.m.

105IF FORUM FOR THOSE WITH PACIFIC RIM RESPONSIBILITY
 The moderator is Hassan Kamil, Senior Vice President, Aetna Universal Insurance Company in Malaysia. Participants have the opportunity to share experiences and concerns in doing business in the Pacific Rim region. Examples of topics include regulatory systems, accounting standards, solvency

considerations, product design, and distribution methods. Attendance is limited to people who are based in the region or have responsibility for activities in the region.

If you have already registered for one or both of the meetings, we look forward to seeing you at our sessions. If not, information and registration forms are available on the SOA's web site (www.soa.org) under Continuing Education or you can contact Sue Berg of the SOA Continuing Education Department (phone: 847-706-3545; fax: 847-706-3599; e-mail: sberg@soa.org).

Many thanks to Mike Gabon and Bob Lyle, our Program Committee Representatives, for their tireless service to the International Section in putting together these sessions.

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

Actuarial Volunteer Consulting and Training Experiences: Part 2. Samara, Russia

by Arthur C. Cragoe

Editor's Note: *In the April 1996 issue of International Section News, the author described his experiences consulting with a medium-sized life insurance company in Sri Lanka. He served as a volunteer with the International Executive Service Corp, a nonprofit organization that sends approximately 1,000 (mostly retired) Americans each year to developing countries. In Part 2, he continues with an assignment in Samara, Russia.*

* * *

In 1994 I had a quite different experience in Russia. I was advising a very new company in Samara, a city of 1.3 million on the beautiful Volga River about 600 miles from Moscow. Although it had many cultural and other attractions, it had been closed to all foreigners until 1992 because of its many defense and space industries. Two Peace Corps workers and perhaps one or two other Americans were the only U.S. nationals in the city during

my stay. I spent almost 100% of my time with Russians, few of whom spoke English. Because they host few visitors, there were no satisfactory hotels at that time. My wife did not accompany me, and I stayed in the one-bedroom apartment of a company doctor who moved in with her daughter.

Russia has always had an insurance industry—a fairly good-sized one, actually—run by the government with most home office functions and decisions made in Moscow. This industry is still in place, but soon after “Perestroika,” significant capital became available to form new insurance companies in Moscow and St. Petersburg. Experts were hired from the government company and companies were formed in many large cities of the new Russia, often affiliated with one large company. There are two large, well-staffed, and very aggressive life companies—one in Moscow and one in St. Petersburg. I visited each in 1992 during the People-to-People organization's first trip for U.S. insurance professionals.

In Samara, however, there was only a small amount of capital, no true insurance expertise, and few true salespersons. However, several fledgling insurance companies were vying for existence. I believe they thought insurance companies accumulated and controlled large amounts of assets. That was the objective.

During my Saturday-morning strategic planning sessions with the client and his chief financial officer, I had a difficult time getting them to think beyond next week. In their defense, it is difficult to plan in an economy where inflation causes interest rates to run at 15% to 18% a month (this was 1994). TV ads from Moscow showed banks and (now failed) financial institutions offering 350% to 550% interest a year. For Samara Insurance Company, a one-month endowment was a popular plan; it was a way to reduce company taxes.

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Samara Russia*continued from page 20*

The Russian tax system is Byzantine, and I once read a paper on it which helped prepare me for such things as "dead souls." This is the practice of carrying inactive employees on the payroll. It affected my visit because I was told the company had several hundred agents. It turned out that they previously had several hundred out-of-work people sign up for an agent's training class, from which no sales had been made. However, they still carried them on their records as agents because originally they had been given a small cash-signing bonus.

Reinsurers have not ventured out of Moscow or St. Petersburg in any great numbers; thus it is difficult to get advice, training, or reinsurance. I found good population statistics but a discouraging trend in male mortality. The 1941 CSO would probably be close to male mortality in the Samara region. Surprisingly, however, female mortality seems to be on

"... we hear in the U.S. how insurance sales and other business deals are made on the golf course. In Samara it is at the sauna."

a par with that in other Western countries. This was turning into a retirement problem because women retire at 55 while men retire at 60.

Women have equality of opportunity with men, but I could not develop a unique marketing approach for females. The closest I could come was to help develop a maternity plan. My company had two well-qualified doctors doing essentially administrative work who developed a relationship with a maternity hospital. The doctors and hospital agreed to guarantee a daily rate for all levels of care while in the hospital. The insurance company, through normal statistical methods, came up with a reasonably safe estimate for the length of stay. The plan provided prenatal, delivery, and a fairly long postnatal period of care, all at a guaranteed rate provided the female entered the plan before the fourth month of pregnancy and passed a physical at the time of entering the plan. It was little more than budgeting with low rates for starting early. However, like the short

endowments and longer deferred annuities we set up, the product had to be easy to understand and have clear, short-range benefits.

The company was advanced, for Russia, in using clever newspaper ads and sponsoring cultural events. They appreciated the sales material I brought very much because selling was not something they were accustomed to doing. For a few days I listened and advised their salespeople as they gave their sales approaches. They had cargo insurance as well as life and health. As in most areas of their economy, sales consisted mostly of "deals" among friends or order-taking from people who approached the company.

After hearing a former nurse from Kazakhstan give her approach, I asked her who had taught her to be so effective, sincere, and persuasive. No one, it seemed, and I again realized that there are natural-born salespeople around the world.

The main policy she sold was one that combined a tax savings to the business of the employer and medical benefits in the better private hospitals. There is a definite two-tier medical system in effect, and it is well-understood, if not well-accepted. One of my jobs was to address employee gatherings to describe the basics of insurance and to try to engender a market for my company's products. Most came to see one of the first Americans to visit their city. After hearing complaints about their medical system, I told my translator to tell them that we had the same problems in the U.S. and that in both countries "we want today's good medicine at yesterday's low prices." Even though we were talking about a different level and type of medicine, I believe the statement was true.

One of the main client supports came from a contract with the city to essentially act as a Medicare-type carrier for about 300,000 citizens of all ages in one section of the city. They were also to audit the medical care given by the government plan to be sure that the city and its people were getting proper care for the money spent. Like the Medicaid plans of many

U.S. states, the Samara region was often late in payment to the insurance company.

The reduction of "top-down" regulation from Moscow and the chaos it is causing was evident in the supervision of financial institutions. I met with a sincere, but admittedly unqualified young man who had been an underwriter in the government insurance company. He was now the supervisor of insurance for a region larger than many of our states, with no experienced staff and no guidance from Moscow. I arranged to send him a State of Illinois statutes and a NAIC handbook on auditing insurance companies for which he was most grateful.

I only had one student in Samara. He was a whiz at computers but had never heard of life insurance. He brought me a Russian text, which was really a translation of a very old English math of finance text. I had given Jordan's text *Life Contingencies* to a Moscow actuary in 1992, but again thought that an even more elementary text was better for a beginning student in a country without a sophisticated financial system. Now my student is setting up the administration and rules for insurance plans and working on the programs I left. He knew some English—fortu-nately for me and my translator. Once I asked him what a certain actuarial word was in Russian. He paused. "I always think of actuarial work in English," was his reply.

One event occurred that probably could only happen in Eastern Europe. It was the blessing of the new office by a priest of the Orthodox Church who came in and went through each room with an incense burner. We had several admitted Christians, and I was included in the ceremony. I told the priest, who had a church in Samara for 25 years, to give a particularly strong blessing to the EDP room because we had been having many problems there.

On a lighter side, we hear in the U.S. how insurance sales and other business deals are made on the golf course. In Samara it is at the sauna. I went to one such affair. Several company officers, the Peace Corps workers, and several top public health officials

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Samara Russia*continued from page 21*

met in a country-club-type setting. The men would go to the sauna, and between being inundated with steam and switching themselves with birch branches, discuss business. The public health officials were looking for insurers to assume some risks in restaurants, while the insurance people were looking for some laws requiring coverage. After the sauna, the ladies of the group took a turn. We next sat down to a huge meal, and then repeated the saunas again. I participated in all but the dip in the river after the hot room. At one affair, I even drank some fermented mare's milk.

Despite all their problems, I ended this assignment feeling that the only things that will keep the Russian insurance industry from expanding, albeit slowly, are the high inflation and general economic uncertainty, and the fear that the new companies will not be there to pay their obligations even five years from now.

I hope these experiences give the reader a flavor of the interesting experiences, and useful service, that can be achieved by working in less-developed countries. For those with two or three months' time available, I encourage writing me or the IESC directly at: Recruiting Department, IESC, P.O. Box 10005, Stamford, CT 06904.

Arthur C. Cragoe, FSA, is a retired Vice President of the Franklin Life Insurance Company in Springfield, Illinois.



Vote in the Section Election!

Section election ballots will be mailed the week of July 6. Take an active role in the International Section Council election process. Review the list of candidates and biographical material and determine whom you would like to represent you on the Section Council. Mail your ballot so it will reach the SOA office no later than **Friday, August 7**. If you are a Section member and do not receive the election mailing by July 21, please call Jeanette Selin at the Society office, (847) 706-3581.

Teaching Position Available

University of the Americas Puebla, Mexico

The University of the Americas—Puebla in Mexico is looking for an instructor with a master's degree in Actuarial Science to teach an actuarial mathematics course in its Actuarial Licensing Program for one year. The university would pay travel and living expenses.

The university has a very strong actuarial program with the objective of forming professionals with solid math preparation, which will permit them to define, analyze, and resolve social and financial problems. The program includes four principal areas: insurance and actuarial calculus; probability and statistics; finances; and optimization. Part of its strength is a large library containing instruction materials for the actuarial science and statistics department. Of the 431,600 references, 1,427 volumes are for this area. The library also carries more than 1,700 subscriptions to periodicals and magazines, with 29 subscriptions to specialized magazines in actuarial science and 36 in the mathematical sciences.

The course covers Chapters 3–10 of *Actuarial Mathematics*, Bowers, N.L., Jr., Society of Actuaries, 1997. The course is given in two parts (Actuarial Math I and II). Lecture time involves a 45-minute class period each week. Because the department would like for its graduates to be able to express themselves in both Spanish and English, the course can be taught in English.

Puebla is a large city in Mexico with a population of just over one million approximately 60 miles from Mexico City. There is direct air service from Dallas to Puebla.

To express your interest in this position, please contact Lela Long at llong@soa.org or phone: 847-706-3533. For a course description, please see the International Section Web Site at <http://www.soa.org/sections/intern/interna.html>.



Call for Papers

Journal of Actuarial Practice 1999 Actuarial "Arts and Science" Education Contest

1st Prize, \$1,000; 2nd Prize, \$500; 3rd Prize, \$250

The objective of this annual contest is to encourage the submission of papers geared to enhancing the *education and/or training of actuaries*. Submitted papers may be on *any* subject related to actuarial science or insurance.

Papers do not have to contain original ideas and anyone can submit papers. However, papers must not be unnecessarily mathematical. Technical papers must be neither abstract nor esoteric. Instead, they must be readable and clearly have a practical application to actuarial science or insurance. In evaluating papers, priority will be given to those papers intended to educate (newer) actuaries on the methodologies, techniques, or ideas used in current actuarial practice.

To enter, mail, fax, or e-mail an abstract (200 words or less) on the proposed paper by September 15, 1998 to the address below. Five (5) copies of the completed paper must be received by November 15, 1998. Winners will be announced by July 15, 1999. All communications must be directed to:

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