The development of the Actuarial profession in nascent economies

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Agenda

- **Objective**
  - Look at development of Actuarial profession from a number of aspects
  - Raise some questions
  - Provide useful and interesting information
  - Provoke further thought and debate
  - Encourage and support development of profession

Setting the Scene

- **The role and definition of the profession of "Actuary"**
  - Important in developing markets where actuaries are in short supply to emphasise key features
    - Exam process
    - Code of conduct
    - Professional standards
    - Integrity

      Provides an implicit

  "guarantee" But....

  It comes with responsibilities and privileges

Challenges

- Perceived externally as having a narrow scope
- Lack of contact with general public
- Desire to move into broader risk roles as they are created, but how does the actuary compete?
- Blurring of edges
- If other professions can do the role, why pay?
- How does the profession maintain the brand AND expand the profession into new areas
- Is expansion viable/realistic/necessary?
- Should a developing market start with a broader brand?

How has profession developed?

- **Broadly there have been three models to date**
  1. Authority is delegated by state to profession for self regulation, education and governance, e.g. UK, Australia
  2. Regulation more by state e.g. Europe
  3. Form of hybrid development, where individual states retain some control and governance but also have self regulation e.g. US

What influences development at country level?

- Regulators, both home and overseas
- Senior Actuaries from overseas' new market entrants
- Market forces
- Structure and nature of individual market
- International Actuarial Association

Example of Development - Mexico

- **Stage One (1940s to 1960s) – Period of foundation, definition, enhanced usefulness during change from rural to industrialised economy**

- **Stage Two (1960s to 1980s) – Rapid expansion and diversification**

- **Stage three (Post 1980s) – Consolidation of institutions and role in society**
- **Stage four (2000s onwards) –internationalisation**

The insurance market

- Generally accepted fact that Insurance adds to financial sector depth and efficiency
- The specific type of work that Actuaries do and the stage of development of the local profession determined to large extent by the stage and maturity of the insurance market itself
- The following table produced by the US Agency for International Growth in 2006 identifies environmental factors and internal building blocks that influence market development

Type of actuarial work determined by stage of insurance market development

TABLE 4.1: DECISIVE FACTORS PER STAGE OF INSURANCE DEVELOPMENT

Insurance Stage	Type of State	Influential Factors of Insurance Market Development	
		External Economic/Legal/Political Preconditions	*Industry-specific Insurance Building Blocks*
Dormant (Afghanistan, Iraq)	**Fragile**	• Political stability • Property rights • Freedom of enterprise • Voice & accountability • Legal framework • Contract enforcement	• Insurance law • Initial regulatory / Supervisory framework • Basic data collection • Risk management at government level (natural disaster planning)
Early (Bolivia, Egypt, Mongolia)	**Stable / Low Income**	• Income • Scale • Economic stability • Market restrictions	• IAIS Core Principles (regulation/supervision) • Consumer awareness of risks • Actuarial capacity • Data collection • Professional education • Market restrictions • Industry market conduct • Consumer protection/ support • Private/public sector collaboration • Ethical and transparent behavior
Sustained Growth (Peru, India[12], El Salvador)	**Stable / Lower Middle Income**	• Income • Scale • Savings rate • Financial sector • Enforcement, judicial efficiency/transparency	
Mature (North America, Western Europe, etc.)	**Stable / Upper Income**	• Tax incentives	• Alternative risk management and finance • Financial market risk securitization

2010 – Trends – Asia and Latin America

Emerging regions		Performance 2009	Outlook 2010
Asia	Life	• Growth moderated across the board in early 2009, but some early signs of recovery were emerging towards year-end. • Sales of investment-linked business remained depressed in early 2009. • Profitability is expected to have been dampened by low interest rates.	• A strong rebound could materialise once interest in investment-linked insurance products recovers. • Bancassurance sales are expected to improve in 2010, after having taken a heavy toll in 2008/09 on reduced sales of annuities and investment-type products.
	Non-life	• Growth remained strong in China and India, partly due to government-sponsored infrastructure projects. • Trade-related insurance demand was hit hard in most markets. Motor insurance was down, but improved towards year-end on recovering car sales. • Profitability was supported by the lack of major insurance losses, though several typhoons have resulted in significant economic losses.	• Recovery in non-life demand will continue into 2010. • Trade-related insurance and motor insurance are expected to recover. • The current strong pipeline of infrastructure construction projects will continue to support the property and engineering business in 2010.
Latin America	Life	• The slowdown in life insurance business since 2008 continued into early 2009. Business, however, is stabilising alongside improvements in the real economies.	• The recovery will be in line with the improving economic outlook. • Demand for pension-related insurance will remain strong and will support premium growth in 2010 and onwards.
	Non-life	• Non-life business remained weak in Chile but otherwise was fairly resilient in other regional markets. • Business in Mexico has been supported by a multi-year, multi-line programme of the state-owned oil company. • Motor insurance business contracted across the region, with the exception of Brazil, reflecting the lower rate of car sales.	• Growth is expected to accelerate, reflecting the recovery of the regional economies. • The expected recovery in new car sales will be a major driver of non-life premium growth, given the dominance of motor in total non-life business. • Business lines, including engineering and surety, will start to benefit from investments in infrastructure.

2010 Trends – Eastern Europe and Middle East

Eastern Europe	Life	▪ Growth remained depressed in early 2009, but showed signs of improvement in the second half. ▪ In Russia, compulsory medical business continues to grow. Otherwise, businesses are sustaining further declines. ▪ In Poland, the life business contracted from a high base in 2008 (when tax exemption was offered to life saving products).	▪ Business is expected to recover but only slowly. Market consolidation is expected in Russia. ▪ In Poland, economic resilience will support a recovery in insurance demand. ▪ The absence of insurance growth in Hungary is due to lingering economic problems.
	Non-life	▪ Business is expected to have contracted in most Eastern European markets but probably most heavily in Russia. ▪ Motor hull performance remains weak while MTPL is growing slowly at best.	▪ A slow recovery is expected in 2010 but growth could remain elusive in some markets still plagued by economic problems. ▪ In Poland, economic resilience will support a recovery in insurance demand.
Middle East	Life	▪ The life business in the Middle East is generally underdeveloped with a very small business volume. ▪ Growth slowed in 2009.	▪ Growth will accelerate modestly in 2010 due to the improving economic outlook.
	Non-life	▪ Stable to lower growth continued to be driven by compulsory lines. ▪ The pipeline of government-sponsored construction projects is supporting engineering and property lines.	▪ Compulsory health and motor insurance will continue to drive growth.

The domain of the Actuary

- The actuaries' view
  - Europe – making progress, increase in understanding of actuarial work
  - Singapore – a number of legal constraints to the work
  - Brazil – Diminished roles
  - Mexico – well respected, with wide responsibilities

How is the Actuary perceived?

- Singapore – the legal constraints define the role
- Europe – seen in life assurance only, their role is limited to certain areas
- Asia (excluding Sing) – sometimes has to make decisions without information, lack of accountability

What is being done to tackle the domain question?

- North America – discuss, communicate, educate the leadership
- Asia – refer back to terms of reference of the project, follow protocols of roles and activities
- Europe – provide lots of explanation and make the Actuary a real person

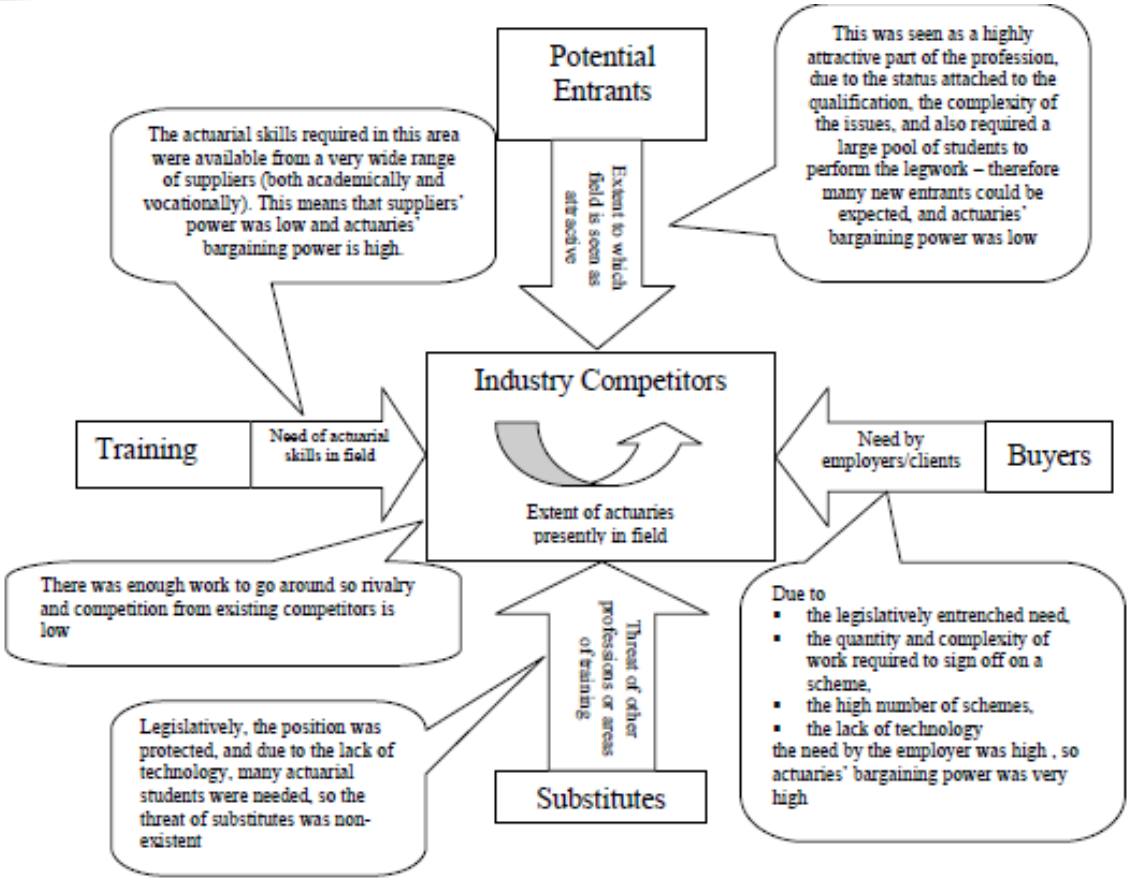
The evolution of the Actuary Role

At one end, its all about regulation, compliance, basic data issues which dictate the role and place

At the other, a real desire to move away from traditional work in to roles where actuarial training gives competitive advantage, e.g. Risk, strategic management

This evolution creates demands for different skill sets which influence those entering the profession and developing their careers within it

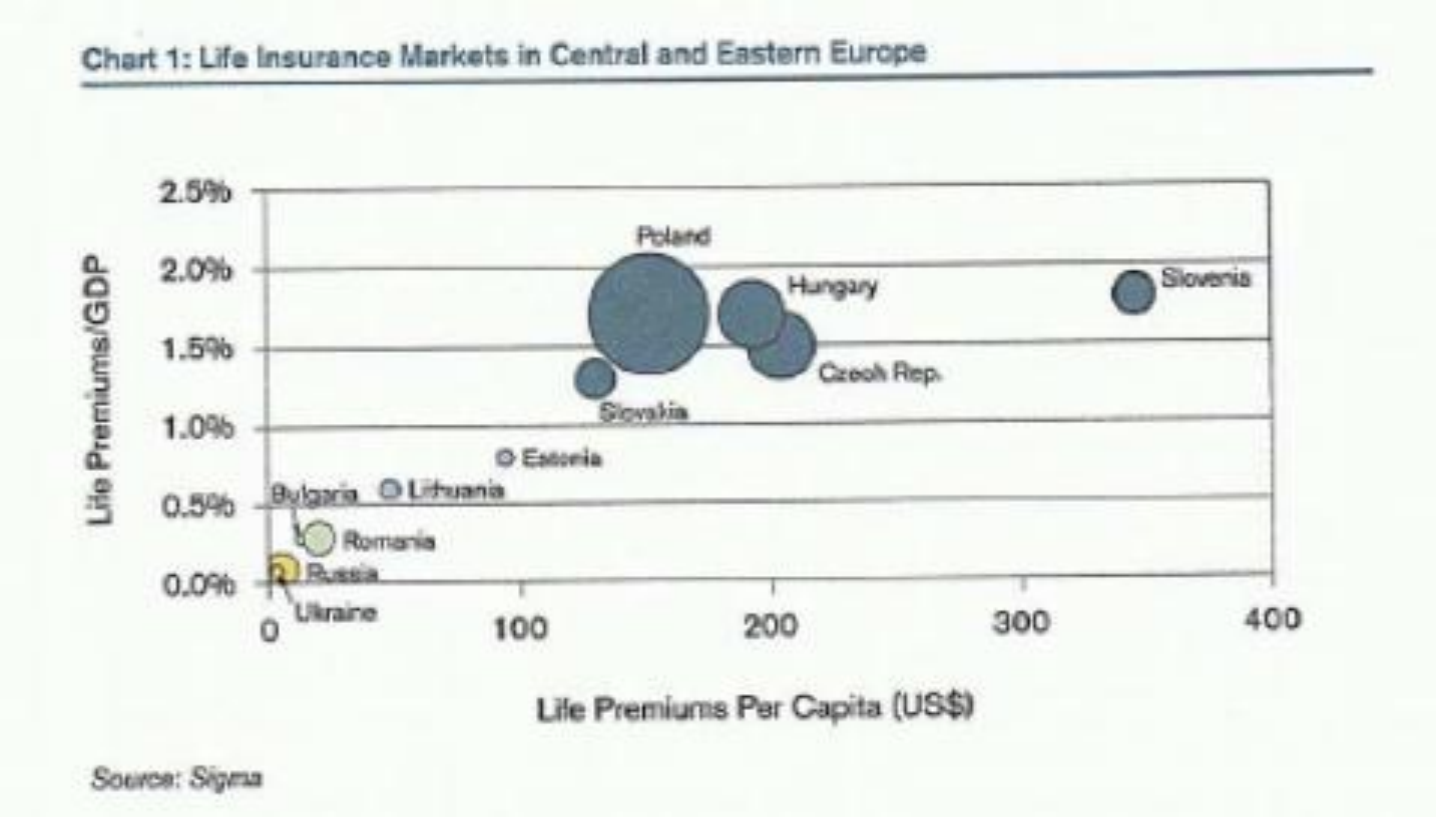
How do Actuaries effect this evolution?



Do Actuaries speak the same language?

- Is “communication” really an Actuaries development area?
- A slightly different experiment for you to try over lunch today .....
- Very appropriate for those working in multi national teams

Snapshot view – CE Europe



Middle East

- More non-life than life
- Almost uncharted actuarial territory
- Companies need to put in world class risk management to compete globally
- Many new market entrants
- Individual countries vying to be regional FS centres – need robust regulation
- Growth of Takaful/Shariah compliant insurance
- Insurance penetration is 1.3% of GDP compared to 2.8% in other emerging markets

Emerging markets – Life assurance

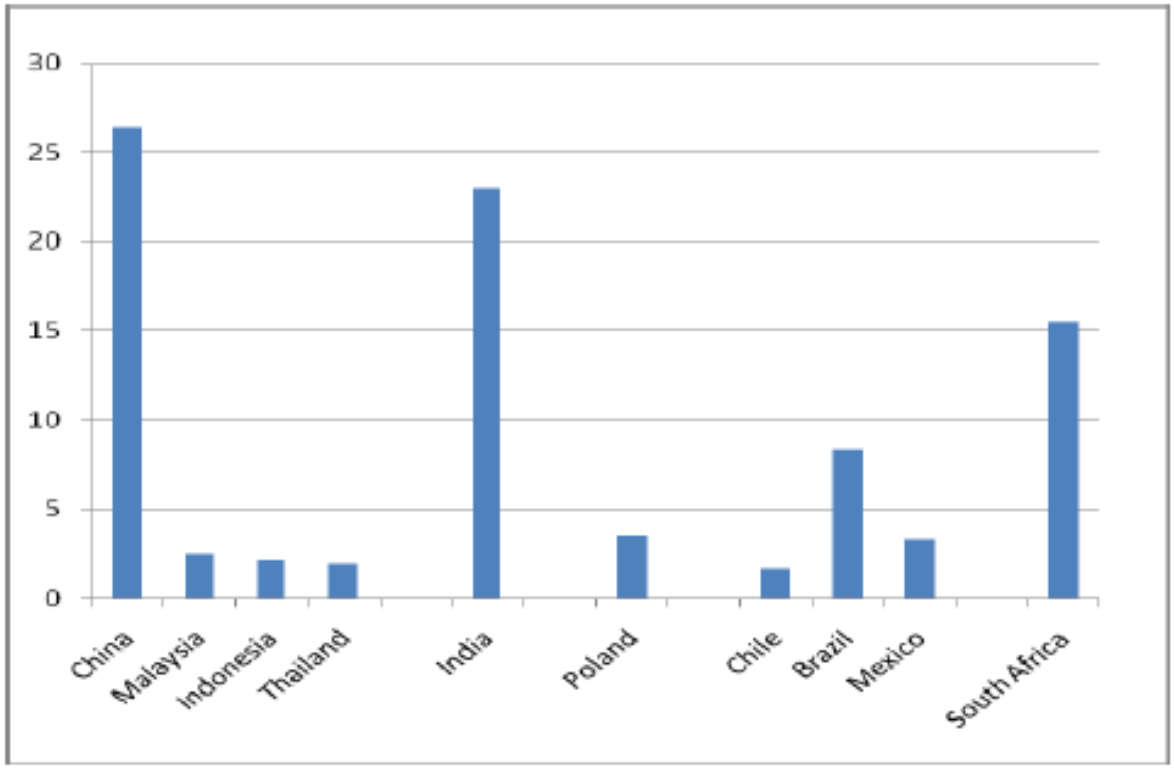


Figure One: Graph showing percentage share of emerging markets Life Assurance Premium volume by USD of top ten emerging market countries 2007[23]

Emerging markets
Non-life insurance

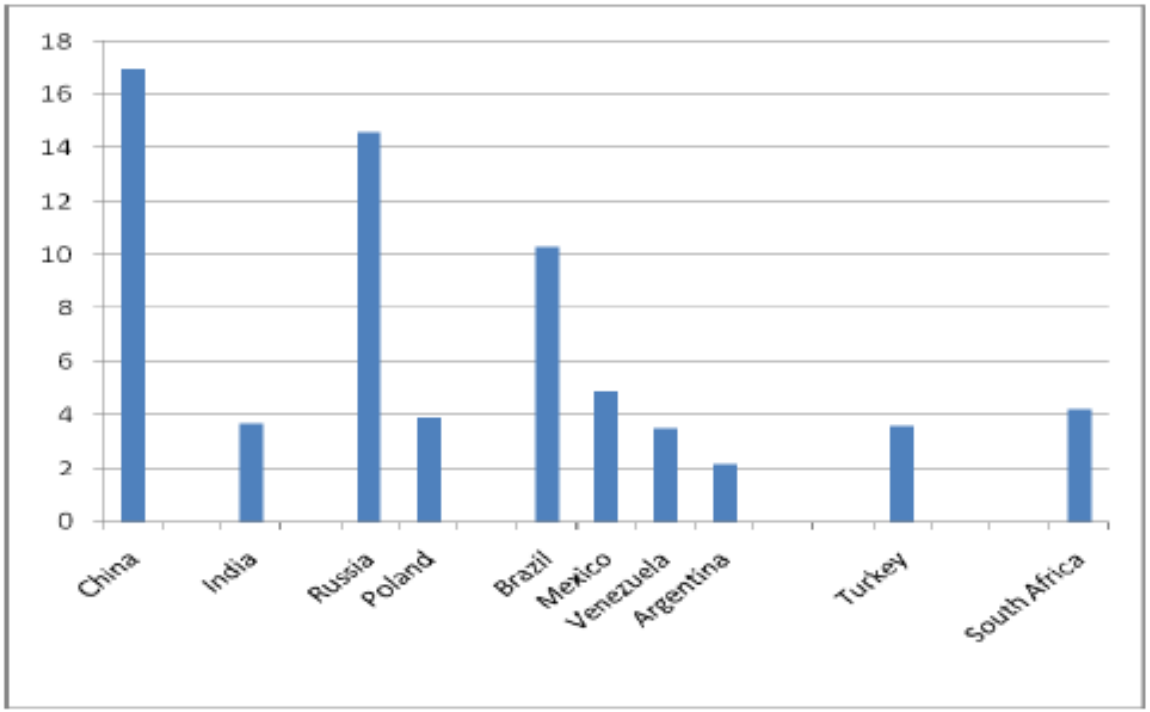


Figure Two: Graph showing Percentage share of emerging markets Non-life Insurance premium volume by USD of Top ten emerging market countries 2007

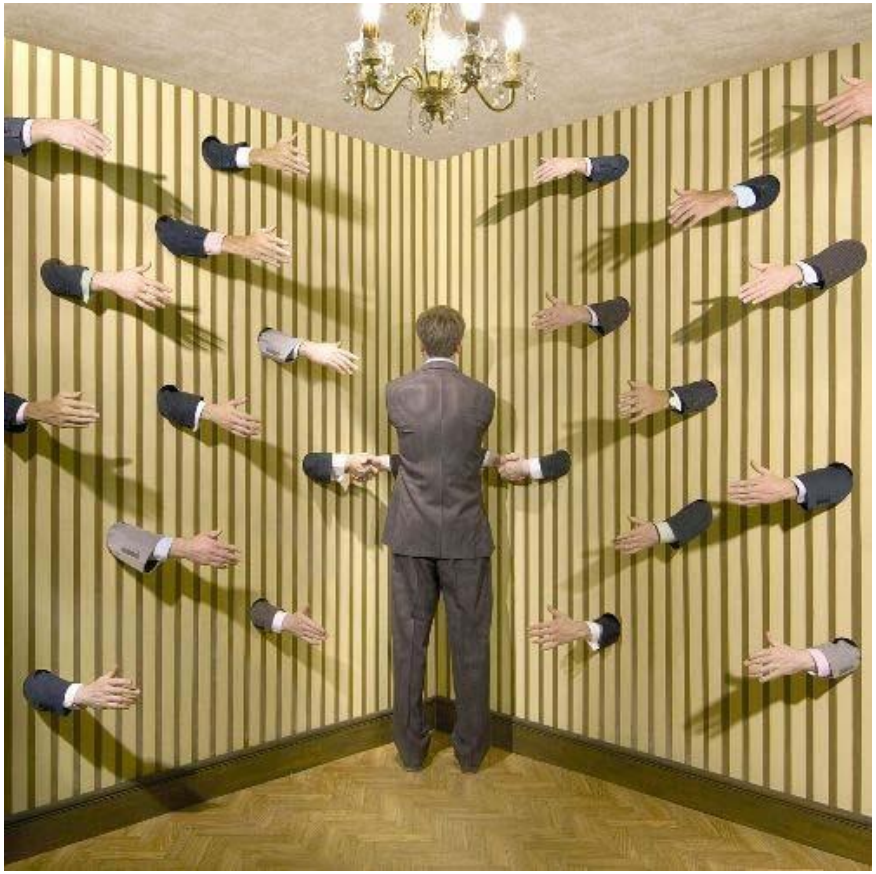
Challenges of a developing actuarial profession

- An insurance market develops faster than the actuarial profession to support it
  - E.g. India today 200 Fellows and 8700 students, in 2002 204 Fellows and 2500 students
- Ambitious recently qualified actuaries able to secure highly responsible roles before developing sufficient business maturity

Challenges - cont

- Lack of peers to form critical mass to enable profession to develop
- Feeling of isolation as only small handful of others to share ideas and discuss issues
- Without technical skills to evaluate risks an adapt to local conditions, markets cannot innovate
- Many emerging markets do not have actuaries in supervisory agency, which weakens it

Solution One - Let's move the profession out of its hiding place!



Solutions – supply side

- Make sure an attractive, functioning and structured training programme is in place at University and workplace
- Attract a broader range of graduate/school leaver, compete head on with medicine and law
- Attract career changers e.g. Engineers, physicists, computer programmers

Broaden supply

Institute of Actuaries of Australia

MθrΣ Tβαη mΛτhς

www.morethanmaths.org

Solutions – demand side

- How do you justify to the CEO of a JV in a developing country that you need to pay the Chief Actuary a much higher salary than his?
- Work to establish strong peer support networks, share career development facilities, participate in global online forums
- Energise the IAA and independent foundations such as 3E
- Work on developing the Actuary “brand”

Summary

- A bit of a whirlwind tour around a number of issues facing developing actuarial markets. More info in paper.
- Key takeaway? What should we be doing now?

WORKING TOGETHER ON THE DEVELOPMENT OF THE ACTUARY BRAND

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