

National Report for NORWAY

1. General

In Norway we now experience great changes in the environment that the insurance industry and consulting actuaries are to work under. Further changes are expected to take place in the years to come.

One must anticipate that our profession will increase both in the number of consulting actuaries and in the scope of our services.

2. Surplus Allocation in Insured Funds - Portability

In the National Report to the Congress in 1986, it was pointed out that there had for several years been a great demand for increased flexibility and the right to exercise more direct control in insured employee pension funds. Similarly, the right to transfer accrued pension funds from one life company to another life company or to a self-invested fund had also been demanded.

All life insurers operating in the employee benefit area have redesigned their policy conditions to allow for increased flexibility and more direct control. The new policies, commonly named "separate accounting units", are characterised by an annual surplus allocation to each contract in accordance with the surplus actually generated for that particular contract.

As a response to the demands for the right to transfer insured pension funds, the Insurance Council has for the last couple of years been elaborating the technical and legal aspects inherent in the matter. The Council just recently put forward provisions that must be fulfilled in the case of fund-transferral. This means that the right to transfer an insured pension fund has now been established.

This new possibility is no doubt going to strengthen the competitive environment for employee pension funds. The insurance industry that traditionally has had a very strong position in this market, is now going to be challenged by banks, fund managers and other financial institutions.

3. Future legislation and trends

A number of proposals of amended legislation that have been put forward recently, will have serious impact on the involvement that the insurance industry and consulting actuaries are to work under in the future.

At the end of 1983, the proposal for a new law regulating the insurance companies was presented by an officially appointed committee that had been working since 1978. The present law has been in force since 1911, and there is an obvious need for new provisions that can bring the law up to date with the current trend towards the more competitive environment. The Government has presented a bill for the new law, and it is expected that the bill will pass the Parliament this spring.

The Government has presented also another bill of great importance for the insurance and pension industry. This bill is based upon proposals aimed at strengthening the competition in the financial sector that was put forward by an officially appointed working group in 1986. Among the proposals in the bill are:

- That an insurance company shall have as a minimum equity 4,5% of its total assets
- The right for the policyholder to transfer his contract, including all accrued funds, to another insurer, and in the case of employee pension funds also to a self-invested pension fund
- That the insurer shall calculate and allocate annually total earned interest income, including surplus above the technical interest rate, to each individual insurance contract. This policy design is in accordance with the "separate policy unit"-concept that has been introduced in the employee pension area, and with similar concepts that are being introduced in the individual insurance area
- That premium fund accounts attached to insured pension funds can be deposited also in other financial institutions than the insurer

Furthermore it is suggested in the bill to establish control with mergers and agreements of cooperation within the financial sector.

It is expected that also this new law for the financial sector in general will pass the Parliament this spring.

The working group that presented proposals aimed at strengthening the competition in the financial sector in 1986, also suggested that interest income earned on a life insurance policy should be subject to taxation in a similar way as interest income from a bank saving contract. This proposal passed the Parliament in a separate bill in 1987, and went into force for the fiscal year 1987. The amendment has resulted in substantial lapses of life insurance contracts, that has seriously affected the life insurance industry's operations during 1987.

The Norwegian tax provisions have for many years allowed for tax deductibility for contributions to individual pension contracts. The upper limit for tax deductibility has been 15% of income, but this limit has now been reduced to 10%.

In 1987, Norway's largest insurance group Storebrand, applied for approval to establish a bank within its group. Shortly afterwards, Den norske Creditbank - the largest commercial bank in Norway - applied for approval to establish insurance companies, both life and general. The Ministry of Finance has taken the point of view that the applications will not be dealt with until the new legislation for insurance companies and for the competition in the financial sector has been set forth. However, the applications as such are signals of closer integration between banking and insurance activities, and a move in the direction of financial conglomerates.

4. The National Association of Self-Invested Pension Funds

The above mentioned association that was established in 1983 now has approximately 50 funds as members, 1/3 of the total number of self-invested pension funds. It represents pension funds covering 50-60.000 employees and pensioners and total assets well in excess of NOK 10 bill. (equivalent to approximately USD 1.4 bill.).

5. The National Insurance Scheme.

An official appointed committee that presented its report in 1984, pointed out in general terms the substantial need for cost reductions in the scheme. The Government has announced that it will present to the Parliament proposals on how to design the National Insurance Scheme in the future. It is reasonable to assume that we will see considerable changes in The National Insurance Scheme in the years to come.

6. Prospects for the Future

Actuarial consulting in Norway is still in a premature state, with only four independent consultancies in the market. There are however many indications of new trends and challenges in actuarial consulting.

As we are now heading towards a more competitive situation, the demand for actuarial advice is increasing. This is particularly so in the area of pension plan design, economic planning and control of pension plans and administration of self-invested pension funds. With the new legislation and the right to transfer an insured pension fund, it is expected that a rising number of enterprises with insured pension funds will select the self-invested approach. This obviously calls for actuarial expertise. New accounting standards, in particular FAS87 and FAS88, is also a new challenge for consulting actuaries. Furthermore, new establishments of insurance companies and the emerging financial conglomerates will call for actuarial consultants as advisors in product development in particular and other technical matters in general.

These new challenges also call for the consulting actuary to widen his horizon far beyond the traditional technical aspects, and to develop his skills in the communication and interaction with other professions.