ACTUARIAL SOCIETY of HONG KONG 香港精算學會

Actuarial Society of Hong Kong's Newsletter

Hong Kong Actuaries

MAY 2022 I VOLUME 01

Council & Committee Updates

- ASHK Strategy Day 2022
- International Engagement
- Partnering with China Association of Actuaries

Feature Articles

- Be respectful, speak up, and challenge the norms: APAC Ethical and Professional Seminar tackles big questions
- Doing Well by Doing Good with ESG Investing
- ESG In Insurance

Call for Articles or Views for the next issue of Newsletter!

While all articles are welcome, we would especially like to receive articles for the Feature Articles and Knowledge Sharing sections. If you have written any inspiring articles or have read any interesting articles from other actuarial organisation(s), please feel free to let us know. We will try to reprint them in our newsletter. Welcome to email your articles or views at info@actuaries.org.hk.

1803, Tower One, Lippo Centre, 89 Queensway, Hong Kong Tel (852) 2147 9278 Fax (852) 2147 2497 www.actuaries.org.hk

Editorial

Dear Readers,

Welcome to the first ASHK newsletter for 2022.

On behalf of the Membership and Communication Committee, it is with great pride and sincere privilege that I am writing this message to present the first issue of the 2022 ASHK Newsletter. Launching this new edition would not have been possible without the great and much appreciated contributions from our members.

In this issue, we are featuring the hottest topic of the Environmental, Social, Governance (ESG). We are pleased to share with you several articles on this theme.

In April, it is with great pleasure that we bring the International Actuarial Colloquium back to Hong Kong. We are in a world of evolving financial and regulatory landscape, but also an uncertain world filled with unparalleled challenges, digitalization and opportunities brought on by the Covid pandemic. Carrying the theme: "Global Pandemic – Beyond the New Normal", the Colloquium aims to examine lessons learned and explore future options in light of the pandemic. We're grateful that the Colloquium was held successfully.

Finally, I also encourage you to attend the coming events: Actuarial Innovation Webinar (19 May), Health virtual talk (June), Actuarial Innovation Conference (Aug/Sep) and Joint Regional Seminar (Sep) – all our events are nicely summarized with the latest updates in the ASHK website. We intend to bring the experts to you so that you can benefit from their insights while fulfilling your CPD requirement whether virtually, hybrid or in-person as circumstances permit.

Happy reading!

Best Regards,
Timothy Wong
EDITOR

ACTUARIAL SOCIETY of HONG KONG 香港精算學會

CONTENTS

Council and Committee Updates

04 Council and Committee Updates

08 Articles sharing on the theme of ESG by the Actuarial Innovation Committee

Feature Articles

10 Be respectful, speak up, and challenge the norms: APAC Ethical and Professional Seminar tackles big questions

15 Doing Well by Doing Good with ESG Investing

23 ESG In Insurance - How insurers can help drive the shift to a greener economy

Others

28 Events Highlights

30 Upcoming Events

32 ASHK Update

33 Membership Update

Council – Alexander Wong

ASHK Strategy Day 2022

The annual strategy day was held virtually on 9 & 10 March 2022 with all Council members in attendance. This was an important occasion for the Council to gather to set the priorities for ASHK's work plan in the coming year and also to look further ahead and form strategies for the coming years.

Each Council member chaired one of the five sessions on various strategic issues. Members always remain the top priority. The discussions focused on how we can engage more members with the work of ASHK and what needs to be done to recruit/retain them. Looking externally, stakeholder management was examined, in particularly our working relationships with our partners such as other actuarial societies. To round off, a holistic review was carried out to identify ASHK's core competency so we could prioritise the outputs that ASHK offers to all its stakeholders.

In the coming year, I am sure you will start to see new initiatives taking form as we prepare ASHK to serve the actuarial profession in these challenging times that are also filled with opportunities.

International Engagement

On 1 April, as the President of ASHK, I attended the Asian Actuarial Congress Executive Committee Board meeting. The congress was established in 1981 and is made up of 12 actuarial organisations in Asia with close to 25,000 members. During the meeting, a new constitution was adopted, and the organisation will now be known as the Asian Actuaries Association.

A flagship event is organised by an actuarial organisation every 2 years, which ASHK hosted in 2018. The next Asian Actuarial Congress will be held in Australia from 28 May to 1 June 2023.

From L-R from top row: 12 presidents from Actuarial Society of Hong Kong, Actuaries Institute Australia, Actuarial Institute of Chinese Taipei, Institute of Actuaries of Japan, Institute of Actuaries of India, Actuarial Society of Malaysia, Singapore Actuarial Society, Society of Actuaries of Thailand, Institute of Actuaries of Korea, Society of Actuaries of Indonesia, China Association of Actuaries, Actuarial Society of the Philippines

Council – Alexander Wong

Partnering with China Association of Actuaries

The ASHK has been engaging with the CAA on a series of initiatives for 2022. The CAA wishes to conduct a mortality study in the Great Bay Area and has reached out to the ASHK to share our experience in the Mortality Study for Hong Kong Individual Assured Lives that was conducted in 2018.

We have also arranged our first joint seminar titled China Risk Oriented Solvency System (C-ROSS) Phase II on 21 April 2022. A speaker from China Banking and Insurance Regulatory Commission (CBIRC) introduced the main features of C-ROSS II. Two industry speakers were also invited from E&Y China and China Re P&C to highlight the main impact of C-ROSS II on mainland insurance companies and insurance companies in Hong Kong. This will be the start of our fruitful exchanges with our counterparts on the mainland.

From L-R from top row: Jia Zhang, E&Y; Xiaolei Zhang, China Association of Actuaries; Alexander Wong, The Actuarial Society of Hong Kong; Hao Wang, the Solvency Regulatory Department in the China Banking and Insurance Regulatory Commission

Curriculum Exam Taskforce & Professional Development Committee – Patrick Au

ASHK Examination 2022 Registration and Online Information Session

Continuous education is undoubtfully essential to career development. With a goal to strengthen the professionalism of local actuaries, the ASHK Examination curriculum covers areas of local regulations and industry practices pertaining to actuaries in Hong Kong practising in life insurance, pension and general insurance. There is currently a wider adoption of the exam in the industry. Some of the well-established insurers and key Hong Kong regulators, as a sign of support, have started listing "ASHK Examination Preferred" in their job advertisements for actuarial related vacancies under their recruitment criteria.

Study materials are provided free of charge on the ASHK website and the self-study mode will also be a definite advantage for you to take control over your learning on your own time and at your own pace. Past candidates report dedicating on average approximately 40-50 hours of study per exam. Individuals have the flexibility to either take both papers (Core and Elective) or a single paper at one time. 1.5 CPD hours can be accumulated by passing this examination. The "Certificate in Hong Kong Insurance Markets and Regulations (Life Insurance/General Insurance/Pension)" will be awarded upon completion of both papers.

On 21 April, ASHK organized an online information session delivered by Mr Patrick Au, FASHK, the Chairperson of the Professional Development Committee and Mr Wilson Wu, FASHK, member of the Curriculum & Examination Taskforce. If you would like more information, please contact the ASHK office. Don't miss this only one ASHK exam diet in 2022.

The exam registration deadline is 19 July, please click here for the register.

Professional Matters Committee

– Rockson Leung

2021 CPD Declaration & CPD Audit

ASHK Fellow and Associate members were reminded to submit their 2021 CPD declaration by the deadline, 31 March 2022! The Professional Matters Committee (PMC) will conduct a review of the annual 2021 CPD declarations and CPD audit of all non-retired ASHK Fellow and Associate members in the next few months.

We also would like to take this chance to urge all eligible members to file the CPD records at their earliest convenience in order to comply with the CPS By-law. Please keep in mind that if the members no longer work in the actuarial field, they are still obliged to undertake CPD activities relevant to their current role in order to meet the CPD requirements.

International Actuarial Colloquium Organising Committee &

External Communications Committee - Billy Wong

The International Actuarial Colloquium 2022

Throughout the two-day colloquium, there have been in-depth discussions on many important issues covering the theme of "Global Pandemic – Beyond the New Normal". This theme couldn't have been timelier and more fitting. It has great relevance to our profession as Covid has no doubt transformed the global insurance industry.

We have been privileged to secure Mr Christopher Hui, Secretary for Financial Services and the Treasury to give the opening speech. He urged us to reflect on the lessons learnt from the pandemic and to look beyond the new normal. The resilience shown by the insurance industry coupled with the enormous growth potential and the new initiatives launched in the Greater Bay Area is something insurers can look forward to embracing in the future.

Across the globe, there is a reassuring trend for actuaries to be asked to do more – whether by regulators or by individual companies during this Covid season, reflecting both the increasing involvement of global insurers and their actuaries in Asia and the need for the Asian insurance industry and local actuaries to respond to the global pandemic challenge. Events like this will help actuaries rise to this increased responsibility.

The colloquium was made possible by the generous financial support from the sponsors, we sincerely thank them for their staunch support of the actuarial profession. We also thank the excellent speakers as well as all those who have been involved in organizing the Colloquium. These include our partners at IAA Life, Pension, Benefits and Social Security Sections, the ASHK team and the conference secretariat, who have all unrelenting supported the event over the last two years!

Actuarial Innovation Committee

– Nora Li

The use of AI and machine learning is becoming increasingly prevalent in insurance companies and employee benefit providers. It is therefore important for us to know and understand the implications and the best practices of using these technologies. Even though these technologies are very useful in prediction and automation, the human aspects should not be forgotten, which makes this an important topic within ESG.

The Actuarial Innovation Committee would like to share with you articles with the theme of ESG that we think our members should be aware of and will find interesting. The following articles in particular are worth highlighting.

Guidance on the Ethical Development and Use of Artificial Intelligence, PCPD, Aug 2021

Overview:

Personal data is commonly used in the development and use of AI, which is applicable to the insurance industry. This Guidance on the Ethical Development and Use of AI applies to the development or use of AI systems that involve the use of personal data or the identification, assessment or monitoring of individuals, either of which would potentially impact the privacy of individuals in relation to personal data. The objectives of this Guidance are to facilitate the healthy development and use of AI in Hong Kong and assist organisations in complying with the provisions of the Personal Data (Privacy) Ordinance in their development and use of AI.

As serving and providing assurance to the community has always been a key aspect within the insurance and employee benefits space, more and more companies in our field are factoring climate risk and carbon mitigation initiatives into their portfolios. Actuaries and investment professionals are now considering these factors in their investments and company strategic initiatives. We should know that the focus on carbon reduction is not only self-driven, but also being pushed by credit rating agencies having wider considerations in their evaluation process. Through the articles below, we hope to inform our members of the key considerations and new innovations, and to inspire actuaries who may deal with this topic now or in the future.

Full Details

Credit rating agencies in managing climate risk, Hoa (KIM) Nguyen, Jan 2022

Overview:

Rating agencies play an important role in providing insights into the financial risk of organisations around the world. Their ratings can have an impact on the cost of capital associated with the equity and debt issuances of our financial services sector.

In late-2021, representatives from S&P Global were invited to present to the Actuaries Institute's Climate Risk Working Group. This article summarises the presentations, including 1) How does S&P look at climate risk in credit ratings, and 2) How does S&P validate climate change scenario analysis and TCFD reporting.

Full Details

Climate risk management and opportunities for life insurers, Milliman, Nov 2021

Overview:

Climate change risk is increasingly seen as a hot topic within the insurance industry and with regulators. Financial regulators have recently become more vocal on the subject, with some emphasising that the financial system has a key role to play in the transition to a low-carbon economy. The research papers focus on the climate-related risks faced by life (re)insurers, as well as the corresponding risk management process.

Full Details

The journey to net zero - An insurer's guide to navigating climate risks and opportunities, Willis Towers Watson and Wellington Management, Sep 2020

Overview:

For as long as weather and natural catastrophe models have existed, insurers and reinsurers have been responsible for the commercial assessment of natural disasters, primarily through underwriting and reserves management. By understanding and managing climate risks on the assets and liabilities sides of the balance sheet and advancing climate-awareness in their own organizations, insurers can effectively navigate climate change. This paper is intended to be a pragmatic guide for insurers and reinsurers as they steer their organizations on the journey to net zero.

Full Details

Climate Transition Pathways, Willis Towers Watson, May 2021

Overview:

The Climate Transition Pathways is an accreditation framework that provides insurance companies and financial institutions with a consistent approach to identifying businesses with robust low-carbon transition plans. The accreditation process is designed to a) Create an industry standard for evaluating transition plans, b) Support an orderly transition to the low carbon economy in line with the Paris climate agreement goals, c) Accelerate and incentivise each company's transition to low carbon activities, and d) Monitor company performance annually.

Full Details

ESG Series – Carbon credits and carbon trading, LC Lawyers, Nov 2021

Overview:

Climate change has been impacting our daily lives notably in the last few years as we are witnessing extreme weather conditions such as heavy rain, floods, and heatwaves at a global scale. To limit global warming, many countries, companies, and world leaders are committed to achieving net-zero carbon dioxide emissions by 2050, similarly many insurance companies have net zero commitment components in their investment portfolios.

This article discusses the basic framework and development of carbon credits and markets in the world and how it can help slow down climate change. It will also discuss some of the current energy saving and renewable energy measures (Renewable Energy Certificates Scheme, Renewable Energy Feed-in Tariff) taken in Hong Kong to reduce carbon emission.

Full Details

Be respectful, speak up, and challenge the norms: APAC Ethical and Professional Seminar tackles big questions

Original article was published on the Actuaries Digital by Actuaries Institute Australia on 9 March 2022, https://www.actuaries.digital/2022/03/09/be-respectful-speak-up-and-challenge-the-norms-apac-ethical-and-professional-seminar-tackles-big-questions/

In an age of constantly shifting big debates, actuaries across the Asia-Pacific region are at times caught in the middle of hot topics and controversies around ethical behaviour in the professional world.

While many associations provide support, resources, and codes of conduct to help guide decision making, acting on an ethical question within your work is nuanced and may also be culturally specific.

This means actuaries may not know how to make the first step or know what to do when they see unethical or unprofessional behaviour.

And many of these issues are new. They can concern everything from diversity to employment practices, to algorithmic bias in our technology. It's hard to know how to be right.

To attempt to bring these issues to the forefront, the Actuaries Institute hosted a new event for actuaries and colleagues across Asia-Pacific.

The APAC Ethical and Professional Seminar is a space for actuaries to examine these challenges and share and learn from practitioners across Asia.

Hosted by Actuaries Institute President Annette King, the event was separated into three themes ('Data Ethics', 'The Ethical Role of the Actuary' and 'Behaviour and Reputation') to address some of the larger challenges that exist in this part of the world.

FROM TOP LEFT: SEMINAR HOST ANNETTE KING, AND PRESENTERS CHRIS DOLMAN, ALAN MERTEN, ADA TONG, ALEXANDER WONG, AND BRIAN LENEHAN.

Behaviour and Reputation

Member of the Professional Conduct Committee at the New Zealand Society of Actuaries, Brian Lenehan kicked off the seminar to discuss the experiences of a small membership addressing conduct and behaviour.

Brian highlighted how actuaries face issues around behaviour daily and believes distinguishing between ethics and behaviour is important.

"Behaviour is really what we actually do," he said. "What we've got to make sure is that we do the right thing and that we don't tolerate others doing the wrong thing."

"Ethics, as far as I'm concerned, is the framework for the decision making. It's deciding what is right and then having the courage to do it… I think it always starts with ethics and it's followed by behaviours."

THE APAC ETHICAL AND PROFESSIONAL SEMINAR IS A SPACE FOR ACTUARIES TO EXAMINE CHALLENGES AND SHARE AND LEARN FROM EACH OTHER.

Brain used a New Zealand example to highlight issues around ethics and behaviours, specifically the Bazley Report, an independent review of a law firm's handling of sexual harassment and misconduct.

The report outlines numerous issues including widely inappropriate behaviour, poor treatment of junior staff, and harassment of interns which became a watershed moment for the whole legal profession in New Zealand.

Brian said that senior lawyers were too busy to notice and there was a failure to speak up. The event went on to undermine public confidence and even sparked protests. Brian said the report was relevant because the actuarial community in NZ was small, there's a much greater chance of the community finding out about another's misconduct. Unlike other associations that might have tens of thousands of members making anonymity easier.

"We need to be respectful to each other because there's nowhere to hide," he said.

Brian also mentioned the importance of building trust as a key part of an actuary's work.

"The impact of our work is quite long-lasting. As we know, customers often have a lack of information, and they rely on the actuaries. It's on trust… that customer reliance on our work and our behaviour is really important."

Brian wrapped up his session on the importance of speaking up and putting in place strong governance and structure.

"One thing I've learned it's important there's a process that's there for all parties. Victims need to be considered if there are issues."

Actuaries Chris Dolman, Director Data and Algorithmic Ethics at IAG Sydney, and Ada Tong,

Product Director – Property Data Solutions at Domain, shared their views on the key data ethics issues dominating conversations across Asia.

Data Ethics

Chris outlined some of the reasons why data and ethics around its use and handling is such a big topic right now. This includes ongoing reforms around the world such as GDPR, APRA CPS234, and the EU's proposed AI regulation which have made it a topic hard to avoid.

Another reason why data can be controversial is the more precise the data, the more challenges it reveals. One example Chris outlined was an algorithm in the US criminal justice system used to assess the risk of people re-offending after they're released on parole.

The algorithm was accused of being racist with data pointing to the fact black people were at a higher risk of re-offending.

The designers of the algorithm responded by releasing data stating that risk scores and the chance of re-offending are almost the same among races within a margin of error.

Chris said these situations often left researchers with difficult choices.

"What do we actually want? What are we prepared to give up?… This is a very tricky thing to grapple with."

Chris believes that there are also many cultural incentives, such as a "move fast and break things" attitude, that drives poor behaviour around data ethics.

He says attitudes and goals that don't properly take data ethics into consideration can snare actuaries into ethical problems with no clear direction.

"We need to be a lot more clear about what we actually want in maths because when you translate this into data, you reveal these inconsistencies in these problems that we perhaps haven't worked out what we want to do," he said.

"There's no rule book that you need an ethical framework to help you work through these difficult questions."

So how do actuaries face down ethical quandaries in the data realm? Chris suggested seven ways to help solve these types of problems, including:

- Always ask 'should we' not just 'can we'.
- Get practical and real.
- Seek diverse views, co-design with customers.
- Focus on underlying spirit and intent.
- Take suitable care, manage risks.
- Maintain competence as things evolve.
- Add value to ongoing public debate.

"Actuaries have a unique combination of skills, some quantitative skills, some business skills and a general motivation for the public good is in most of our code of conducts," Chris said.

"Actuaries can add a lot of value to the public debate, and I encourage all of you to do so."

Ada Tong followed up the data ethics discussion saying in her role it was vital she ensures the data was not only useful, but it solved the right customer problems.

Ada took everyone through a hypothetical scenario as an actuary working at a life insurance company working on a customer acquisition model for the call centre to prioritise customers.

> "What are our customer's expectations of what we're doing with the data? Many of us work for consumer brands and the data we're working with often allow a lot of opportunities around the consumer data," Ada said.

In the hypothetical, questions arise around where the data has come from and soon realise consent from customers to use their data is unknown.

Ada asks the audience what would they do in this situation and does working in a different industry or area change your decision to continue to use the data?

Ada wraps up by suggesting we change the language around data and prioritise the things that are important and ethical.

"There's a bit of a cultural shift we need in the data world. Are we here really to 'mine data', 'monetize data' or 'commercialise data'? Is it really the new goal?" Ada said.

"Customer data is provided to us by people who are granted the right to use it by our customers in return for the value we provide back to them. Let's make sure that this value exchange is fair and sustainable."

The final session was hosted by Alan Merten, Lead Partner, Actuarial & Insurance Solutions at Deloitte Australia and Alexander Wong, President of the Actuarial Society Hong Kong and Group Chief Actuary HSBC Life Hong Kong.

The Ethical Role of the Actuary

The two tackled the topic of the ethical role of the actuary in the business world. More specifically, how do actuaries balance the needs of stakeholders while remaining ethical?

Alan and Alexander guided audiences through various case studies around ethical quandaries that have arisen out of emerging and long-standing industries across Asia and wider.

The team familiarised the audience with the six principles in the Code of Conduct, which all actuaries in Australia abide by, including:

- Acting with integrity
- Compliance
- Competence and care
- Objectivity
- Speaking up
- Communication

While all the principles play a key role in behaving in an ethical way, Alan believed communication was a key function in how actuaries address problems.

"We can be very technical in some of our language," he said. "If we don't get across what we need to, us saying something and hoping that people understand it, might mean that they haven't picked up properly what we were trying to say," he said.

Alex then spoke about a case where recent regulatory investigations lead to Hong Kong's insurance watchdog seizing control of a major insurer after thousands of taxis were left uninsured and off the street.

> Alan said because we actuaries are dealing ultimately with the lives of people in our communities, it's important we act for them and put their perspectives at the centre of our considerations.

Alex said it was an interesting case from an actuary's perspective as "there is a persistent underwriting loss across the entire industry on this segment."

With only fractions of the insurer offering the coverage liability, Alex posed the question: "reflecting the underlying experience or taking other risks, are there more sustainable ways to stabilise this insurance coverage for the critical transportation services in a major city?"

"How do we approach a tough underwriting market with potential underwriting laws?"

Alan said the real-life case study really highlighted how, as professionals who like analysis and accuracy, actuaries can find it difficult to communicate uncertainty. "But we need to raise risks of uncertainty," Alan said.

Alan also stressed the importance of creating products truly valuable to customers. Actuaries are trained to do cost plus pricing and look at shareholder returns, but this can lead to friction.

"The question I think we should be posing ourselves when we are involved in pricing is, 'is that appropriate?' 'Is it ethical?' 'Is it sustainable?' And is it the right thing for the companies that we're working for to do?"

> "Sometimes we struggle because of competition to make the profit that we might like to make, but there are absolutely markets and products where we can make super profits," Alan said.

While there are many certainties in the professional world, Alan said when it comes to the case studies and hypotheticals posed during the session, many ethical questions have no right answers.

"For most ethical questions, there isn't a right answer. But as actuaries, we need to at least speak up and flag potential problems," he said.

In finishing, Alex and Alan commented on pushing the value of actuaries in these circumstances. Alan said actuaries can come face-to-face with sometimes what seem insurmountable challenges where bravery is also needed. "But you're not alone and can rely on the support of your associations and peers."

"We carry a great brand of actuary," Alan said. "The profession that we're all part of has these attributes that are known, but that means we're also responsible for living with that brand and carrying it forward. Taking responsibility, being courageous and speaking up when we see things: that should be changed or acted on."

Doing Well by Doing Good with ESG Investing

Global investors are increasingly embracing ESG investing in their long-term portfolios

Original article was published as Chapter 3 of Hong Kong Institute for Monetary and Financial Research Applied Research Report No. 1/2022 titled "Demographic Changes and Long-Term Asset Markets: Opportunities and Developments in Hong Kong" in February 2022,

https://www.aof.org.hk/docs/default-source/hkimr/applied-research-report/dcrep.pdf?sfvrsn=4acaf1f3_0

HIGHLIGHTS:

- Demand for ESG assets and inflows into ESG funds have risen in recent years amidst growing public awareness and interest.
- Increasing research evidence suggests that the long-term performance of ESG assets was similar to, if not better than, conventional assets. Moreover, ESG assets offered better resilience during market downturns.
- ESG investing is believed to be a key secular growth theme of the future and able to provide protection against certain ESG risks.
- Major pension funds and insurers worldwide are making increasing allocations to green and sustainable assets. High-net-worth individuals are also expressing interest in ESG products.
- A broad range of initiatives have been introduced in Hong Kong and other jurisdictions to facilitate ESG investments, such as encouraging the convergence of ESG practices, enhancing transparency and disclosure, constructing ESG indices, providing incentives, and example setting.

Environmental, social, and governance (ESG) investing has become a popular investment theme among investors, including long-term investors. This chapter discusses the definition of ESG investing, its recent development trend, and initiatives adopted in Hong Kong and other jurisdictions. It explores key characteristics of ESG assets that make them desirable instruments for long-term investments and discusses the current and potential status of ESG integration by long-term investors.

3.1. OVERVIEW OF ESG INVESTING

ESG investing takes account of both ESG and financial factors in the investment decision-making process. The environmental factor is the impact of the underlying firm's activities and policies on the environment. The social factor is the firm's relationship with society, including its employees, customers, and community. The governance factor is the firm's governance, leadership, and internal controls.

Investors follow various strategies to take ESG factors into account in their investments. Some exclude assets in specific sectors (such as tobacco and fossil fuels); others invest in assets specifically related to sustainability. Some investors take the further step of using shareholder power to influence corporations' ESG commitments (Table 3.1).

Public awareness and interest in ESG factors have grown in recent years. At the same time, investors are becoming more aware of the impact of their investments. Demand for ESG assets and inflows into ESG funds are rising. Assets under management (AUM) in ESG funds ballooned almost 400% in the past decade.[1]

Table 3.1: ESG investment strategies

Negative/exclusionary screening	The exclusion from a portfolio of certain sectors or companies based on specific ESG criteria
Positive/best-in-class screening	Investment in sectors, companies, or projects with positive ESG performance
Norms-based screening	Screening of investments against minimum standards of business practice based on international norms
ESG integration	The systematic inclusion of ESG factors in financial analysis
Sustainability themed investing	Investment in themes or assets specifically related to sustainability
Impact/community investing	Targeted investments or financing businesses with a social or environmental purpose, including community investing
Corporate engagement and shareholder action	Using shareholder power to influence corporate behaviour

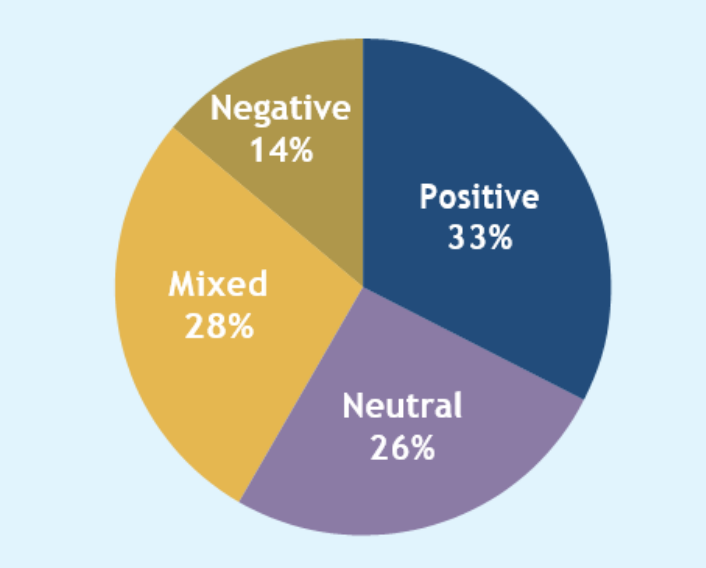
Source: Global Sustainable Investment Alliance (2019). '2018 Global sustainable review.'

[1] Financial Times (2021). 'ESG funds defy havoc to ratchet huge inflows.'

3.2. POTENTIAL OF ESG ASSETS FOR LONG-TERM INVESTMENTS

A large body of research has focused on firms' ESG attributes and their financial performance. Whelan et al. (2020) reviewed over 1,000 studies on the relationship between ESG and financial performance published in the last five years. Among investment studies focusing on risk-adjusted returns, 59% found that ESG assets had similar or better performance relative to conventional ones, whereas only 14% found negative results (Chart 3.1). Furthermore, they found that improved financial performance due to ESG becomes more significant over a longer time horizon. [2]

Chart 3.1: Results of studies on performance of ESG assets compared with conventional assets



Source: Whelan et al. (2020).

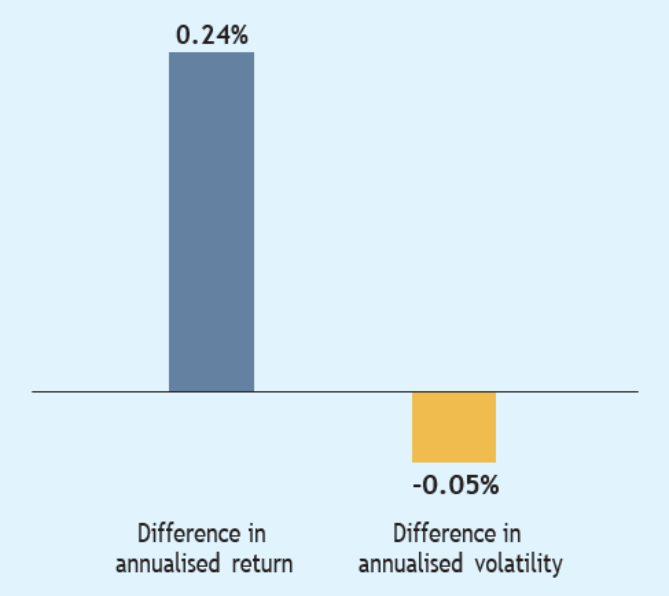
In the following, we summarise three findings on the financial performance of ESG as long-term investments based on both academic and industry studies of ESG investments.[3]

3.2.1. Similar or superior long-term performance of ESG assets

A common perception holds that investing in ESG assets is equivalent to sacrificing returns compared with conventional assets over a long horizon. However, this view is not supported by evidence. A large body of studies have found that the long-term performance of ESG assets was similar to, if not better than, that of conventional assets.

Using 10 pairs of ESG equity indices and their parent indices covering global, regional and several key local markets, we find that ESG indices demonstrated similar, if not superior, performance compared with their parent indices over the past decade. In particular, the average annualised return of ESG equity indices was 0.24% higher and the average annualised volatility was 0.05% lower. There appears to be no contradiction in 'doing well by doing good' (Chart 3.2).

Chart 3.2: Differences in return and volatility between ESG indices and their parent indices over the past decade



Source: Bloomberg and HKIMR compilation.

[2] An earlier meta-analysis also yielded similar findings. Friede et al. (2015) studied around 2,200 individual studies up to 2015. They showed that roughly 90% of these studies found a nonnegative relation between ESG and corporate financial performance, with the large majority reporting positive findings.

[3] The discussion here aims to provide a balanced view based on the state of the art literature. The evidence presented here is not exhaustive.

The finding appears to hold not only for equities but also for a wider class of assets. Research conducted by Morningstar and Barclays respectively suggests that sustainable funds and ESG bonds performed similarly to, if not better than, their conventional counterparts over a long horizon.[4], [5]

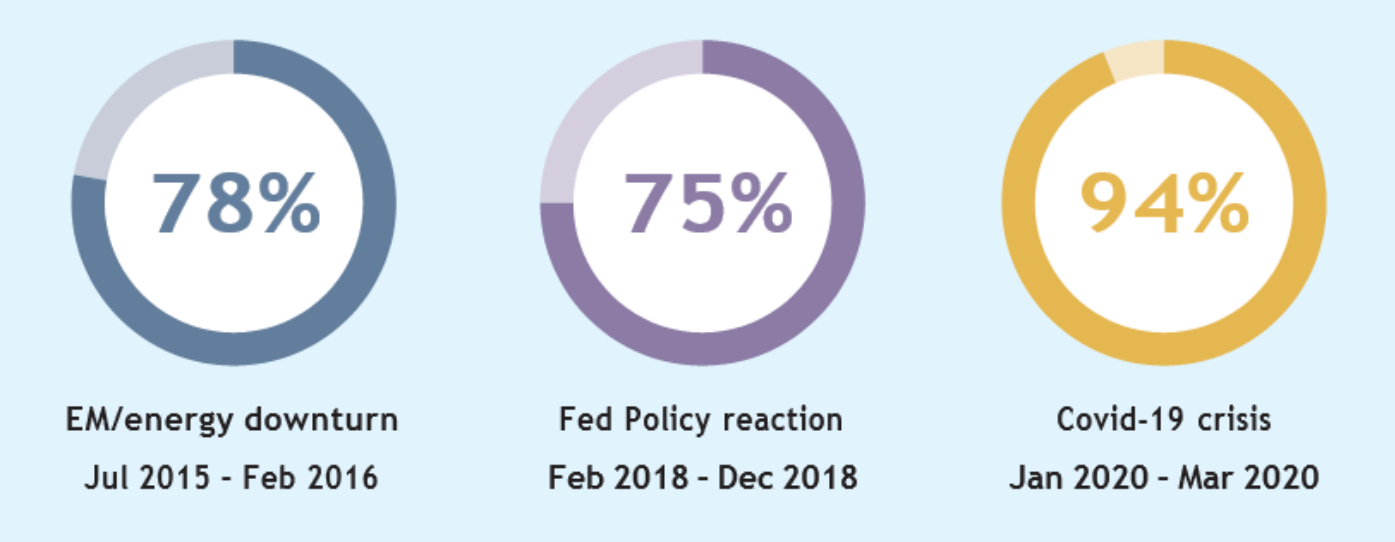
Moreover, this finding of comparable returns is robust even after controlling for other factors that may affect an asset's financial performance. For instance, a study commissioned by the HKIMR showed that US publicly traded equities with high scores in environmental and social factors do not perform significantly differently from other firms based on standard, unconditional market risk, or average returns, after controlling for factors such as firm size, book-to-market ratio, and firm industry.[6]

3.2.2. Better resilience of ESG assets during market downturns

Another characteristic of ESG assets is their better resilience during market downturns. This is an attractive attribute for long-term investors because they can enjoy more stable returns over their investment horizon. As people age, they rely more on passive income instead of active income from labour supply. Thus, the consistency and stability of cash flows is a key factor to be taken into account by long- term investors.

Using a globally representative, widely analysed set of 32 sustainable indices, BlackRock found that during several notable market downturns, sustainable indices demonstrated a smaller drawdown than their non- sustainable counterparts. In particular, 94% of sustainable bond indices outperformed their parent benchmarks during the first quarter of 2020, when the Covid-19 pandemic broke out (Chart 3.3).[7]

Chart 3.3: Percentage of sustainable indices that outperformed during downturns



Source: BlackRock (2020b).

[4] Bioy, H., & Boyadzhiev, D. (2020). 'How does European Sustainable Funds' performance measure up?' Morningstar Manager Research. June.

[5] Barclays (2016). 'Sustainable investing and bond returns.'

[6] Chava et al. (2021). 'Doing well by doing good? Risk, return, and environmental and social ratings,' HKIMR Applied Research Paper No. 03/2021. January.

[7] BlackRock (2020b). 'Sustainable investing: Resilience amid uncertainty.'

Recently, many studies have zoomed in on the Covid-19 pandemic to study the performance of ESG assets in a downturn and found strong support for ESG resilience. For example, one influential academic study found robust evidence that stocks with higher environmental and social ratings had significantly higher returns, lower volatility, and higher operating profit margins during the Covid-19 pandemic.[8] It also identified two channels through which ESG activities add value for shareholders and investors. First, firms that engage in ESG activities have a good reputation, inducing higher customer and employee loyalty, which translates into higher resilience in market downturns. Second, ESG assets are demanded by investors who are less sensitive to short-term fluctuations in asset prices (say, due to an ESG investment mandate), so panic selling is less likely to occur for ESG stocks during market turbulence.

ESG assets demonstrated similar or superior long-term performance and offered better resilience during market downturns than traditional assets.

3.2.3. ESG assets possess desirable characteristics for long-term investments

Going forward, long-term investors may find it rewarding to consider ESG integration in their strategic asset allocation for two reasons. First, it is believed that ESG investing will be one of the key secular growth themes of the future.[9] For example, the Paris Agreement, signed in 2015, aimed to control the rise in average global temperatures to well below 2°C, and preferably to 1.5°C. More recently, jurisdictions accounting for over 70% of world GDP and greenhouse gas emissions have announced targets for net-zero emissions. More capital input from the private sector is needed to achieve these goals. Increased green investing may improve productivity and unlock commercial opportunities, but it requires a longer investment period to realise gains. For example, it takes some time for green technologies to mature and become mainstream.

Moreover, due to growing public awareness of ESG factors, employees and consumers are gradually shifting their attitudes and preferences towards sustainability. The long-term impact of this shift can be material. For instance, when the majority of job seekers care about workforce diversity in a company, socially conscious firms that care about diversity will attract and retain talent, which will be beneficial to the firms' long-term development. With increased disclosures, consumers are able to make informed choices based on the ESG practices of a firm. Firms that have poor governance or unfair labour conditions or that fail to embrace sustainable practices risk losing customer support, which can hurt profitability and competitiveness in the long run.

Second, ESG assets can provide protection against certain ESG risks. One example is the risk arising from policies aimed at greenhouse gas reduction, such as carbon taxation or changing farming practices. Such transition risk may be minor for a short-term investor, as it is unlikely to materialise within a short investment horizon. Over a longer horizon, however, the risk becomes unignorable. Indeed, Schroders (2020) showed that once physical and transition costs and other climate impacts are accounted for, there is a big reshuffling for relative returns of different assets over a 30-year horizon.[10] ESG assets are natural instruments to hedge against ESG-related risks, which is important for long-term investors.

[8] Albuquerque, R., Koskinen, Y., Yang, S., & Zhang, C. (2020). 'Resiliency of environmental and social stocks: An analysis of the exogenous Covid-19 market crash,' Review of Corporate Finance Studies, 9, 593-621.

[9] J.P. Morgan (2021). 'Sustainable investing: How to identify ESG leaders poised for long-term growth.'

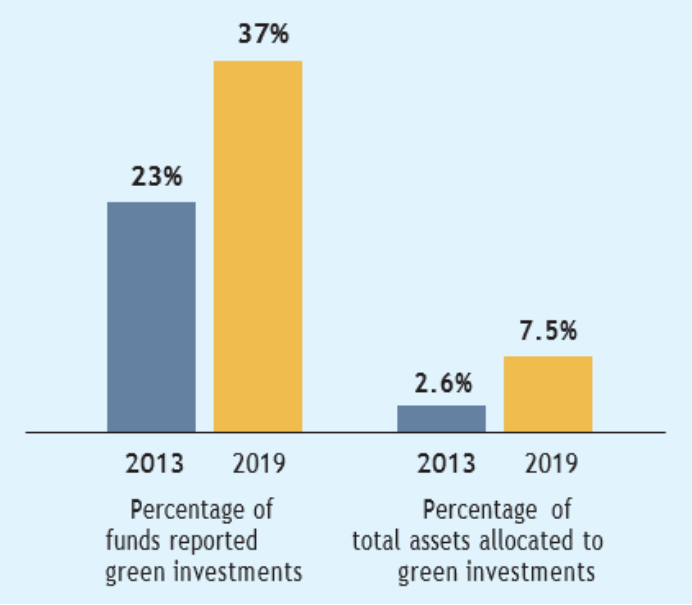
[10] Schroders (2020). 'Incorporating ESG into long term investment return forecasts.'

3.3. ARE LONG-TERM INVESTORS ADOPTING ESG ASSETS?

Given the benefits of long-term investments in ESG assets, this section explores the current and potential status of ESG integration by long-term investors.

According to an annual survey conducted by the OECD that covers more than 100 public and private pension funds from 46 countries, sustainability is a major theme amongst pension funds. Specifically, 37% of the funds reported allocations to green investments in 2019, up from 23% in 2013.[11] These pension funds on average allocated 7.5% of total assets to green investments, which was almost three times the figure in 2013 (Chart 3.4). Moreover, 15 funds reported investing in social investments. These findings suggest that pension funds are showing growing interest in ESG investing and have considerably increased their fund allocations to ESG assets in recent years.

Chart 3.4: Allocations to green investments by pension funds



Source: OECD annual survey of large pension funds and public pension reserve funds (2014, 2020).

Insurers are another key group of long-term investors. Available data suggest that insurers are also demonstrating a growing appetite for ESG assets. BlackRock global insurance report 2020 shows that, 54% of the 360 surveyed senior executives in the insurance and reinsurance sectors across roughly 20 countries indicated that they had invested in specific ESG strategies in the last 12 months.[12]

Both institutional investors and high-net-worth individuals show a growing appetite for ESG investing. Moreover, younger investors are more willing to invest in ESG assets.

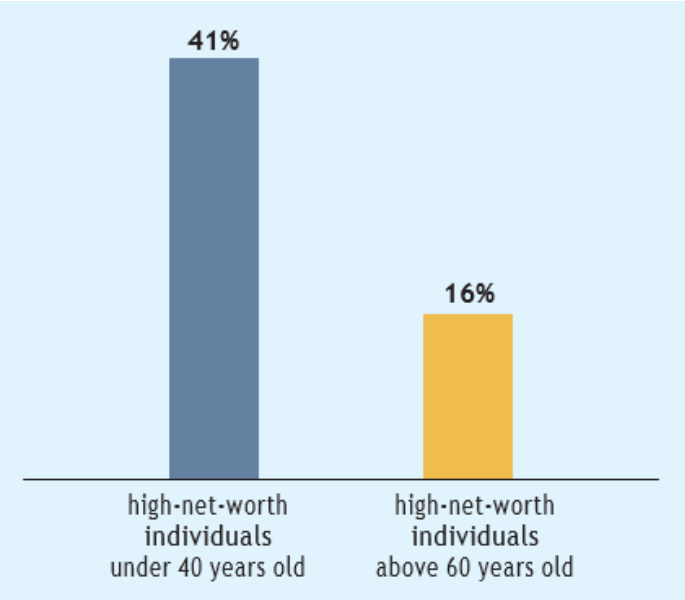
Apart from institutional investors, high-net-worth individuals are increasingly involved in ESG investing. According to the World Wealth Report by Capgemini, 27% of overall high-net-worth individuals expressed interest in ESG products. In particular, 41% of high-net-worth individuals under the age of 40 (versus 16% of high-net-worth individuals aged 60 or older) were willing to make ESG investments, implying that younger high-net-worth individuals are more concerned about sustainable development.[13] The enthusiasm expressed by younger high-net-worth individuals suggests that demand for ESG assets is likely to grow in the future (Chart 3.5).

[11] OECD (2014, 2020). 'Annual survey of large pension funds and public pension reserve funds.'

[12] BlackRock (2020a). 'Global insurance report 2020 – Insurers see the future.'

[13] Capgemini (2020). 'World wealth report 2020.'

Chart 3.5: Percentage of high-net-worth individuals expressing interest in ESG products across age groups



Source: Capegemini World Wealth Report (2020).

3.4. ESG-RELATED INITIATIVES IN HONG KONG AND OTHER JURISDICTIONS

A broad range of initiatives have been introduced in Hong Kong and other jurisdictions to promote ESG investments. The initiatives fall into five major categories: encouraging convergence of international ESG practices, enhancing transparency and disclosure, constructing ESG indices, providing incentives, and example setting (Table 3.2).

Hong Kong has been actively facilitating ESG development. It has established the Green and Sustainable Finance Cross-Agency Steering Group to co-ordinate the management of climate and environmental risks with the financial sector, accelerate the growth of green and sustainable finance in Hong Kong, and support the government's climate strategies. The Steering Group launched its strategic plan to strengthen Hong Kong's financial ecosystem in 2020, and established the Centre for Green and Sustainable Finance in 2021 to coordinate the efforts of financial regulators, government agencies, industry stakeholders and the academia in capacity building and policy development. In addition, a series of proactive measures have been rolled out to strengthen ESG infrastructure, including but not limited to the Green and Sustainable Finance Certification Scheme, the Green and Sustainable Finance Grant Scheme, the Sustainable & Green Exchange (STAGE) launched by the Hong Kong Exchanges and Clearing Limited (HKEX), and the Exchange Fund's commitment to ESG investments. In November 2021, the MPFA issued a set of guiding principles to MPF trustees which lay down a high- level framework that serves to assist MPF trustees in integrating ESG factors into the investment and risk management processes of MPF funds and making relevant disclosure to MPF scheme members. The principles were developed by making reference to relevant local and global requirements on ESG integration and disclosure approach. (Please refer to the original report for the references.)

Table 3.2: Examples of global initiatives to facilitate ESG development

Encouraging convergence of international ESG practices	EU's Sustainable Finance Taxonomy China's Green Industry Guideline Catalogue Regulators in Hong Kong will explore developing a green classification framework for adoption in the local market, with the aim of aligning with the Common Ground Taxonomy reported by the International Platform on Sustainable Finance
Enhancing transparency and disclosure	Certification schemes (Hong Kong Quality Assurance Agency's Green and Sustainable Finance Certification Scheme) Guidelines (US SEC Climate Guidance, HKEX's ESG Reporting Guide) Platforms for ESG disclosure (The Sustainable & Green Exchange (STAGE) established by the HKEX)
Constructing ESG indices	iBoxx Global Green, Social & Sustainability Bonds Index Bloomberg Barclays MSCI Green Bond Index
Providing incentives	Hong Kong's Green and Sustainable Finance Grant Scheme US's Clean Renewable Energy Bonds and Qualified Energy Conservation Bonds programmes The Netherlands' Green Fund Scheme
Example setting	Carbon neutrality goal (Mainland China before 2060, Hong Kong before 2050) Government-affiliated asset managers prioritising green assets (Hong Kong's Exchange Fund, Singapore's Temasek, and Japan's Government Pension Investment Fund)

Source: HKIMR compilation.

ESG In Insurance

How insurers can help drive the shift to a greener economy

By Pat Woo, Head of Environmental, Social and Governance, Hong Kong Global Co-Chair, Sustainable Finance, KPMG China and Martine Botha Sustainable Finance Executive, Global Clients and Markets, KPMG

Hong Kong's capital markets play a crucial role in the city's transition to a greener economy. Through loans and investments, key players in the market such as banks, insurers and asset managers can channel capital flows into more sustainable initiatives. Insurance companies, as the second-largest group of asset owners behind pension funds, are a critical part of this transition. Not only can they drive change through responsible operations and asset allocation, but they can also incentivise other businesses and individuals by considering Environmental, Social, Governance (ESG) factors in underwriting.

The push towards ESG for insurers has been accelerated by multiple factors, including customer demand, instability in the financial markets and importantly, regulation. In Europe, the recent EU Taxonomy requires the disclosure of quantitative data (investment and underwriting KPIs) as well as qualitative information pertaining to sustainable business activities. Whilst the Asia Pacific region is relatively less mature with regards to ESG regulation, in 2019 the Hong Kong Stock Exchange (HKEX) enhanced their mandatory disclosure requirements for listed companies.

Because of these requirements, insurers must demonstrate the sustainability of their operations through clear disclosures. For insurers, ESG priorities are varied and will differ by jurisdiction, type of insurer and risk appetite (See Figure 1).

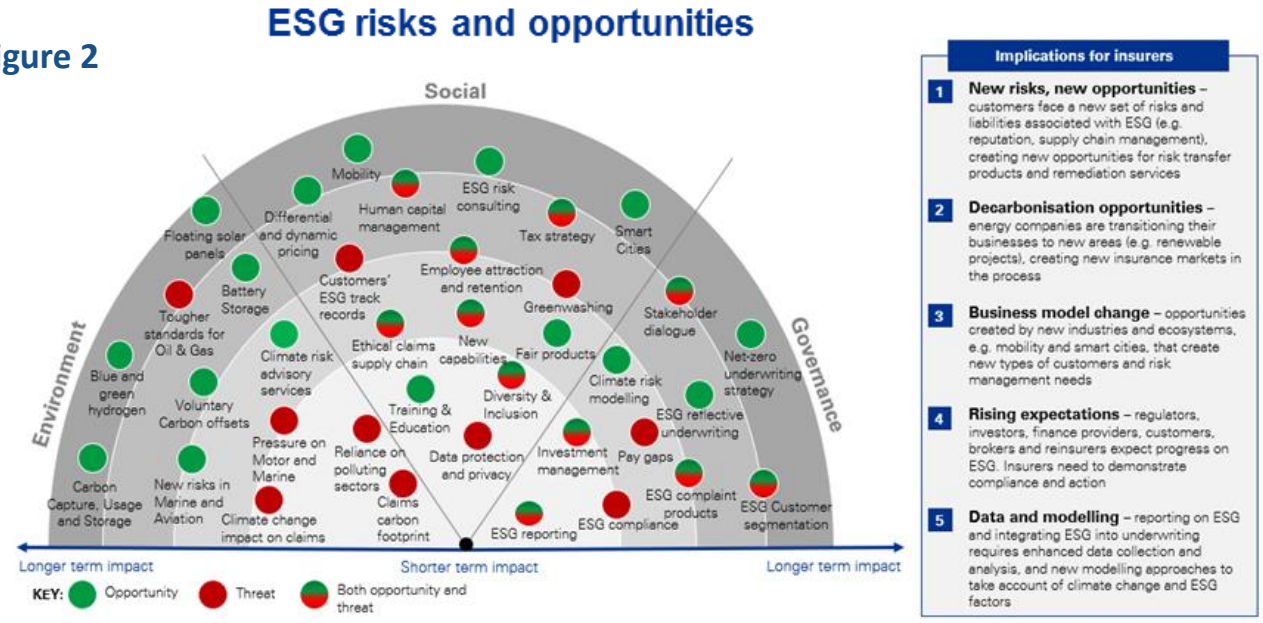
Figure 1

Insurers will face and prioritise different elements of ESG depending on their appetite and industry focus.

Source: KPMG Global Analysis, 2022

ESG creates a wide range of opportunities and challenges for insurers. For example, many insurers have been critisised for their investments in fossil fuels, leading to a negative public image and unfavourable customer sentiment. Alternately, insurers can embrace ESG-related opportunities, by aligning themselves with green initiatives, innovative product development and incorporating sustainability into their core operations. Below are some examples of ESG-related risks and opportunities for insurers (Figure 2).

Figure 2



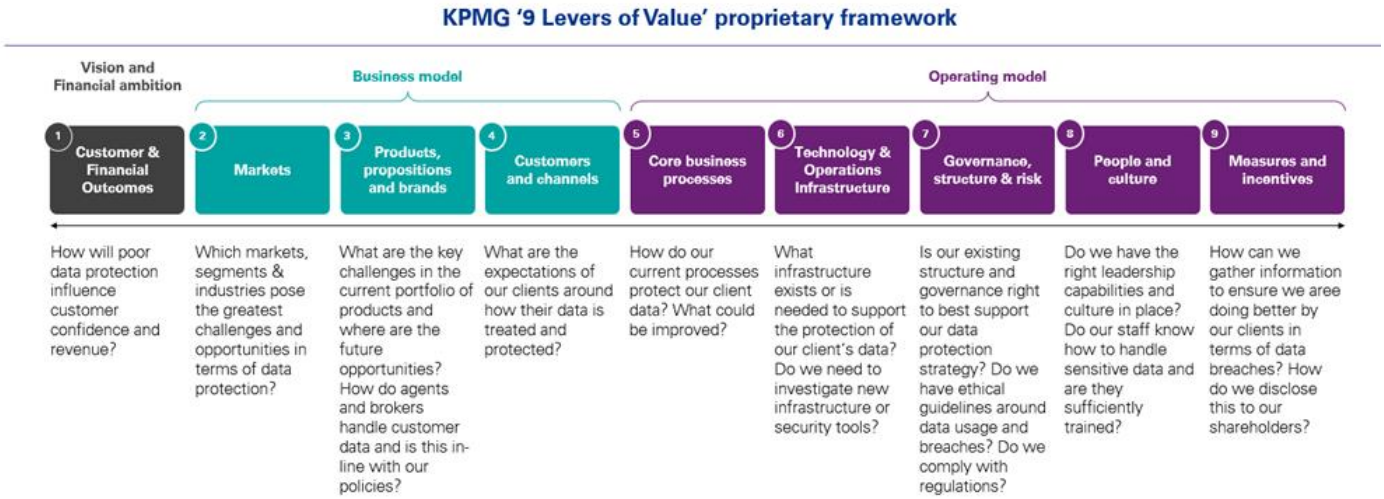
Source: KPMG Global Analysis, 2022

It is important that these ESG risks and opportunities are integrated into an insurer's overall business strategy. The word "material" is often used to describe what is most important to a business. However, what is material to a life insurer might be different to what is material to a general insurer (property damage due to extreme weather is an obvious example).

Once material ESG factors have been identified, this should be followed by ambition setting, assessing current maturity, and then identifying and prioritising potential initiatives for i) strategic fit and ii) value creation. These should then be integrated across business functions.

The example below (Figure 3) uses a material factor from Figure 2, data protection and privacy, to demonstrate how this can be factored across the business:

Figure 3



As large asset managers, insurers have the responsibility to expand their reach to encourage others to take action. They can do this by allocating funds towards sustainable initiatives. Thematic and Impact investing are just a couple of ways that insurers are directing their funds towards more sustainable outcomes. For example, a large Swiss insurer announced in November 2020 that it had exceeded the original financial allocation target for its ESG impact investment portfolio of USD5 billion and would prioritise the impact the portfolio generates.[1]

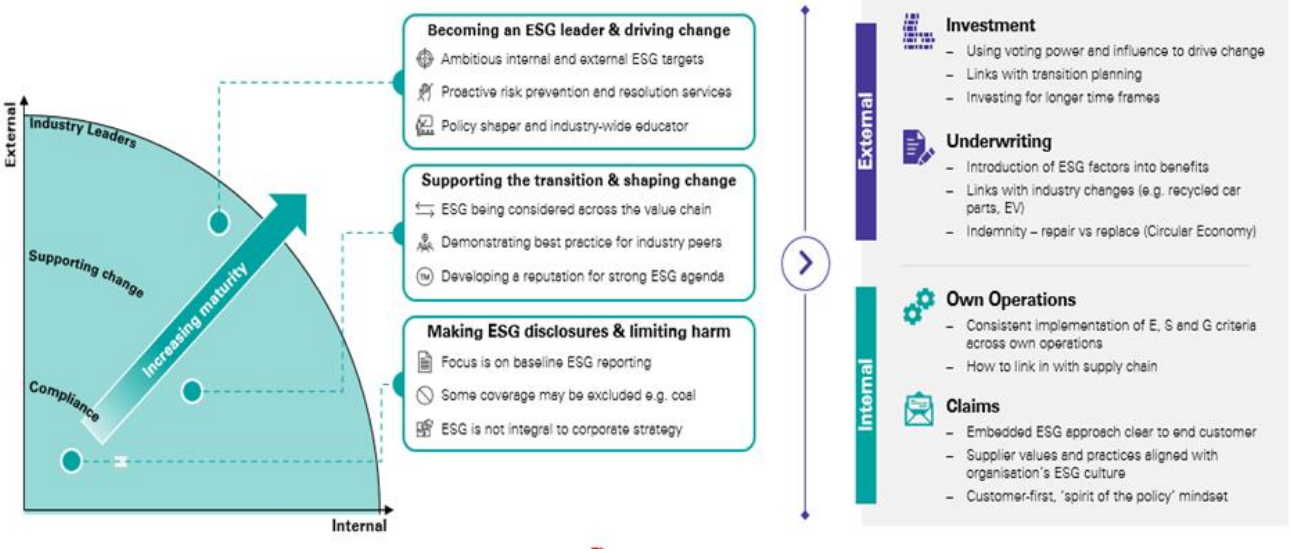
Similarly, insurers can influence behaviour change by underwriting initiatives such as sustainable infrastructure; or influence human behavior through incentives like lower premiums for customers who practice sustainable lifestyles (driving less, not smoking, keeping active etc). From coverage across green energy supply chains to parametric and microinsurance schemes, there are various ways insurers are supporting business, governments and economies with risk management solutions and innovative products. [2]

Below is an example of the evolution of an insurer in the ESG space – from compliance to becoming an industry leader. As insurers' ESG governance matures, they can move from a 'limiting harm' approach to engaging with industry bodies and regulators to influence policy, as outlined below (Figure 4).

[1] Zurich (2022) Making an impact by funding solution [28/02/22] <https://www.zurich.com/en/sustainability/responsible-investment/impact-investment>

[2] Sustainable Markets Initiative: Insurance Task Force (2021) Products and Services Showcase [28/02/22] <https://a.storyblok.com/f/109506/x/c0c3181f7e/smi-itf_products-and-services-showcase.pdf>

Figure 4



Source: KPMG Global Analysis, 2022

CALL FOR ARTICLES

We welcome members' contribution to the "Hong Kong Actuaries" Newsletter, especially, the Feature Articles and Knowledge Sharing sections. If you have written any inspiring articles or have read any interesting articles from other actuarial organisation(s), please feel free to let us know. We will try to reprint the article(s) in our newsletter to share with our members.

For the above issues, please e-mail your articles or views to Timothy Wong by email at Timothy-KH.Wong@AIA.COM or ASHK Office by email at info@actuaries.org.hk. Publication of contributions will be at editor's discretion.

EVENTS HIGHLIGHTS

8 April 2022

ASHK Online Professionalism Seminar

22 April 2022

ASHK/CAA Joint Webinar - Implementation of China Risk Oriented Solvency System (C-ROSS)

(中國精算師協會與香港精算學會開展償二代二期監管規則培訓會)

EVENTS HIGHLIGHTS

27-28 April 2022

International Actuarial Colloquium 2022

UPCOMING EVENTS

19 May 2022

ASHK Actuarial Innovation Webinar: Innovations in medical fraud and waste and abuse (FWA) detection using AI

See More

June 2022

Health Virtual Talk

August 2022

Actuarial Innovation Conference

19 August 2022

ASHK Examination

See More

September 2022

Joint Regional Seminar 2022
20-29 Sept

OTHER UPDATES

Updates from the IFoA | Diversity, Equity and Inclusion strategy

The IFoA has just launched the new Diversity, Equity and Inclusion (DEI) strategy which is an exciting step forward.

To implement the strategy, it is important to work in partnership with key actuarial employers and stakeholders to make the profession a more inclusive place.

In addition, many of the IFoA's employers are already leading in this area, so we would welcome the opportunity to listen and learn about different approaches to creating a diverse and inclusive profession. If you would like a wider discussion about our new DEI strategy and how we could work with your company, please contact the IFoA Beijing Office.

Finally, in the spirit of the continued transformation of the profession, we wanted to highlight the Frank Redington Prize. The prize is a call for new thinkers to step forward with bold new ideas on two of the biggest challenges of the 21st Century. This open essay competition, sponsored by Milliman and Punter Southall, welcomes applicants from across the globe, both within and outside of the actuarial profession. Please visit the IFoA website for more details. The submission deadline is 29 April 2022,12:00 midday (BST).

ASHK UPDATES

Damian Yip

Executive Director

Approaching the 100th day at ASHK, I have met many members, albeit virtually, who have shared with me interesting stories and helpful experiences that they have had with ASHK. In the coming year, I am sure there will be more opportunities for me to meet members in person as we plan for more actuarial events.

The past months have been very challenging as we implement new initiatives while working from home. To make the operations more efficient we are adopting a more streamlined financial reporting system and implementing a new organisation structure that reflects ASHK's changing needs. We are putting together a strong team, so we welcome Joanna who will lead the member services function. We will also be increasing our resources to boost our efforts to further promote the value of the FASHK designation to all those working in the actuarial profession, regulators, employers, and prospective actuaries.

The Strategy Day in March generated some deep discussion, the council provided clear direction on how they see the Society evolving in the short term and the aspirations in the more distant future. This provides a good roadmap for staff to set priorities and put in place a work plan for the coming year. As a members led and staff run organisation, it is paramount that we all work together to build ASHK. I look forward to your continuing support.

Email: damianyip@actuaries.org.hk

Joanna Cheung

Assistant Manager, Member Services

I am excited about the opportunity to become a part of the ASHK!

Having been in member services roles at the Chartered Institute of Management Accountants and the Royal Institution of Chartered Surveyors during the past 10 years, I believe my strengths and passion for serving members in professional bodies, would further extend to the ASHK.

Although the coronavirus pandemic is still ongoing and requires social distancing, I am confident in the Society and will not only stay connected with all members but also devote myself to helping develop and further the success of the Society.

I look forward to meeting you and celebrating your accomplishments in the actuarial profession.

Email: joannacheung@actuaries.org.hk

MEMBERSHIP UPDATES

New Members

Associate		
Ng Chak Hang	Manulife International Limited	Associate [FSA (2019)]
Fung Siu Tung	Sompo Insurance (Hong Kong) Co., Ltd	Associate [FIAA (2017)]
Ka Chi Ngan	HSBC Insurance	Associate [ASA (2021)]
Aoife Martin	Partner Re	Associate [ASA (2021)]

Reinstated Members

Ordinary Student		
Nathan Man Ho Liu	E & Y	Ordinary Student [SOA Student]

Retired Members

Retired members
Horace Ka Wo Ko
Hans Wagner

We welcome corporate advertisements

The ASHK will accept corporate advertisements in the ASHK Newsletter provided that the advertisements do not detract from the actuarial profession. Acceptance and positioning of advertisement will be at the editor's discretion.

File Formats

Advertisers have to supply the artworks which should be created in MS Word/ PowerPoint/JPEG/PDF formats.

Advertising Rate

	One issue	Whole Year (4 issues)
Full page (A4-size)	HK$6,000	HK$5,000 each

To advertise, please contact ASHK Office by

Tel: (852) 2147 9168 or e-mail: info@actuaries.org.hk

Hong Kong Actuaries
ACTUARIAL SOCIETY OF HONG KONG'S Newsletter
Spring Volume 1/2022

Communication Committee

Editors

Timothy Wong E-mail: Timothy-KH.Wong@AIA.COM

Mary Kwan E-mail: mary.kwan@fubon.com

Florence Li E-mail: fn.li@kpmg.com

Assistant Editors

Amy Chan E-mail: amy.chan@milliman.com

Donald Chan E-mail: donald.chan@za.group

Kelvin Lee E-mail: kelvinkml@gmail.com

Shirley Fong E-mail: shirley-sy.fong@aia.com

Coordinators

Damian Yip Tel: (852) 2147 9168
E-mail: damianyip@actuaries.org.hk

Mandy Wong Tel: (852) 2147 9420
E-mail: mandywong@actuaries.org.hk

Joanna Cheung Tel: (852) 2147 9578
E-mail:
joannacheung@actuaries.org.hk