



SOCIETY OF ACTUARIES

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# Moscow diaries

**I**n the past two years, several members of the Society of Actuaries have traveled to Russia. In each case, their goals included an increased international understanding and professional interaction with counterparts who operate in a different cultural, economic, and political environment. The growth in less than two years of the financial services business and related activities in Russia is apparent from their observations.

Russia's transition to a free market economy is important to the international community and to a strong global economy. The actuarial profession can play an important role in providing financial security to the 151 million Russian citizens.

Four members' "diaries" featured here span November 1992 through March 1994. Each person came away with unique perspectives. The sidebar to this article on page 7 features the main points of the Agreements in Principle between Moscow State University, its Financial and Actuarial Center, and the Society of Actuaries, signed on the March 1994 trip.

## Godfrey Perrott

*Trip to teach at insurance seminar for the Vermont Insurance Institute.*

November 7 - 14, 1992

I flew into Sheremetyevo Airport. My first impression was that Russia is flat, drab, and colorless. Few billboards lined the road on the way into Moscow, and virtually no colorful shop fronts existed.

I expected to see long lines for bread and other staples in the city, but although there was not much variety, the stores provided enough food for an adequate supply.

The first day I looked up some distant relatives in Moscow, a young couple with a small child. They live well by Moscow standards, with three modest rooms plus a kitchen and bathroom in a 27-story apartment building

about one hour from Moscow by Metro or bus.

Nothing gets done quickly in Russia, and overall productivity is low. Street lights were on a timer and went off from 1 to 5 a.m.

I met the other members of the American faculty who would be teaching a week-long seminar on insurance at the Russian Insurance Institute. Our trip was coordinated by the Vermont Insurance Institute, part of Champlain College in Burlington, Vermont.

We took a minivan to Yaroslavl, an old industrial town of 400,000 about 100 miles north of Moscow. I was the only actuary; the other members included an accountant, a claims manager, an underwriter, a risk manager, a stockbroker, and a marketer.

The Russian people were very friendly and interested in anything about America. As honored guests, we probably did not eat typical Russian meals. Every meal started with cold smoked meats and bread, followed by a hot dish of meat and rice, and soup at lunch time.

The size of Russia was brought home to us when one woman at the conference told us she had flown 12 hours to get there. Towns on the Kemchotka peninsula are only slightly closer to Moscow than New York is.

While the insurance industry is in its infancy in Russia, there are about 70 insurance companies writing life, medical, property, and liability insurance. Life insurance is primarily short-term endowments with very little protection element and relies on the fact that individuals have virtually no savings vehicles available to them.

Medical insurance appears to be primarily a form of managed workers compensation. The medical insurance companies are usually owned by doctors. They market to the large industrial companies, telling them they can manage recovery periods and get workers back to work more quickly.

Three of the states of Russia are about to experiment with privatizing medical care. The state will tax workers and contribute to a medical pool for nonworkers. Insurance companies will contract with the state on a per capita basis, and it's up to the insurance companies to make whatever deal they can with the providers.

Property and liability insurance is in its infancy. From some of the questions we were asked, it appears liability insurance has a single premium rate for liability coverage, regardless of what is being covered.

The business climate is a combination of naivete and business sense. Apparently, no one in Russia is paid on a commission basis, and they had trouble with the concept. However, once I explained and gave them some typical insurance commission rates, someone asked me if life insurance didn't encourage twisting.

We met with a group trying to develop joint ventures. The leader was very articulate and made a typical Western-style presentation of what his group was, what they had to offer, and what they hoped to achieve. During the discussion, a banker complained that jobbers (brokers in the import/export market) were driving prices up and ought to be regulated. (The centrally planned state dies hard.)

Another banker was very interested in U.S. reserve ratios. In Russia, she said, it varies from 6-10%. Her bank is operating at a reserve ratio of 50%, because they don't trust the volatility of their liabilities. They can borrow from the government at 80% annual interest but view that as a demand deposit. They have shareholders, but the shares are currently meaningless, because there is no secondary market on which to trade them.

Russia appears to have accomplished sexual equality in business. The chair of the third largest bank in Yaroslavl is a woman, the deputy mayor is a woman,

and every business meeting included women in decision-making roles. Almost half the attendees at our seminar were women.

It is very difficult to make sense of the Russian economy, because the Central Bank is printing rubles with no controls. Most people in Russia do not understand what is going on, but they suspect that someone in Moscow is profiteering at their expense.

The exchange rate while we were there was between 400-425 rubles to the dollar. This exchange rate appeared to be heavily discounted for Russian inflation. Based on purchasing power, the exchange rate was somewhere between 50-100 rubles to the dollar.

I have heard that the actual inflation rate is about 25% per month (1,500% per year), and that the Central Bank has printed more rubles in 1992 than in the prior 30 years. It is a country with a huge task to accomplish, and it may be on the edge of falling into hyper-inflation.

**Godfrey Perrott is consulting actuary in Milliman & Robertson's Boston office.**

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### **William Bugg**

*Goodwill trip sponsored by People to People (first reported in International Section News, December 1993)*

*Saturday, September 18, 1993*

An actuarial delegation from the SOA International Section arrived in Eastern Europe. I was the leader of the delegation that consisted of eight other actuaries, which was sponsored by People to People, a nonprofit group that arranges trips for professionals to meet their counterparts in other countries.

*Sunday, September 19, 1993*

We spent the day sightseeing in Moscow and joined a Russian family in their home for dinner. Dr. Vladimir Zolotukhin, a professor at the Academy of Sciences, served us a delicious meal. He had spent several years at the Russian Embassy in Washington, D.C. His daughter, who worked as a translator for Associated Press, spoke

excellent English, and his wife was fluent in Spanish.

*Monday, September 20, 1993*

In the morning, we were briefed at the Institute of U.S. and Canadian Studies of the changes in Russia, including the insurance industry and actuarial profession, and at the Academy of National Economy in the afternoon. Several of the panelists were involved in insurance ventures and asked us about our education and certification system for actuaries.

We attended a ballet in the evening performed at the Moscow Musical Theater to an enthusiastic audience.

*Tuesday, September 21, 1993*

We met with representatives from the Insurance Supervisory Federal Service of the Russian Federation. The Bureau of Insurance was formed in the spring, with the first insurance law created in January. Its regulatory experience is very limited. Its staff's duties include licensing, reviewing product and rate filings, and monitoring annual financial reports.

About 1,200 companies have been licensed, with many companies remaining unlicensed. All companies are to file for licenses by January 1994. Only insurance activity is permitted, and capital of at least two million rubles is required.

Although actuaries existed before the revolution, the profession disappeared under the Soviet regime. A Financial and Actuarial Center has been created in Moscow to develop basic training programs and continuing education for actuaries and to conduct actuarial research. The training center is being established in cooperation with Moscow State University.

Following our farewell-to-Moscow dinner, we visited Red Square in the evening and arrived just in time to see the changing of the guard at Lenin's tomb. Our tour guide announced he had just heard on the radio that Yeltsin had dissolved the parliament, a move of which the guide was in favor.

Tomorrow, we will continue our trip in Eastern Europe to Poland and Hungary.

**William Bugg is senior vice president and corporate actuary at AFLAC in Columbus, Georgia.**

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### **Walt Rugland and Warren Luckner**

*Trip sponsored by the Society of Actuaries to meet with representatives from the Financial and Actuarial Center, Moscow State University.*

*Friday, March 4, 1994*

#### **Rugland:**

Professor Stas Ashmanov of the Financial and Actuarial Center of Moscow State University (MSU) met me at the airport. With two hours to kill before our meeting with Chris Daykin of the British Institute of Actuaries at the airport hotel, we went to the airport restaurant. The airport was in bad repair, and the dining room was marginal. We had mushroom soup, bread, olives, and an orange drink.

#### **Luckner:**

Warren Adams and I arrived at the Novotel just as the meeting with Walt, Chris, and about 20 representatives from groups sponsoring various actuarial science initiatives was ending. It appeared to have been a successful beginning of coordinating actuarial science initiatives in Russia.

#### **Rugland:**

After the meeting, we were driven to our apartments, which were worn, but comfortable and roomy. There's a lot of snow and the roads are very beat up. The cars are old, but when people leave their cars, they put locks on the clutch and brake or a "club" on the steering wheel. Gasoline prices were about three times U.S. gas prices.

There had been a fire that afternoon in the Financial and Actuarial Center's building. Stas thinks all his hard work has been destroyed. They had no insurance, and the class scheduled to meet that evening helped salvage what they could. We gave Stas the books he had requested from the SOA.

*Saturday, March 5, 1994*

#### **Luckner:**

We met with Victor Sadovnich, the

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## Moscow diaries (continued from page 5)

chief officer of MSU, a mathematician, and the first elected rector of the university. Igor Kotlobowsky, an economics professor who was at Wisconsin with Jim Hickman in 1992, also was at the meeting as the elected head of all the trade unions at Russian universities. Also attending was Pavel Medvedev, an economics professor and the deputy of the State Duma, the lower house of the Russian legislature. Our discussion was through a translator, and we were asked to prepare a proposed agreement for a meeting on March 9.

### Rugland:

We were joined by Professor Gennady Falin, who took us to his office to tell us about the university. It has 20 schools, or faculties. Actuarial interest comes from three faculties: mathematics and mechanics, applied mathematics and cybernetics, and economics.

MSU was started 250 years ago by the Czarina Elizabeth I. It is not under the Ministry of Education, but is directly tied to the president of Russia. It has a new charter that gives it full autonomy in terms of academic freedom.

### Luckner:

After lunch, Walt and I visited a bazaar. Inflation is a problem, with 200 rubles now worth only about 12.5 cents.

We walked to a cliff overlooking the Moscow River and the city. This is the weekend before International Women's Day, a national holiday. This seemed to be a popular day for weddings, and this site is a traditional place for brides and grooms to come to have their pictures taken and to drink toasts.

Walt and I had an unscheduled three-hour visit, including dinner, at the apartment of Boris Gnedenko, a world-famous mathematician. He has had some involvement with the actuarial science initiatives at MSU. (It wasn't until later that we realized the special privilege we had in visiting Moscow State University, the home of such great mathematicians as Chebyshev, Kolmogorov, and Gnedenko.)

*Sunday, March 6, 1994*

### Rugland:

Professor Yuri Tjurin and his wife, Tanya, took us on a tour of the

Kremlin. It was cold and windy on the hill. Some of the old buildings and churches are open to the public, but the government buildings were obviously off limits. We walked around the Kremlin Wall to the other side and entered Lenin's Tomb. It is most eerie; he is still there. We walked by all the tombs and memorials on the Kremlin Wall. The guard chastised me when I took a picture of Stalin's monument.

We crossed Red Square and walked through the GUM store, which is a triple arcade, not a department store as I had envisioned it. We bought Russian hats from a street hawker selling hats from a paper bag. To get to the Metro stations, we walked by women lined up against the wall selling single items that looked like their own personal goods. The Metro stations are amazing works of art, relatively well main-tained. It cost about 2 or 3 cents to ride.

We had dinner at Stas' apartment. He and Yuri said they never had joined the Communist Party, and both had been appointed full professors after the change in government.

*Monday, March 7, 1994*

### Luckner:

In a meeting with several MSU faculty members, Warren Adams presented information about actuarial education in North America and about rotation programs at companies. Warren has been to Russia several times and speaks the language well. His contacts from previous trips and ability to review the draft agreements and actuarial math materials written in Russian have been invaluable. After some discussion, I went to a computer and typed the first English draft of the proposed agreements, while Walt discussed the actuarial profession worldwide. Igor, Gennady, and Stas will review and discuss drafts and then prepare a formal version.

*Tuesday, March 8, 1994*  
*International Women's Day*

### Rugland:

We visited a famous cemetery where



Warren Adams' fluency in Russian served the March 1994 SOA delegation well when it came to making toasts, as well as reviewing documents. Enjoying a home-cooked Russian meal are (L-R) Walt Rugland, Tanya and Stas Ashmanov, Adams, and host Yuri Tjurin.

Chekhov, Prokofiev, and Khrushchev are buried. Our tour guide was the cemetery's historian, and the sculpture is amazing.

After dinner at Yuri's, we discussed the draft agreement and agreed on revisions. We found ourselves quite tired after the lengthy and intense discussions, as we tried hard to make our points understood.

*Wednesday, March 9, 1994*

#### **Luckner:**

Stas took us to the Association of Insurance Companies, the largest of the two dozen or so insurance associations in Russia, to meet with its president, Konstantin Pulov. Warren Adams knew him well from previous visits. We discussed how important it was that the insurance industry support a strong actuarial profession in Russia. We were told there are about 3,000 insurance companies in Russia now.

We were called back to the rector's office, where we were told that we needed to make separate agreements with MSU and the Financial and Actuarial Center; otherwise, there were no problems. At 1 p.m., we were called into the rector's conference room. Everything was agreed upon, and the final draft would be drawn up by 5:30 that day.

Igor took us to the Novotel and discussed forming the national professional society, saying he would like to take the lead by arranging a convention, using the SOA constitution and bylaws as a model. We were flattered, but asked him to be sure the Institute in London was involved. Stas arrived, carrying the agreements with the rector's signature, and Walt signed both. We celebrated with our last dinner in Russia.

**Walter S. Rugland is the immediate past president of the Society of Actuaries and consulting actuary with Milliman & Robertson, Bloomfield, Connecticut. Warren Luckner is managing director of the Society of Actuaries' research department.**

## Agreement signed in Moscow

Walter Rugland, immediate past president of the Society of Actuaries; Warren Luckner, SOA managing director of research; and Warren Adams, director of education and research at The Principal Financial Group, were invited to Moscow in March by the Financial and Actuarial Center of Moscow State University. They were asked to advise the center and the university on developing the actuarial profession and an actuarial science curriculum in Russia.

The visit resulted in two Agreements in Principle: one with Moscow State University (MSU), and a separate one with the Financial and Actuarial Center. All agreed to promote actuarial education and research in Russia and support a single, national society that promotes research and education, grants credentials, sets standards and assures compliance with standards of professional conduct and of actuarial practice. MSU will offer a high level of actuarial specialty with a specific curriculum.

According to the agreement, the SOA will become a worldwide advocate for the development of the actuarial profession in Russia. It will provide the center with teachers, as requested, and with library and educational materials. Until the establishment of a Russian professional actuarial society and its system of qualification, the SOA will provide an examination center. Finally, with the assistance of the center, the SOA will support the Institute of Actuaries in London in its programs throughout Russia to assist in the actuarial education of those now performing actuarial tasks.

A complete copy of the two agreements is available from the Society's Research Department, 708/706-3500.



*Behind the scenes work by (L-R) Warren Luckner, SOA managing director of research; Igor Kotobowsky, president of Russian universities' trade unions; Professor Gennady Falin, vice president of the Financial and Actuarial Center at Moscow State University (MSU); Professor Stas Ashmanov, president of the center; and Walt Rugland, SOA immediate past president. The agreements signed by MSU, the center, and the SOA signified commitment to help develop the actuarial profession in Russia.*