

IMPACT OF GLOBALISATION IN THE ACTUARIAL PROFESSION - CONSULTING AND PENSIONS



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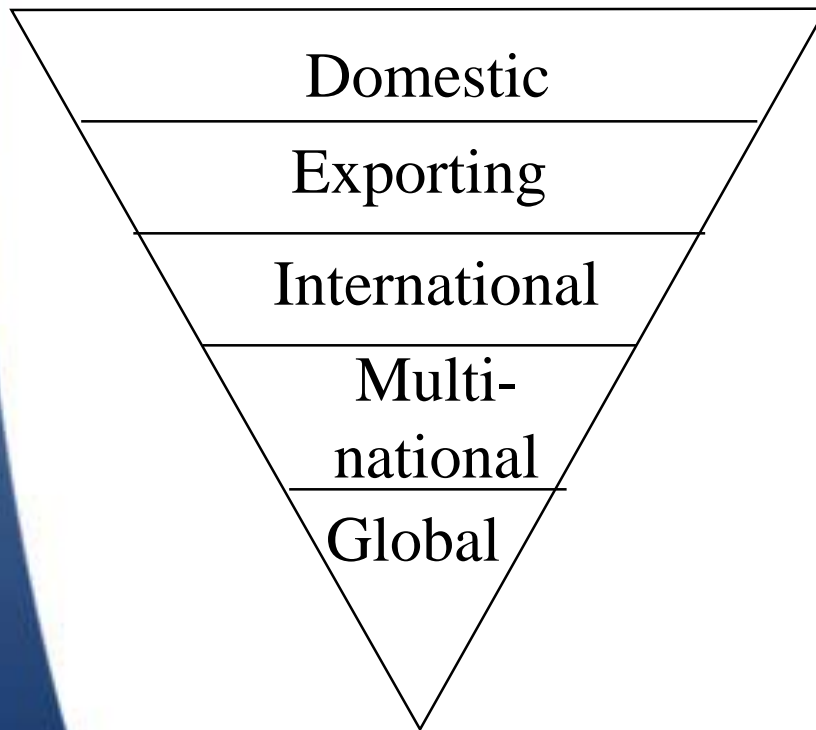
***Chairman IAA Committee on IASB Employee Benefit
Accounting Standard***



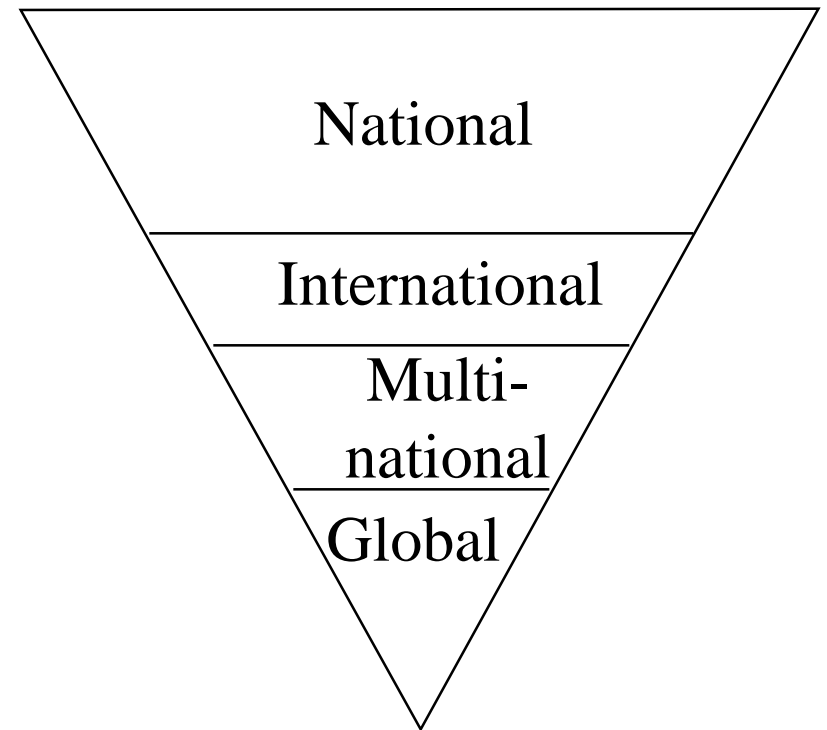


THE CONSULTING MARKET

CLIENTS



FIRMS



A small number of large firms compete for global business

Firms of all sizes compete for domestic business





The location of Global 500 parents

The Americas

Country	G500 HQ
US	179
Canada	12
Brazil	3
Mexico	2
Venezuela	1
Total	197

Europe

Country	G500 HQ
Britain	40
Germany	37
France	37
Switzerland	11
Italy	10
Netherlands	8
Spain	5
Sweden	4
Belgium	4
Finland	2
Norway	2
Russia	2
Luxembourg	1
South Africa	1
Total	164

Asia Pacific

Country	G500 HQ
Japan	107
South Korea	12
China	10
Australia	7
Malaysia	1
India	1
Taiwan	1
Total	139





Actuarial and related consulting

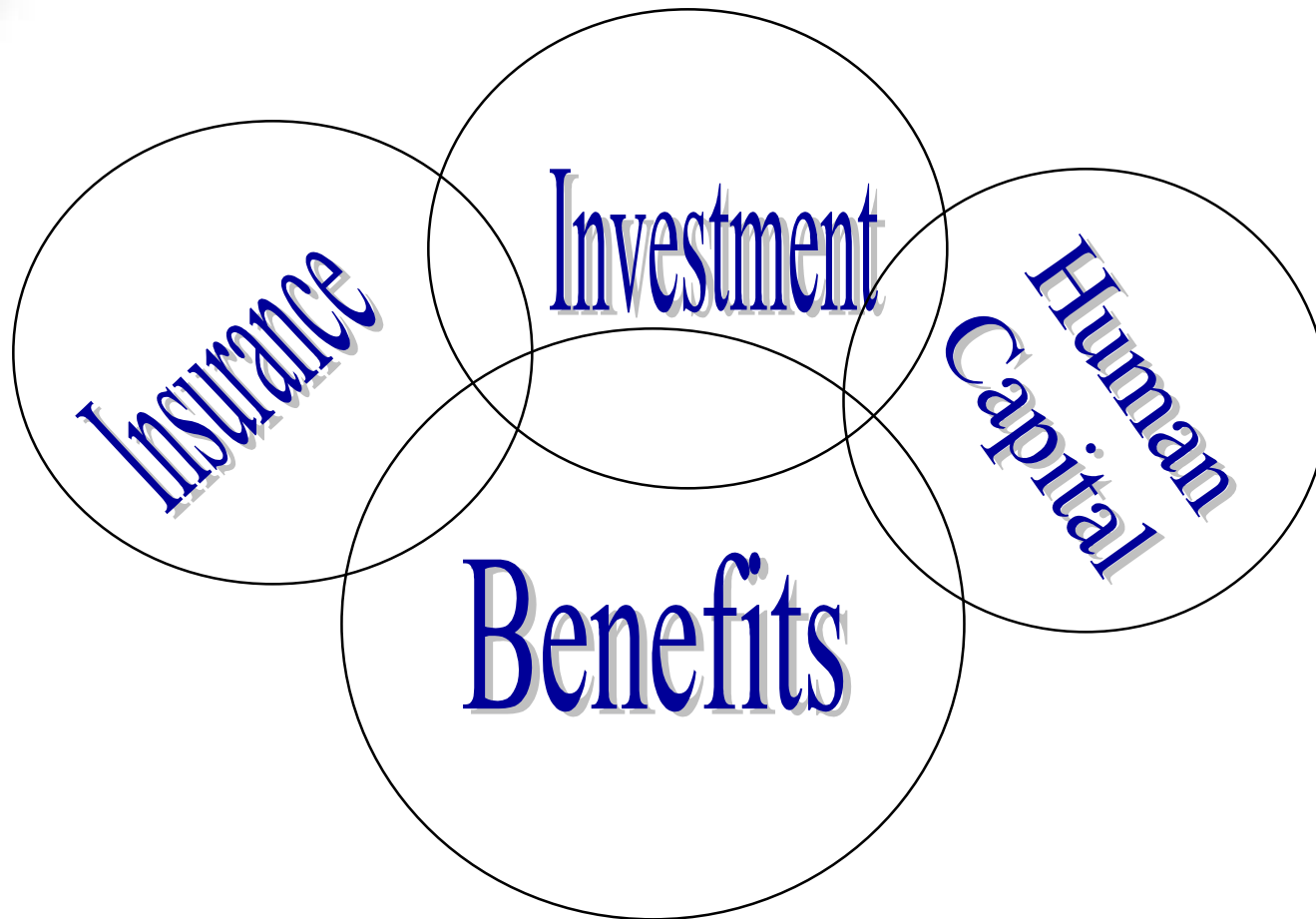
**CORPORATE
CLIENTS**



**INSURANCE
PROVIDERS**



Actuarial and related consulting



Some synergies available





Forces for globalisation

PENSIONS

- Global or multi-national clients:
 - selling in global markets
 - producing in low cost countries
 - transferring senior management across borders

INSURANCE

- Major providers:
 - seeking new markets abroad
 - looking for economies of scale
 - bringing new types of product to other markets (eg equity-linked, universal life)

Globalisation is an established trend





Forces for globalisation

ACTUARIAL CONSULTING

- Financial reporting standards
- Mergers and acquisitions



Opportunities and challenges

Issue

Opportunities

Challenges

Strategy

Follow clients/acquire new clients
New markets

Global v local balance
Building global brand
Making strategy work

Structure

Bigger

Not just dots on a map

People

Overseas experience
Broader/varied careers
Challenging assignments

Comfort zone?
Mindset?
Language/cultural knowledge





Opportunities and challenges

Issue	Opportunities	Challenges
Process	Share best practices/knowledge New skills eg global account management	Making it work
Systems	Facilitate globalisation Local v central "service centres" Cost reduction	Legacy systems Investment

Globalisation leads to both challenges and opportunities





Growth of consulting

- Proportion of UK Qualified Actuaries in consulting 20% → 40% in the last 20 years
- Total Qualified Actuaries varies widely relative to GDP
 - eg UK 4 times higher than Germany
- Ageing population issues lead to changes which create opportunities eg European pensions legislation
- Worldwide trend to external peer review? (Enron effect)

Global knowledge creates opportunities





The global pension scene

- Varying social attitudes to
 - vesting
 - preservation
 - transferability
 - annuitisation
 - security
 - disclosure
 - governance
 - taxation



The global pension scene

- Varying combinations of State + occupational + personal pensions
- Varying extent of advance funding of State and occupational pension
- Varying rates of mortality/fertility leading to varying degrees of population ageing

Pensions are not global like insurance or investment products





Global pension issues

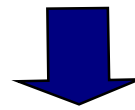
Benefit Design:	Trend from Defined Benefit to Defined Contribution
Taxation:	Incentivising long-term saving
Definition:	Competition between savings products and pension products
Governance:	Exposure to equity risk Exposure to self-investment risk (eg Enron)
Corporate Risk:	Exposure to pension risk
Population Ageing:	Raising retirement ages Projected labour market shortages



Trends in pension design

- Defined Benefit

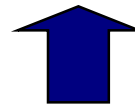
- Final salary
- Career average
- Cash balance



UK + elsewhere



EU



US + elsewhere

- Defined Contribution

- Group schemes
- Personal pensions



Design reflects the impact of legislation, tax, financial reporting





Financial reporting for pensions

		Assets	Liabilities	Adjustments
International Accounting Standard	IAS19 (1998)	Market value (or Fair Value) No averaging	Discounted at Corporate Bond Yield	Corridor Amortisation of actuarial gains and losses Immediate recognition of prior service costs
US	FAS87 (1987)	Market value Averaging over 5 years permitted	Discounted at Corporate Bond Yield	Corridor Amortisation of actuarial gains and losses Prior service costs amortised
UK	FRS17 (2002)	Market value No averaging	Discounted at Corporate Bond Yield	No corridor Immediate recognition of actuarial gains and losses. Immediate recognition of prior service costs





Financial reporting for pensions

- Big differences between key accounting standards
- European Parliament will mandate use of IAS19 from 2005
- IASB re-examining IAS19 "with a view to the convergence of pensions standards worldwide"
- Impact of Fair Value

Watch this space!





Global developments in the actuarial profession

- International Actuarial Association
 - co-operation over education, professional standards
 - international education core syllabus
 - template for mutual recognition agreements
 - links to world bodies
 - response to IASB, IAIS



Global developments in the actuarial profession

- Co-operation between Actuarial Associations
 - Full mutual recognition agreements between UK/Europe and between US/UK/Australia/Canada
 - Affiliate mutual recognition agreements between US/UK/Australia/Japan
 - agreement on common education core syllabus between US/Canada/UK/Australia

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