

# THE GROWING IMPORTANCE OF INTERNATIONAL ACTUARIAL PRACTICE

• By Steven Sullivan

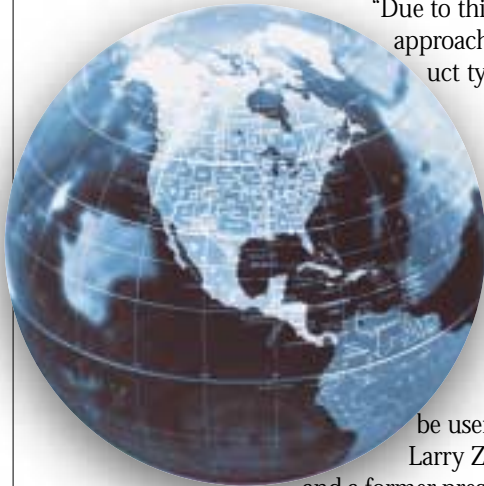
*International borders no longer seem to apply in today's business world. Without even trying, actuaries can find themselves playing on a field that's not only less than level, but with lines running all the wrong way.*

IN A GLOBAL ECONOMY, WHEN THE WORLD CALLS, IT DOESN'T DO ANY GOOD TO HANG UP. And the world has so many different ways of calling actuaries these days. You could, for instance, go to work for a U.S. subsidiary of a foreign company. Or your company could become a U.S. subsidiary of a foreign company. Or your client could have offices and operations all over the world—and assume you, as the professional you are, know what that entails. Even if you have no intention of ever engaging in international practice, there's a good chance you might find yourself engaged anyway, through no fault of your own.

It happened to second vice president and corporate actuary for Allianz Life David Sandberg. When his old company, LifeUSA in Minneapolis, was bought by Allianz Life, a German company, in 1999, Sandberg found he no longer had to worry about just what Minnesota regulators required of him. He now had to deal with something called the KonTraG, financial services legislation passed by the German legislature (Bundestag) last year.

An American actuary having to play by German rules? Absolutely. It seems that the Germans, along with everybody else, noticed that increasing volatility often accompanies the blurring of national boundaries in the world of financial services. Though KonTraG is not restrictive and is primarily interested in allowing German firms to compete globally, it does specify that such companies need "adequate risk management and internal revision systems."

"Due to this regulation," Sandberg says, "our German parent has been prototyping an approach to assess required economic capital across countries, companies, and product type, whether life based or P&C based. Though it adds to the workload, it's certainly doable. It just adds to the filters that need to be done to analyze and report on one's business. I personally feel it'll



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be useful time and effort, though many would disagree."

Larry Zimpleman, a vice president with the Principal Financial Group in Des Moines and a former president of the American Academy of Actuaries, isn't one of them. He believes American actuaries of every stripe ought to be concerned about the issues of international actuarial practice. He sees the Academy as having three distinct but related roles to play in the leveling of the international playing field.

First is the role Zimpleman characterizes as "altruistic." In the United States, the Academy supports the profession's standard-setting and disciplinary procedures and sets qualification standards in all practice ar-

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...eas. And it fulfills its responsibility well; the U.S. actuarial profession's standards of conduct, practice, and qualification are among the best in the world. U.S. actuaries take justifiable pride in their process to counsel and (if necessary) discipline actuaries who don't adhere to the profession's high standards.

The Academy's second role is to make sure that local practice requirements in foreign countries don't prevent Academy members from working in those countries, using its influence to help create a "level playing field" for all qualified, professional actuaries.

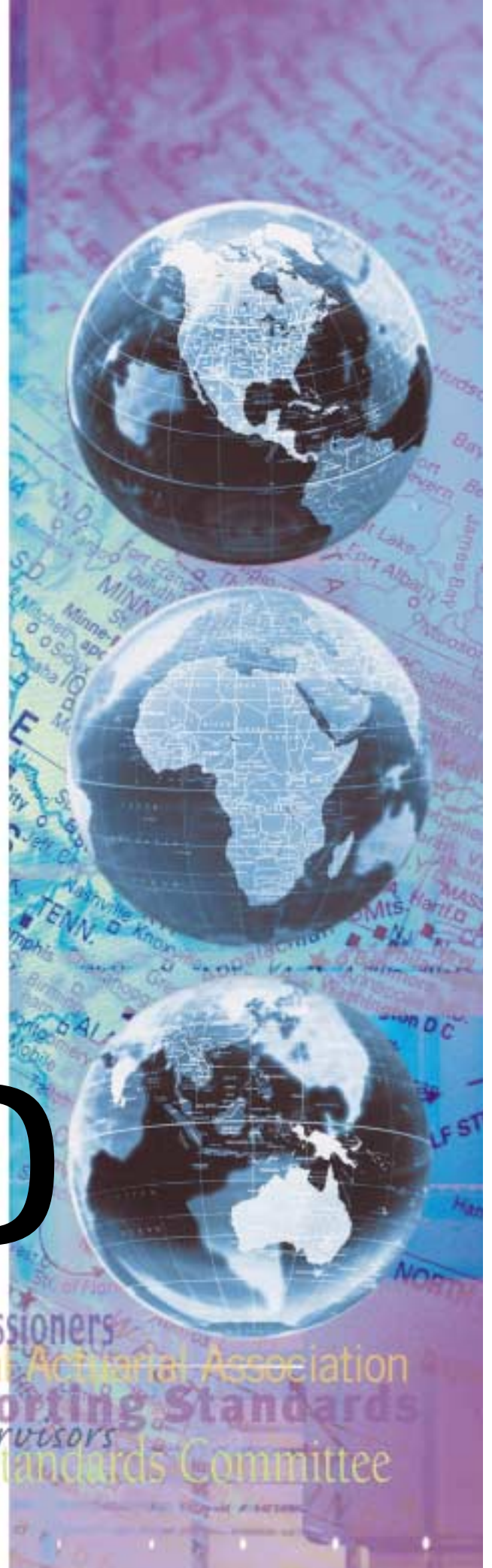
The final element is the other side of the same coin. "There are actuaries from outside the United States practicing here," Zimpleman says, "and it's in our professional interests to be sure they're qualified and subject to the same actuarial standards of conduct and discipline as members of the Academy."

The issues surrounding international actuarial practice are no longer just for the esoteric few. Any actuary, in any position, with any insurance company or consulting firm, could conceivably find himself or herself having to play by new and unfamiliar rules. Accepting and acknowledging the possibility mark the first step toward survival in the new global environment.

"Actuaries who aren't exposed to these international concerns are in great danger," says Mo Chambers, new head of the American Academy of Actuaries' international task force, part of the Financial Reporting Practice Council. "Being narrow and inward-looking is no longer a safe attitude for any actuary."

Basically, it's a matter of who gets to practice as actuaries. Actuarial training and standards of conduct are not uniform throughout the world. In common law countries such as the United States, Canada, and Great Britain, actuarial education is almost exclusively the province of private organizations. Actuaries in the United States have to pass exams administered by the Society of Actuaries (SOA), the Joint Board for the Enrollment of Actuaries, the American Society of Pension Actuaries (ASP), or the Casualty Actuarial Society (CAS) to become fully accredited. In Canada it's the Canadian Institute of Actuaries; in Great Britain it's the Faculty of Actuaries and the Institute of Actuaries. In most of the non-English-speaking countries, however, actuaries are educated primarily through the universities.

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International Organization of Securities Commissioners  
and Valuation System International Actuarial Association  
Universal Reporting Standards  
International Association of Insurance Supervisors  
International Accounting Standards Committee

"The task of harmonizing these different training bases is enormous," says Curtis Huntington, chair of the Academy's Committee on International Issues. "The intent is to develop guidelines, not standards, that will allow national organizations to maintain effective education models as well as traditions, while satisfying the need for international harmonization."

There's no question that globalization is already driving the actuarial profession toward risk management, says Sandberg. "And if the actuaries want to be there, they'll need to move beyond their traditional niche. Some are already moving in that direction. The value actuaries bring is the professional discipline of standards applied to the body of practitioners."

### A Confusion of Rules

The movement toward a global harmony of actuarial practices has been happening in a variety of venues simultaneously. Perhaps the area that potentially affects more actuaries without their knowing about it is accounting standards and financial reporting.

In 1994, the International Organization of Securities Commissioners (IOSCO) noticed that when an international company lists its stock on the New York Stock Exchange, the picture of its financial results in New York can look very different on the London or Tokyo exchanges because different accounting rules apply in different countries.

Concerned about the possibility of confusion among investors, IOSCO approached the International Accounting Standards Committee (IASC), based in London, and asked it to devise a set of universal reporting standards companies could use when their shares are traded on multiple international exchanges, so they'd be telling one story to the world instead of several.

The IASC, which represents more than 100 different national accounting organizations, saw this as an opportunity to expand its power and influence. The initial job was to put together 12 core standards by the end of 1998, which the commissioners did. But they felt unqualified to deal with the last standard, regarding the recognition and measurement of insurance contracts. So, they reactivated a steering committee that had been set up in 1997 to look at accounting for insurance liabilities.

The steering committee's task is to draft standards and rules for insurance companies to cover accounting for the liabilities in insurance contracts. When these rules are adopted, it's hoped by 2002 or 2003, international insurance companies that list their stock on a number of exchanges will probably move to that basis of accounting. Which means that if AXA in France, Allianz in Germany, and ING in the Netherlands are reporting on this basis, their U.S. subsidiaries will have to report on that basis, too.

"So, it's certainly going to affect anybody who works in a U.S. subsidiary of these big multinationals," says Chambers, "as obviously it will also affect those who work for U.S.-based big multinationals."

The group will also be working with the International Association of Insurance Supervisors to develop a solid international risk-based-capital-measurement system. And if all this works, there will certainly be pressure on the United States to adopt the international standards, too. After all, Chambers points out, the Financial Accounting Standards Board has already said that the current GAAP reporting system for insurance companies in the United States doesn't work—it's misleading and needs to be replaced. And the Academy is exploring the unified val-



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uation system (UVS) system, which, according to Chambers, is consistent with current international proposals.

"So with the combination of UVS coming forward and the international movements," says Chambers, "I may be surprised and see the United States moving in this direction more quickly than I would have previously expected."

A second area in which national differences can sometimes get in the way is professionalism and standards of practice. Finding harmony among sometimes very different approaches has become the mission of the International Actuarial Association, headquartered in Ottawa, Canada.

In 1998, the IAA became the dominant worldwide actuarial group. With 43 full member organizations, the IAA covers actuaries in all the developed nations, including Australia, Japan, the United States, Canada, Mexico, South Africa, and the United Kingdom, and organizations in South America and most of Western Europe. In addition, 22 observer member organizations represent many developing nations. The IAA now serves as the primary forum for actuaries to discuss international standards of practice, discipline, qualifications for practice, and educational credentials.

As part of the IAA's education committee (and ASPA's delegate to the IAA), Curtis Huntington has been instrumental in the complex and politically sensitive process of developing international education guidelines.

"At this point," says Huntington, "the IAA has developed a set of educational guidelines that may be used to evaluate an actuarial organization's educational program.

The intent is to have this become effective for newly matriculating students starting in the year 2005. The IAA is now measuring how its current organizational members fare in such an evaluation."

### Trade Practices

What are the barriers for U.S. actuaries who want to set up shop in another country? Do you have to be a citizen to be eligible to work or be licensed? What kind of laws and regulations would prevent you from working in another country? And once you are allowed in, what other hoops will you have to jump through?

In 1990, Les Lohmann, an American pension actuary, found himself in the unusual position of having to establish a practice in Japan after his contract employment unexpectedly fell through. He had a work visa but no clients, didn't speak Japanese, and had very little income.

"In a city known for expense, where the joke is '10,000 yen isn't very much money,'" says Lohmann, "I had a budget of 1,000 yen per day to live on and to start a business."

Despite the odds, he's still there, consulting with mostly Japanese subsidiaries of North American and European companies, which is allowed under the tax treaties these companies negotiate with the host countries.

"I'm able to work because I belong to the toughest organizations in the world [Society of Actuaries, Canadian Institute of Actuaries, Conference of Consulting Actuaries, and as an enrolled actuary] and I do my work to North American standards, even though I don't need to here," Lohmann says.

The first five years were tough ones for Lohmann. Cultural differences aside, establishing some kind of standardized rules for international actuarial practice may help smooth the way for other actuaries in the future.

"Temporary entry into another country is an immigration issue," says Richard C. Lawson, executive director of the American Academy of Actuaries. "Barriers to actually practicing once you get there are trade issues, and the Academy has been trying to get temporary entry into Mexico and Canada through the North American Free Trade Agreement."

The idea is to use NAFTA as a sort of automatic green card, allowing actuaries from any of the participating countries—the United States, Mexico, and Canada—to practice in any of those countries. But internal political pressures and changes have made it slow going, and the application is still pending.

But that hasn't stopped actuaries from taking the plunge—and encountering problems. For example, there are certain rules in place in the United States that guide employee-benefits actuaries when they're working on the financial statement of a company that's subject to GAAP. A standard called FAS 87 governs what cost methods they have to use and generally describes the assumption-setting process for calculating the value of pen-

sion benefits.

Consequently, the Academy has developed standards of practice about how actuaries should meet their responsibilities under FAS 87. If, however, your company has locations or operations in other countries—Canada, for instance—then Canadian rules for calculating those values may differ somewhat from U.S. rules.

First, says Zimpleman, actuaries in this situation need to recognize and accept the growing global nature of the business. They have a responsibility to know what the rules are in Canada, how they apply, and when to apply them. Second, they need to recognize that if they apply Canadian rules incorrectly or improperly, they may be subjecting themselves to the Canadian discipline and counseling process.

"Actuaries in this country face this situation all the time," he says, "and not all of them realize it."

### International Harmony

Despite the ongoing work of the IAA, there continues to be a lack of uniformity among the four areas of actuarial education, qualifications, standards of practice, and discipline that Zimpleman believes will take a "working generation" to harmonize. Harmonization, in this context, doesn't mean that all countries have to play by the exact same rules. But it does mean that individual countries are able to understand, rationalize, and rec-

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oncile whatever the rules are in one country with the rules in another.

One example of this kind of harmonization is something called a mutual recognition agreement. Under such an agreement, for example, the Academy in the United States and the Institute of Actuaries in the United Kingdom might agree to the conventions by which a fellow of the Institute can practice in the United States and a U.S. actuary can practice in the United Kingdom. The mutual recognition agreement, signed by a representative of each organization, formalizes the rules of engagement and cross-border recognition. This means that American actuaries practicing in the United Kingdom are subject to U.K. standards of practice and U.K. actuaries are subject to U.S. standards, discipline, and counseling procedures.

The Academy and the Society of Actuaries now have mutual agreements in place with the two U.K. actuarial bodies, England's Institute of Actuaries and Scotland's Faculty of Actuaries. The United States actuarial organizations also have mutual recognition agreements with the Institute of Actuaries of Australia

and the Canadian Institute of Actuaries. And the Groupe Consultatif, headquartered in Oxford, England, is basically a mutual recognition agreement allowing actuaries in the European Union to practice in one another's countries.

"The SOA may grant fellowship," says Norm Crowder, immediate past president of the SOA, "but it's the Academy that grants the right to engage in signatory practice." In other words, foreign actuaries who want to sign annual statements of opinion for life and health insurers must meet the qualifications for membership in the Academy.

As it stands today, the bilateral mutual recognition process is a bit cumbersome. In order to cover the world, the Academy would have to negotiate mutual recognition agreements with 30 or 40 different organizations representing at least that many countries. The intent is for the IAA to become the mechanism for all mutual recognition agreements, with the Academy and other organizations simply accepting the basic rules of engagement the IAA would lay down for any cross-border practice.

"Most foreign countries have a single organization where membership equals qualification," Academy President Larry Johansen told the *Actuarial Update* late last year. "If you're qualified to join, then you're qualified to practice. Whereas in the United States, you can join the Academy, but you have to look to the qualification standards to find out if you're qualified to practice in a specific area."

Mutual recognition agreements shouldn't be allowed to dilute standards and qualifications that are already high, warns Lohmann. He's an unabashed partisan of the North American style of actuarial practice.

"The fact is," he says, "North American actuaries demand and get the highest remuneration in the world because people believe us and our actuaries are the best. Permitting others [less qualified] to travel under our banners will dilute this reputation."

"Actuaries are professionals who believe their clients are entitled to the quality and integrity of their work," says Zimpleman. "The Academy is one of the key organizations, along with the SOA and the CAS, that make sure the proper education, qualifications, standards of practice, and discipline procedures are in place. Because you can never build borders high enough in today's world, we have to recognize that actuarial practice is increasingly global. Getting involved in the IAA and with other actuarial organizations is the only way we're going to be able to ensure that the services being provided are proper and professional."

Clearly, the work ahead will require not only top-notch actuarial skills but the skills of a world-class diplomat as well. ●

STEVEN SULLIVAN IS THE EDITOR OF *CONTINGENCIES*.

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