ACTUARIAL SOCIETY of HONG KONG 香港精算學會

Actuarial Society of Hong Kong's Newsletter

Hong Kong Actuaries

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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 third issue of the ASHK quarterly newsletter for 2020.

To the respective committees, I'd like to extend my gratitude for the amount of effort placed in preparation of the ASHK Online Events. The call for papers and sponsorship subscriptions for the International Actuarial Colloquium in 2021 are now open! Watch out for them and don't miss the opportunity to improve your company's visibility within the global actuarial community. The ASHK will continue its involvement in future IAA events bringing more global perspectives and knowledge to your lifelong learning.

We would like to highlight a few key events worth keeping a lookout for: the IFRS 17 webinar and the Hong Kong Virtual Actuarial Summit 2020. By collaborating with our friendly societies (i.e. SOA and IAAust), two joint webcasts are being organized in November to fulfil the continuing education needs of our members.

We are also pleased to share several feature articles on our COVID theme and especially like to thank Fred Ngan, FSA, co-founder and co-CEO of Bowtie Life Insurance for his time taking on our interview.

More than ever, aside from volunteering and participating in the ASHK, any feedback from our members is welcomed. Happy reading and stay well!

Best Regards,
Alexander Wong
EDITOR

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Hong Kong Actuarial Summit 2020 Goes Virtual!

In light of the on-going developments with COVID-19 and after thoughtful discussions, the organizing committee has decided to deliver our Summit scheduled for 25-26 November 2020 as a digital event, in lieu of an in-person event. The safety of our delegates and guests is our top priority. We believe this is the safest approach for the well-being of our audience and look forward to bringing together our finance and actuarial professionals in this new virtual format to learn and connect together.

Currently we are working diligently with our event coordinators and relevant vendors on the conference platform and e-booths. The virtual Summit is with live streaming features. Our speakers would come over to the venue to speak at their respective plenary and break-out sessions which will be broadcasted live. The attendees can enjoy the event online and will be able to partake in interactive and engaging experiences throughout this dynamic platform.

The virtual conference platform we will use comes with interactive exhibition features and includes plentiful opportunities for engagement, all while attendees connect from the comfort and safety of their home or office. Best of all, plenaries and breakout sessions recordings will be easily accessible on-demand for our attendees at their own convenience.

We want to keep everyone informed as best as possible. Delegates may earn up to a maximum of 11 CPD credits (including 1 hour of Professionalism credit) from attending the Summit. If you have not registered yet, please register here https://register.hkas2020.com.

For those who have already registered, our conference secretariat will be sending to you the login information one week before the event. Please continue to check our event page for updates about the Summit! We look forward to your participation.

Register Now

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Council – Peter Duran

HKA18 Online Press Conference

We are pleased to share that ASHK successfully organized our first online press conference in early September to launch the newly released research study published on 3 September 2020 on the mortality of the assured lives in Hong Kong, namely, the Hong Kong Assured Lives Mortality 2018 (HKA18).

The ASHK Experience Study Committee examined how the expectation of life has increased and changes in cause of death compared to the prior study. In this report, the Committee also conducted a comparison between HKA18 and Hong Kong Assured Life Mortality 2001 (HKA01). HKA18 evaluated data from 17 Hong Kong life insurance companies that represent the majority of industry from business volume perspective at the end of 2017.

Over 20 media representatives were invited (e.g. Metro Radio Hong Kong, Commercial Radio Hong Kong, am730, Sky Post, TVB, HK01 and Hong Kong Economic Times). All follow up questions from reporters have been addressed. There were more than 8 media coverages at the end of the day. Meanwhile, we hope our members find the report to be a useful resource!

Stakeholder Engagement – Meeting with the Hon CHAN, Kin-por, GBS, JP

The meeting between ASHK and the Hon KP Chan, Member of Legislative Council (Insurance) took place on 11 September to discuss the Actuarial Society of Hong Kong's Honorary Advisory Board and our proposal to strengthen the qualifications standards for Appointed Actuaries of long-term insurers and Signing Actuaries of GI insurers. We had a very productive meeting and are very appreciative of Mr. Chan's enthusiastic support. The ASHK is striving to increase the professionalism of the actuarial profession in Hong Kong for the benefit of the insured public and the reputation of Hong Kong as an international financial centre.

Council – Peter Duran

The International Actuarial Colloquium 2021 – Call for Paper and Sponsorship Opportunity

As you know, the International Actuarial Colloquium 2021 will be held in Hong Kong on 26-28 April 2021 with the theme "Global Pandemic - Beyond the New Normal". This flagship event is co-organized by the International Actuarial Association) Life Section (IAALS) and Pensions, Benefits and Social Security (PBSS) Sections and the Actuarial Society of Hong Kong (ASHK).

We are looking forward to your support for promotion and submission of papers for this important international event about Life Insurance and Pensions fields. All accepted full-length papers will be eligible for consideration for "Best Paper Awards", proudly sponsored by the IAALS and PBSS Sections of the IAA. The winner will be announced during the closing ceremony of International Actuarial Colloquium 2021.

In the meantime, we like to seek your contribution to be our corporate sponsor. For details, please refer to our event website at https://bit.ly/3ltwocj. We look forward to your favorable response and participation at the International Actuarial Colloquium 2021!

Collaborating with our Friendly Societies

ASHK is actively exploring collaborative opportunities on joint organizational events with other professional bodies. By combining the effort and expertise of various associations, we are better be able to innovate and grow.

The Professional Development Committee and Society of Actuaries (SOA) are pleased to present the first joint webcast "Business Development and Marketing for Actuaries" on 3 November 2020 evening HKT. This webcast is for actuaries who are currently in or are interested in business development. We'll start by discussing the merits of being on the business development side of the business, followed by discussing how to properly use social media and other electronic tools to your benefit.

Another occasion is our GI webinar scheduled on 20 November 2020 which will be co-hosted by ASHK General Insurance Committee and Actuaries Institute Australia (IAAust). There has been some latest development in the Australian market in regard to Climate Change. This will be one of the most economically impactful challenges facing people and societies across the globe. Few companies also shared what they have done in response to the latest financial disclosure. We are sure that these contents will be beneficial and of interest to ASHK members.

Professional Matters Committee
– Rockson Leung

Brief Update on CPD Matters

Due to COVID-19, the deadline for meeting the 2019 CPD requirement had been extended to 30 June 2020. Despite some delayed submissions, the overall response rate was satisfactory and all non-retired ASHK Fellows and Associates had declared compliance with ASHK's CPD requirements in respect of the 2019 calendar year. 13 members were exempted due to retirement. 51 members (three being Hong Kong statutory roleholers) were randomly selected for the 2019 CPD audit which was successfully completed in September 2019. We appreciate members for their cooperation in the CPD audit.

A new IFoA's CPD Scheme becomes effective 1 September 2020. The Scheme adopts an outcomes-focused approach to meet IFoA member's CPD needs. Under the new arrangements, the IFoA will no longer recognise other IAA bodies (including ASHK) CPD Schemes as being equivalent. ASHK members who are also IFoA members should familiarise themselves with the new Scheme to ensure that they are able to satisfy the CPD requirements under both the IFoA and the ASHK going forward.

The deadline for submitting the 2020 CPD declaration is 31 December 2020. ASHK Fellows and Associates are encouraged to submit their declarations as early as possible. Members are also encouraged to record CPD activities on the ASHK online CPD log. Not only is it good practice, but should also prove handy in the event of a CPD audit.

The PMC would like to remind ASHK Fellows and Associates not working in actuarial fields that they are still obliged to undertake CPD activities relevant to their current role in order to meet the CPD requirements.

AGN 10 Exposure Draft Member Consultation

The PMC has issued an Exposure Draft on the new AGN 10 (General Actuarial Practice"). AGN 10 is ASHK's adaptation of International Standard of Actuarial Practice 1: General Actuarial Practice ("ISAP 1") as approved by the International Actuarial Association ("IAA"). The intention of ISAP 1 /AGN 10 is to promote a greater consistency of approach to actuarial practice internationally in a given situation, so as to increase the confidence of clients and the public in the actuarial work product, but without unnecessarily constraining the exercise of actuarial judgment or creativity.

Members are welcome to provide comments to the ASHK office by 13 November 2020.

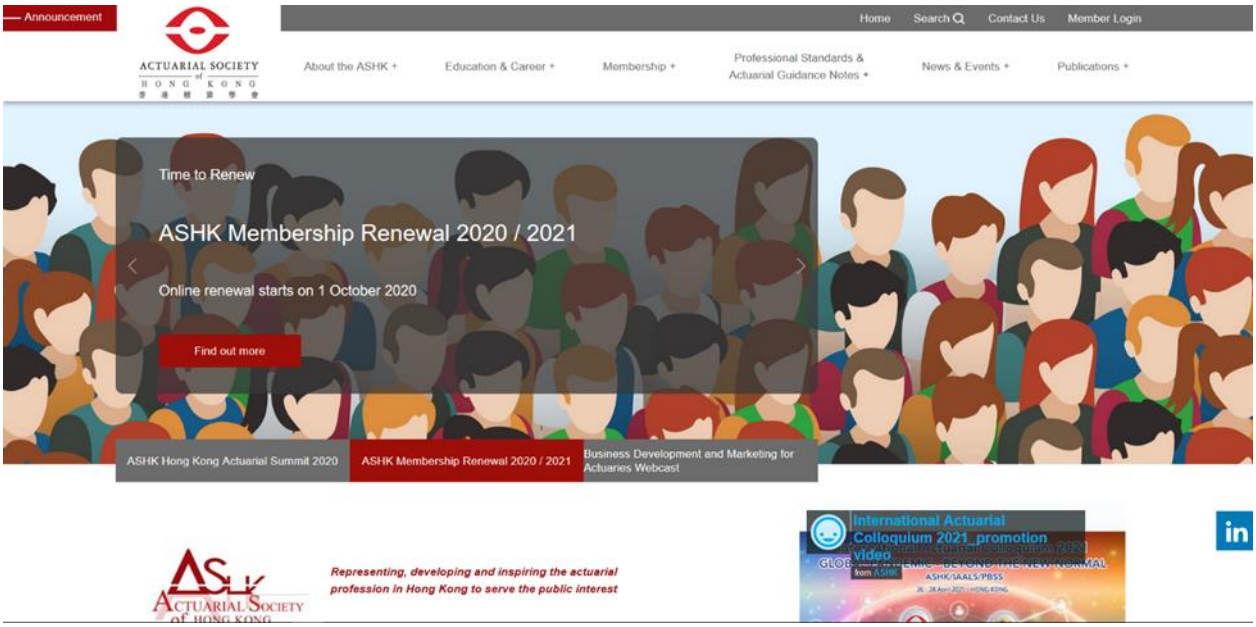
Professionalism Course

The first online Professional Seminar was held on 14 October 2020 and saw the Committee take our members through ISAP 1 / AGN 10 as well as the ISAP 1 peer review requirements. Over 200 participants joined us online and the ASHK would like to thank members for the enthusiastic support.

Membership & Communication Committee
– Alexander Wong

Announcing the Launch of ASHK New Website

We are very excited to announce the launch of our newly designed website (www.actuaries.org.hk/). After six months of hard work and dedication, we are delighted to reveal our new look by launching the website on 10 September, 2020. We wanted to make the new website faster and easier to navigate and more user-friendly. Whether on desktop or mobile, the updated site will provide an elevated experience. It has been revamped with enhancements, the content and level of web security updated.
Let's go ahead and explore. We hope you like the change!



Membership Renewal 2020-2021

Thank you for your ongoing contribution and support to the ASHK! This is a warm reminder that the ASHK Membership Subscription Renewal 2020/2021 has already started. To continue receiving all of your membership benefits, please renew your ASHK membership ONLINE by 30 Nov 2020.

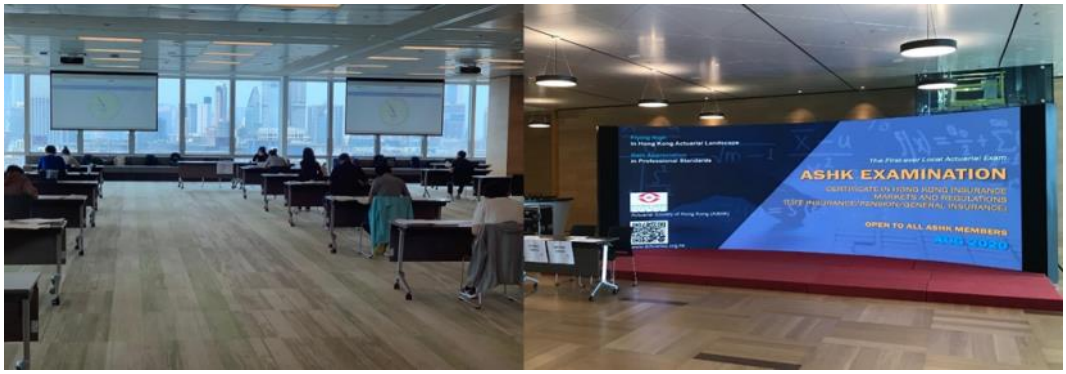
Curriculum Exam Taskforce & Professional Development Committee – Nora Li

ASHK Examination 2020 Performance and Feedback

We are pleased to share our successful launch of the ASHK Examination 2020 in August and the candidates have received their results in late September. Other than the working group candidates, more than 10 scholarships were granted to the local university students in this exam diet. The names of the candidates who passed are as follows:

Core Paper	Life Paper	GI Paper
Jennifer Marvella	Siu On Wan	Chi Yeung Chan
Siu On Wan	Bo Wu	Jue Yang
Ka Chung Marco Wong	Tanya Tik Yan Kan	Yat Fung Chan
Tsz Ching Chan	Ernst Adriaan Steenberg	
Pui Yi Lai	Kwan Wai Leung	
Chi Yeung Chan	Yat Man Hung	
Tanya Tik Yan Kan	Ho Man Tang	
Ernst Adriaan Steenberg		
Kwan Wai Leung		
Yat Man Hung		
Ho Man Tang		
Jue Yang		
Yat Fung Chan		

Over 60% of candidates passed both Core and Elective papers. They will be awarded the Certificate in Hong Kong Insurance Markets and Regulations (Life Insurance / General Insurance) issued by the ASHK. They shall be eligible to become a Fellow member of the Actuarial Society of Hong Kong upon Council's approval of the fellow membership application.



The Insurance Authority (IA) expects that a candidate passing this 1.5-hour open book examination will be one of the acceptable means of satisfying the local knowledge requirement for the approval of actuaries performing statutory roles. Successful candidates report they spend an average of 40-50 hours preparing for each paper.

We congratulate all those candidates who passed and wish the best of luck in their next steps towards receiving the FASHK designation!

Meanwhile, the Committee and the Taskforce would continue to review the examination format and contents in order to suit the market needs. The registration of ASHK Examination 2021 will be available from next February. For more information of our curriculum, please visit the ASHK website at https://bit.ly/33YpDYV.

Financial Reporting Committee
– Steve Cheung

IFRS 17 Event Updates

The ASHK Financial Reporting Committee has decided to postpone the 2020 IFRS 17 Seminar to the 1st quarter of 2021 due to the further outbreak of COVID-19. This two-day seminar is targeted at actuaries and accountants who need an understanding of IFRS 17, including the latest developments expected to be included in the final standard scheduled for publication later. Both basic and advanced topics will be covered. Please stay tuned!

In addition, the latest amendments to IFRS 17 Insurance Contracts have been published by the International Accounting Standards Board (IASB) on 25 June 2020. Mr. Patrick Au, Partner in the Life Insurance practice of Deloitte Advisory (Hong Kong) Limited, is cordially invited to speak at the upcoming IFRS 17 webinar on 28 October. In this webinar, we will share how the key updates and clarifications in these amendments address the concerns raised by various market stakeholders.

Health Committee
– Sam Yeung

ASHK First Health Virtual Talk was held successfully on 27 August 2020. The topic was "Where next for Health insurance in Hong Kong?". We were glad to have over 80 members join us on our Health Virtual Talk. Special thanks to Wilton Kee, Orchis Li, Lawrence Tsui and Andrew Merrilees for sharing their professional opinions. Kudos to Bob Charles for the excellent panel moderation. We trust our members benefitted greatly from this session!

With the worldwide outbreak of COVID-19 dragging on towards the end of 2020 and possibly into 2021, this pandemic will likely have sweeping impacts on the global economy. By any measure, this exogenous, non-economic development is transforming into a multitude of complex long-term challenges. Actuaries are faced with not only increasing mortality and morbidity risks, but also further and prolonged low interest environment. With vivid memories of H1N1 pandemic in 2009, many of us have come to the chilling realization that pandemics are not that remote and can happen more often than expected.

To help fellow actuaries understand the impact of pandemics on different facets of the insurance industry, the Healthcare Committee will conduct a pandemic survey among ASHK members from October 23, 2020 to November 13, 2020. This survey will collect participants' opinions on different risk exposures and potential mitigation across a wide range of individual and group life and health products. The collective knowledge of ASHK members will enrich each other's experience and help all of us better prepare for future pandemics.

Furthermore, the Healthcare Committee is planning a relevant panel presentation on November 25 as part of the upcoming virtual Actuarial Summit. The panelists will draw on pandemic experience from global and regional markets to shed light on longer term health portfolio performance and medical cost trend.

We encourage you to participate in both events. Please respond to the pandemic survey which has been circulated to members last week. If you have not registered for the virtual Actuarial Summit, please contact our conference secretariat at HKAS2019@connexustravel.com to reserve a spot.

Actuarial Innovation Committee
– Nora Li

The Society of Actuaries (SOA) is transforming their Predictive Analytics seminar scheduled for 13 November 2020 to virtual format. The theme of this year's seminar is "Predictive Analysis: From Theory to Practice". The ASHK AIC members (Orchis Li, Scott Chow and Iris Lun) are invited to speak in the seminar on "InsurTech Landscape in Asia". The Committee is so excited about our participation and it is a great pleasure to once again engage with SOA!

The Committee is pleased to present an insightful article below about the driving change with telematics. We hope you find it relevant and useful.

Driving Change with Telematics

by Andy Goldby FIA, chief product officer of The Floow

Advances in telematics are transforming the insurance industry. Andy Goldby looks at the benefits this technology can bring

When the first motor policy was written back in the early 1900s, no guidelines existed for an industry more accustomed to insuring cargo ships than cars. A lot has changed since, with UK motor insurance spanning 20 million UK households and paying out £27m in claims every day. As we head full throttle into the Fourth Industrial Revolution - the data revolution - the industry is undergoing an unprecedented digital transformation, which some will find intimidating. But harnessing and mining the vast lake of Internet of Things data delivered by telematics offers a wealth of potential new insights. While this is a demanding task, the data derived from telematics provides actuaries with powerful new capabilities to price their policies and inform their understanding of risk. Traditional factors associated with age, postcode, profession and claims history are no longer the only indicators. Telematics introduces a new set of policy-holder scores based upon a true picture of their driving behaviour.

Telematics scoring predicts risk

Telematics providers work with insurers to deliver device-agnostic solutions, enabling insurers to take journey data from any type of device, including smartphones, which are powerful mobility sensors. It is possible to capture a variety of data. Firstly, sensor data which looks at GPS location, speed and phone usage and secondly, contextual data which records which roads are being driven, third-party transient data and other external benchmarks. Raw data can be translated into hundreds of KPIs for every journey.

For example, though distraction can be caused by many factors, perhaps the most significant is using a mobile phone. There is a clear relationship between having a high distraction score and a person's propensity to claim - distracted drivers are twice as likely to have an accident - so scores can relate to the time spent on a call as well as handling a phone while driving. Similarly, in terms of contextual data, telematics can understand the unique attributes of individual roads, analysing data in the context of external factors, such as how other people are driving, road layouts and pedestrian crossings.

At The Floow we have been developing these types of telematics solutions. Through various machine-learning techniques, data scientists analyse and score against six key components of our algorithm, which include speed, distraction, smoothness of driving, time of day, fatigue and road risk. By blending a set of behavioural scores as well as contextual scores, we've developed a scoring platform that is proven to challenge the traditional proxy-based model which assesses risk for an insurance policy.

Data gathered via client deployments over the past six years, suggests that telematics portfolios deliver a 25% improvement in burn cost. Its scores deliver a predictive power to create up to 10 times the difference in the likely claims frequency between drivers achieving a low score of less than 30 and a good score of over 80. Using this telematics scoring system alongside traditional rating factors (customer factors, vehicle factors and policy factors) can add significant value to the combined model's predictive power, adding five to 10 times the additional impact to adding credit scores.

When client actuaries and underwriters work with providers to further run the scores against their own claims data, they report a significant boost of up to three times the profitability per telematics customer, versus traditional policy types, and a set of scores that represent powerful and unique intellectual property.

This brings a new paradigm of fairness into motor insurance pricing, and many senior decision-makers in the industry agree. In a YouGov survey recently conducted among decision makers from international insurance companies, the widespread adoption of telematics is now seen to be dominant in shaping the future of car insurance.

When asked how the motor insurance industry would change over the next decade, all the top five factors mentioned relate directly to the application of telematics.

Identifying and predicting fraud

Fraudulent claims cost the industry many billions every year.

The ABI states that insurers detected 67,000 fraudulent claims valued at £837m last year but it's likely that many more went undetected, driving up the cost of motor insurance for everyone and impacting the profitability of insurers.

Telematics offers very useful indicators to help insurers identify dishonest drivers. As an industry, we will never be able to completely prevent fraud, but understanding potentially fraudulent behaviour before it impacts your bottom line helps improve the likelihood of preventing the damage it could cause.

The creation of indices has helped to detect how honestly drivers are using our telematics apps, for example, the patterns of how they tag completed journeys and a measure of the contiguousness of the journeys tagged where the policy-holder is driving (they may appear to have missing journeys or appear to be tagging low-scoring journeys as if they were a passenger).

Additionally, we have indices relating to the integrity of their declarations for mileage totals completed in the insurance year, or the 'risk address' where the vehicle is really kept and parked overnight. With these we are able to identify discrepancies which help to identify dishonesty within the early days of the policy, this enables insurers to make informed decisions on how to treat these customers before their 'cooling-off' period is over.

Responses to YouGov Research (March 2018)

43% Autonomous cars will have required insurance companies to totally rethink risk

37% There will be greater car charing replacing outright car ownership and move to usage-based insurance

37% Telematics will become the benchmark for defying risk and pricing of policies

35% Drivers will have an overall score for their driving ability affecting their premiums

34% The insurance industry will focus more on 'mobility' as an issue

To the future

Telematics will also help pave the way for autonomous vehicles. When a machine is programmed to make decisions in place of a human driver, who is to blame when something goes wrong? This is of critical importance to the UK motor insurance industry where classically it's the driver, not the vehicle, who is insured.

When a machine is in the driver's seat, it will be essential to understand the cause when an accident occurs. This kind of insight is only possible via the data that telematics can deliver, which is why we're collaborating with several industry partners in the MOVE_UK project. Together, the partners will see MOVE_UK accelerate the entry of automated, driverless car technologies to the UK market. It will increase the rate of development and testing of technologies at a lower cost to vehicle manufacturers, and lead on to see driverless technology trialled in real-world conditions on roads in Greenwich, London.

Telematics will be critical to the evolution of the mobility and insurance industries. As we find more ways to use telematics, it is clear that its insights will be a powerful contributor, making mobility safer and insurance smarter and more profitable for all involved.

This article first appeared in The Actuary magazine

With "black swan" events like the outbreak of COVID-19, it comes with two things: risks and opportunities. They are two sides of a coin. While we have discussed the adverse impacts brought by COVID-19 in the Volume 2/2020 newsletter, it is time to examine opportunities presented by the crisis; in particular, the pandemic has accelerated the digital transformation plans of insurance companies. ASHK recently interviewed Fred Ngan, co-founder and co-CEO of Bowtie Life Insurance, the first virtual insurer in Hong Kong. In this interview, Fred discusses how the pandemic has benefited Bowtie's digital sales and Bowtie's plan post COVID-19.

Be greedy when others are fearful? – Opportunities under the threat of COVID 19

Q&A with Fred Ngan, FSA, co-founder and co-CEO of Bowtie Life Insurance in Hong Kong

by Amy Chan and Scott Chow,
ASHK Membership & Communications Committee

"Actuaries can play a leading role in fintech (and insurtech) development as we understand the core of insurance…We should go beyond traditional thinking and make use of analytical mindset." - Fred Ngan

Michael Chan (Left) and Fred Ngan (Right), Bowtie Co-founder / Co-CEO

ASHK: What are the primary factors that have contributed to Bowtie's success amid the COVID-19 pandemic?

Fred: As of the first half of 2020, while the office premium for the insurance industry dropped by 40% as a result of the drop in mainlanders visiting Hong Kong and the drop in agency sales, Bowtie's sales rose against the market. In my view, Bowtie's success is contributed by two major factors. First is the increased health consciousness amongst consumers since the outbreak of COVID-19. We have been focusing on writing and publishing blogs on our webpage to provide easy-to-find, credible health-related information. Our blog traffic increased by almost 10 times from around 200k-300k views per month to 2 million views amid the pandemic.

Second is the change in consumer behavior. Apparently, the distribution channels available for Hong Kong consumers are not diversified enough, sales are dominated by agency, banks and brokers, while digital channel only accounts for 1% of the new business sales. I believe consumers' demand for digital channel is definitely far more than 1%. With social distancing and "lockdown" measures in place, digital channel becomes the natural option for consumers. Once the consumers are adapted to the new digital insurance model, we expect some consumers to permanently shift or increase their usage of digital channel, initiatives aim at accelerating behavior shifts were already underway before the crisis.

Take a step back, I think the pandemic presents a great opportunity to accelerate the digital transformation, not only on the insurtech nature but also fintech and e-commerce as a whole.

ASHK: You mentioned the pandemic-driven change in consumer behavior. Have you also attempted to prompt consumer behavior change (e.g., more likely to renew your plans) and/or drive more website traffic?

Fred: Yes, we do it mainly through our blogs. In my opinion, Hong Kong lacks quality online content on insurance education due to the reliance on agents as the main form of distribution. Hence, we regularly post blogs on our webpage to educate consumers on how digital insurance works; how your policy will be taken care of; how to make claims, etc.

Besides, digital adoption in fintech and e-commerce sectors, such as the likes of virtual banks and digital wallets, has increased the digital-led experiences of consumers. Despite insurtech development being a slow mover when compared with fintech and e-commerce, from my perspective, digitalisation will definitely take place in insurance sector – it is only a matter of time and pace.

ASHK: Has Bowtie made any changes in terms of sales expectation, product and service offerings, or medical underwriting in light of the pandemic?

Fred: For sales expectation, we have adjusted our short-term target upwards, on a monthly basis, in view of stronger-than-expected performance this year. Yet we have not adjusted our long-term target, as we believe the current sales is boosted by the accelerated digital adoption during COVID-19.

In terms of product and service offerings, we have enhanced our existing Voluntary Health Insurance Scheme (VHIS) coverage by waiving the relevant fees should a client need a lung/ chest CT scan or an X-ray to determine whether he or she has the COVID-19 related medical conditions, and providing additional hospital cash allowance for clients who are hospitalised or placed in isolation wards. We have also partnered with 3 Hong Kong, telecommunications service provider, to launch a telemedicine service named "VDoctor".

For medical underwriting, we have adopted a fully reflexive remote medical underwriting system. The system is designed and co-developed by actuaries, User Experience (UX) designers, medical doctors and engineers; and endorsed by an reinsurer as full underwriting. The reflexive system asks a series of questions and, depending on what answers are given, asks follow-up questions. It is just like talking to someone. Even though there are over 750 questions in the database, the whole underwriting process only takes a few minutes as almost all of the questions are simply yes/no questions. The system can provide an instant binding quote, calculate loadings and list out all exclusions, if any. It is proven to be efficient in a way that we have handled over 100k applications with only one underwriter.

My point is, virtual insurer is not just a website, but a provider of end-to-end seamless customer experience from marketing, to underwriting, to communication and customer service, without the need to switch between online and offline processes through the adoption of technologies.

ASHK: Has the pandemic impacted your digitalisation plan?

Fred: No, we still follow our original digitalisation plan with no change to our long term vision. Instead, we have changed our priorities in product launch, and launched a series of marketing campaigns with John Tsang to react quickly to the changing coronavirus environment. This is the advantage of a startup over traditional insurers, where we can achieve a seven-day turnaround for each campaign.

ASHK: Apart from marketing, in what ways do you think Bowtie has advantages over traditional insurers in terms of reacting / minimising disruption from COVID-19?

Fred: First, everything is on the Cloud. We have always been a paperless office, therefore, the transition into remote working is very smooth. Of course it is impossible to have a complete transition to remote working for front-end business functions like customer service, but there is no internal business disruption due to COVID-19 at all.

Second, speed to market. Benefiting from our digital and lean structure, as aforementioned, we are more agile in launching new products and new campaigns amid the pandemic.

ASHK: As Hong Kong begins to emerge from the peak of COVID-19 pandemic, how do you think the digital sales / the competitive landscape will change in the aftermath?

Fred: I would say the market is big – there is big room for direct and online insurance development post-COVID-19. We neither rely on COVID-19 nor compare us to other market players, but focusing on our internal growth. Consumers are smart – if our products and platform are good enough, there is no reason why they are not considering us.

As a start-up, the first step is to build foundation for data collection. With sufficient data, actuaries are able to do data analytics and prioritise the high leverage tasks. We have been gathering and analysing our sales performance data and social listening metrics, for example, our brand mentions in VHIS on social media are always top-ranked in the market. In the future, we will target to expand our share of voice in other product groups as well.

ASHK: Understand that Bowtie has been focusing on VHIS and recently offered BowtieGo free plan for VHIS policyholders and companies to enjoy exclusive price for outpatient consultation by Bowtie's network doctors. How can Bowtie benefit from it given BowtieGo is not an insurance product?

Fred: Mainly is to gain customer touchpoints, trust and brand awareness. As a company led by actuaries, without sufficient touchpoints, there would be insufficient data for us to learn.

This is also a balance between give and take – before we ask customers to pay, we need to ask how we can get customers to know our brand, and whether we have provided useful information to customers and offered any service that can help customers save money.

We have partnered with many companies, not just 3 Hong Kong. So far BowtieGo's sign-up rate is quite good. I would expect the number of users will grow ever faster post COVID-19 given 3 Hong Kong mainly promotes by retail and people will tend to visit doctor more often after crisis.

ASHK: How do Bowtie's group medical plans differ from those offered by traditional insurers?

Fred: We strive to bring affordable group medical plans to every SMEs. There are over 300k SMEs in Hong Kong – as a SME, we also find it difficult to look for group medical plans in the market with less than 10-20 employees due to the low profitability. While it is common to offer customised plans in the market with large sum assured and large group covered, we only offer standardised plans which are easier to for SMEs to manage.

We find it is more efficient to target SMEs through digital platform instead of agency model, which is in line with what we have observed in many countries. We have been able to lower cost and offer a simple and convenient option for SMEs through digital platform. During the initial stage, however, SMEs will need to contact our customer service in order to purchase group medical plans as we would like to grow in a controlled environment and provide more support to SMEs. Gradually we will move to digital after collecting more customer feedback.

So far the demand is quite good – nearly 70% of our customers have never purchased group medical plans before, and SMEs also expressed their appreciation as the plan can cover a small group of even three employees.

ASHK: Other digital insurers also recorded strong new business sales amid COVID-19 pandemic. How does Bowtie differentiate from Blue and other digital insurers with similar business model?

Fred: We seldom comment on other virtual insurers as we have different product philosophies and it is difficult to compare directly. Some other digital insurers focuses more on savings which have larger case size but lower margin in general, while we offer VHIS as our core product and other plans as supplementary products. In my eyes, different product philosophies among virtual insurers imply more choices for customers, which is beneficial to the market.

ASHK: Do you think your current digital insurance business model limits your ability to only develop simple and standardised products?

Fred: From the perspective of actuaries, protection products are good business with high margins. Nowadays the industry focuses too much on savings but not so much on term life and medical products, which are relatively affordable to customers but with high insurance leverage. Protection products have big room for development, depending on consumer education and word of mouth. Look at Lemonade – it went listed by just selling a single product. So do not underestimate the possibility of a single channel or a single product. Focusing on a few simple products and differentiating them from competitors are the key to sustain.

ASHK: Can you give us a teaser of Bowtie's development plan in the next few years?

Fred: We will definitely expand our business beyond Hong Kong, to Greater Bay Area and South East Asia. In terms of product offering, we have already launched more simple products. Although simple, they are in the right direction and in high demand. Going forward, we will focus more on product differentiation and foresee more innovation to come.

ASHK: Do you have any plans to cooperate/ partner with virtual banks or other insurtech/ fintech companies?

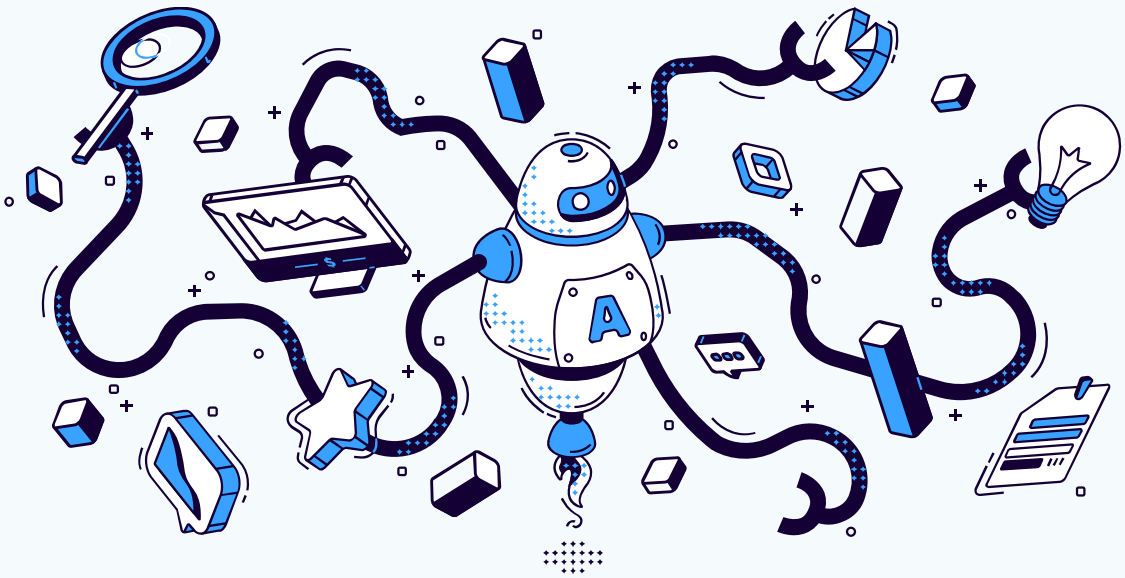
Fred: We have already partnered with many large telcoms and retailers (e.g. Deliveroo) in launching BowtieGo plan. Strategically we tend to partner with companies that deeply committed to the fintech segment. Consistency in target segment, service offering, brand and customer base are also one of our key considerations when choosing a partner. Instead of spending too much time on planning, we would rather execute first and see if there is noise in the market and fine-tune later. This is the advantage of a start-up and our partners also appreciate this.

ASHK: What final message do you have for all ASHK members and students?

Fred: Actuaries can play a leading role in fintech (and insurtech) development as we understand the core of insurance. With tech and data, actuaries can do many things. We should go beyond traditional thinking and make use of analytical mindset. Young actuaries entering the market should be open-minded and embrace modern technology. Do not limit yourself to certain domain and channel, and step out of your comfort zone.

Leveraging on Robotic Process Automation to enhance Financial Reporting in the midst of COVID-19

By Florent Mirville, Manager, KPMG Advisory Hong Kong



Organisations across the globe have been facing intense pressure due to the COVID-19 outbreak, making it necessary to adapt to this new reality and change the way they operate. In view of the rising cases of infections, office workers have been asked to self-isolate and work from home; this has resulted in various challenges in ensuring effective communication between various parties and within services, as well as smooth running of IT systems. In that sense, the usage of the 'BAU' acronym could be changed from 'Business As Usual' to 'Business As Unusual'. The pandemic has significantly impacted the insurance business, putting financial pressure on insurance firms. The current situation has increased the demand for real-time insight on performance, as well as highlighted the need to monitor financials even more closely and at a higher frequency. Therefore, insurance organisations have found themselves in a situation where they need to monitor financial reporting more frequently while disruptions in operations delay financial reporting.

In recent years, the adoption of new technologies — such as intelligent automation (IA), artificial intelligence (AI), nanotech, cyber-physical systems and digital labour — has led to a major inflection point. At the 2016 World Economic Forum in Davos, this inflection was referred to as the Fourth Industrial Revolution. The rapid adoption of digital technologies and digital business models is resulting in rapid technological changes, transforming every aspect of our lives with a significant impact on organisations. The current evolution of automation technology is transforming the face of insurance organisations for the better. Therefore, technology enablement can help insurance firms address the challenges related to financial reporting arising from the COVID-19 outbreak.

In the current scenario, robotic process automation presents itself as an immediate opportunity. It is vital to explore and understand the key aspects of robotic process automation when assessing and implementing robotic solutions and considering the emerging potential of intelligent automation. This article aims to highlight the expected benefits and challenges of robotic process automation, the key facts to consider when implementing it, as well as how it could be applied to the financial reporting function.

Robotic process automation benefits

The initial step of automation is robotic process automation in which engines, workflow and screen scraping are combined to automate processes and operations that were conventionally done by employees. It is a form of digital labour in which software — known as a robot or 'bot' — is provided as part of the solution. Robotic process automation is mainly implemented to perform repetitive and structured transactional processes without the use of expensive system integration. The main benefits of robotic process automation are its low cost, ease of implementation, adaptability to systems and minimal maintenance. Organisations that aim to make the transition to highly automated or AI-enabled enterprises can implement robotic process automation as the first step towards that direction.

Robotic process automation can enable organisations to improve process throughput by performing tasks significantly faster, thereby reducing the cycle times. In addition, its data validation capabilities can improve the accuracy of data and reduce quality risk. Controls are reinforced and a more robust audit trail is embedded in the solution as operations and controls at every step are recorded. It also enables collaborators to focus on high-value tasks by reducing the cost of low-value tasks such as manual data manipulation and manual parameterisation tasks.

The keys to the successful implementation of robotic process automation are change management and stakeholder engagement. Understanding the technology and its benefits is vital for appropriate adoption. Hence, organisations would need to make significant investments in planning, communication and education. However, any error in programming instructions can be significant; hence it is crucial that the software is tested before implementation.

Operations eligibility for automation

In the implementation of robotic process automation, it is vital that organisations identify its fitness and assess its impact; this would not only maximise the benefits of robotic process automation on processes but also reduce costs. In their assessment, the organisations could leverage on the non-exhaustive following key characteristics to identify whether the existing processes can be automatised using robotic process automation.

The process must be based on rules. It is important to take into account the extent to which a process can be defined by rules because 'bots' delivered as part of the robotic process automation solutions are programmed to follow 'if-then' rules. If the process requires individual decisions that cannot be bypassed by rules based decisions, the application of robotic process automation is considered unsuitable.

The underlying activity should be time consuming and manually repetitive. Robotic process automation is implemented to perform manual processes that are routine and less complex but time consuming. Robotic process automation can enable organisations to perform such tasks more efficiently as well as significantly improve quality by eliminating human error.

The process should have structured data (i.e. data stored in a fixed record or field and extracted from a database).

The process should be of high frequency and volume. Robotic process automation can enable organisations to benefit from the scale of efficiency improvement in high volume processes, principally where volumes may vary, as well as cover peak volumes.

The process should have a minimum scale — it needs to be sufficient to absorb the licence fee in the price structure of vendors. Robotic process automation solutions can help organisations maximise efficiency gains when they are implemented across similar and/or multiple processes.

The process should be transactional. Robotic process automation is mainly implemented to perform tasks that are transactional and less complex with low business-critical importance.

Assessment, planning and implementation

After identifying the processes for automation, the insurance organisations would carry out the assessment and planning phase before validating and implementing the robotic process automation solutions. The assessment and finalisation would be done in three steps. First, the processes would be assessed considering their price and then arranged based on practicability, i.e. processes that offer the maximum benefit would be selected. Second, a proof of concept would be created based on their capabilities and their performance validated on the basis of standards previously defined. Third, a roadmap will be established to highlight not only the steps to be followed but also the intelligent automation capability, as well as evaluate how it will be implemented across the organisations.

Once the completion of the assessment and planning is complete, the implementation phase of robotic process automation can be initiated and would follow four steps. The first is the strategy step, in which benefits and technical feasibility are assessed for each opportunity. Each user story with appropriate acceptance criteria is placed in backlog for allocation in future sprints. The processes are assessed considering their price and are arranged on the basis of practicability. Next step is the design step, in which the organisations conduct planning, and prioritise the requisite story points for automation considering the available resources and potential benefits. This is followed by the building step, in which the solutions are built and then tested. The solutions would be tested by the ultimate users as well. Only after clearing all the tests, the solutions would be ready for deployment.

The last phase is the deployment step. In this 'Go Live' phase, the robotic process automation solutions are finally deployed and monitored.

Examples of application

There is an increasing need to monitor financial reporting more frequently, which would require more information and indicators while maintaining a high level of assurance by mitigating operational risk. Financial reporting involves a significant number of manual tasks at various levels of the preparation process e.g. data extraction and manipulation in the assumptions setting and reports consolidation. Therefore, in the new environment of accounting changes, regulatory changes and the COVID-19 outbreak, financial reporting actuaries are under pressure to perform in a better and faster way. Automation can help to lighten the burden of manual tasks of actuaries and enable them to focus on high-value tasks.

- **Discount rates generation**

Assumption generation such as discount rates calibration is an area where automation can be applied to generate significant productivity gains. In the current context of the juxtaposition of multiple standards, norms and statutory requirements, and the financial pressure as a result of the pandemic and its impact on the economy, there have been increasing efforts on the discount rates generation. This context of juxtaposition of multiple gaps triggers the need to generate more curves in a faster way, which represents a huge challenge. Streamlining and automating the discount rates calibration is by consequence a rising need.

The discount rates generation process can be defined as a workflow involving various steps. The first step is data manipulation, followed by interpolation to fit the curves. Thereafter, depending on the rules of the underlying reporting framework, an illiquidity premium is calibrated. The next steps are extrapolation and convergence. In addition, diversification benefit assumptions must be considered to deduct the final discount rates. Robotic process automation could automate manual steps and streamlined tasks such as data extraction from the financial data source, curve fitting, credit risk deduction pre-calibration and updated results reporting. Actuaries can therefore focus on high-value tasks such as checking, review, validation, adjustments, methodology choice. It also reduces the time required to generate the discount rates assumptions and the operational risk.

- **Reporting consolidation**

For the purpose of group or regional reporting, data from all local business units (BUs) needs to be gathered and retreatment should be performed at the appropriate level whether it concerns foreign exchange rates, exceptional or special provision, and own fund at the holding level. This additional layer of data manipulation generates an additional effort in the financial reporting preparation which increase the delay of preparation.

For example, monthly P&L statements are prepared by individual BUs and sent to regional financial reporting team for consolidation. Regional financial reporting team must wait for all BUs to submit their P&L statements before consolidating. Robotic process automation can support the group and regional financial reporting functions by centralising the monthly report production and data output. In such a situation, the reporting process is sped up and would not be held up due to delays from an individual BU. All data extraction is centralised, which eliminates the risk of inconsistencies between separate BUs. It also frees up time both for the regional team and local BUs during the reporting period to focus on high value-added activities such as results analysis.

Further areas exist where technology enablement can enhance financial reporting. It can benefit the generation of non-economic assumptions. Another area of application is controls such as reconciliation and consistency between input and output. The analysis of movement can be enhanced by automation and data visualisation.

Conclusion

For years, the insurance business has been challenged by regulatory changes and economic downturn. The impact of COVID-19 has reinforced insurance firms' need to monitor even more closely their financial position and risk exposure. This new reality has significantly increased the pressure on the financial reporting function.

Concurrently, we are seeing a boom in technology solutions that can help to address some of the challenges related to financial reporting in the current situation.

In such a context, early adoption of new technology and automation is a game changer. However, successful adoption is conditioned upon appropriate pre-assessment and planning to avoid investing in an ineffective solution that would not result in any productivity gains or may create more complexity rather than accuracy and simplicity.

Coronavirus and Future Investment Returns

by DOUGLAS ISLES

Original article was published on the Actuaries Digital by Actuaries Institute Australia on 23 July 2020, https://www.actuaries.digital/2020/07/23/coronavirus-and-future-investment-returns/

In light of a major economic event such as COVID-19 it is critical to return to first principles when thinking about investing. When there is a downward market reaction to an event, this does not mean future return estimates should also be revised down (indeed they may even be revised up). Where valuations are today for some equities and bonds, achieving ambitious long-term return goals may be challenging. Douglas Isles explores considerations for future investment returns.

Actuaries may be asked to provide estimates of future returns for investment portfolios. A market event, like the current coronavirus pandemic, has a direct impact on the price of assets and as a result potential future returns.

The temptation in an environment of risk aversion may be to reduce future forecasted returns. However, one must reconcile this against a negative market reaction, which reduces the price being paid for future cash flows, even if they are impaired.

The increased awareness of behavioural finance in recent years has not led to improved collective behaviour. Humans struggle with social pressure, and in dealing with information and time. The sensible framework is to go back to first principles in setting expectations for future returns, noting that market pricing can be used to derive reasonable estimates, from where assumptions can be challenged, rather than trying to forecast returns, which tends to anchor to historic return paths, rather than current pricing.

For fixed income (nominal) assets, the yield to maturity provides a reasonable estimate of future nominal returns, while for equity (real) assets, a cyclically adjusted earnings yield provides a reasonable estimate of future real returns.

With government bonds at record low yields, and cyclically adjusted earnings yields below historical averages, despite recent falls in equity markets, the long-term return prospects for portfolios may be lower than many return objectives would suggest is necessary.

The balance of the article looks at fixed income and equities in turn. The US market is used for illustrative purposes, as it has the most readily available data, and dominates the global component of most portfolios. I have written two papers which go into more detail on this, accessible via the following links.[i]

Fixed Income [ii]

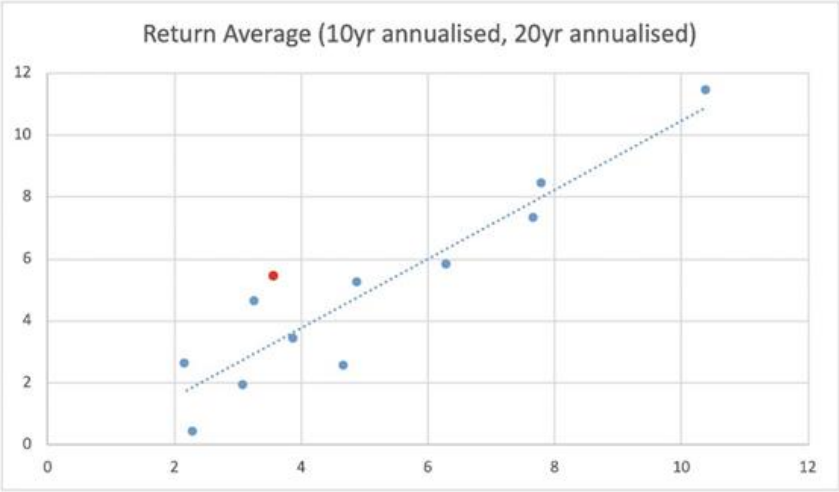
The nominal return from owning a bond, if held to maturity, and if there is no default event, is the Yield to Maturity. If the bond is sold, or marked to market, this will be affected by changes in valuation.

Bonds have moved in very long cycles – in the US over the last 120 years, these have been 20-40 years of rising yields, followed by 20-40 years of falling yields.

At the broad level, the 10-year US government bond has acted as a reasonable proxy for long term returns from a portfolio of government bonds. From a real perspective, bond returns globally were poorest in the periods of World Wars.

The nominal 10-year yield is a starting point for a forecasted nominal return from bonds. Looking at the last 12 decades of US data, the long-term return (average of 10-year annual, and 20-year annual returns) has been within 2% of the starting nominal yield, as the following scatter plot shows.

X-axis : starting nominal yield Y-axis : average of 10 and 20 -year annualised returns.



Given that this decade started (i.e. 1 Jan 2020) with a 1.9% 10-year bond yield and with the moves in the market, this had fallen to a record low 0.7% by mid-June, then the outlook for nominal bond returns is poor. If there is any inflation, this could lead to negative real returns from bonds.

Some things to consider in the specific case for today include:

- Impact of increased government debt (funding COVID-19 response, and potential further spending to further boost confidence/ economy re-building)
- Potential shift in policy was starting to be discussed ahead of COVID-19 update, with some groups arguing that monetary policy had hit its limits and it was time for fiscal spending.
- Manipulation of long end of curve by governments and/or central banks

Equities

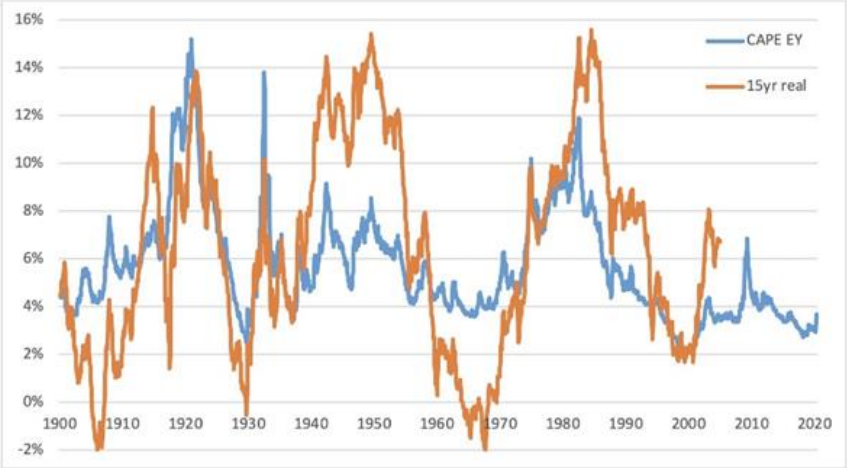
The return from owning an equity comes from the dividend yield, growth in dividends and any change in valuation over the holding period. Over the very long run, the growth component has been lower than many commonly believe. For US equities, the capital growth component has been around 2% real pa. Owning equities has been challenging where there has been permanent destruction of capital or labour – generally in world wars, or catastrophic on confiscation of assets (Russia 1917, China 1949) – but through most of time, again valuation has provided a good guide to returns.

Growth in dividends is a function of retained earnings being reinvested to enable companies to grow – and hence it is reasonable that earnings whether retained or distributed are the major driver of future returns, when related to current price. By focussing on real earnings, again eliminates that need to make forecasts about inflation.

Equity returns over time have been higher than bonds, totalling around 6.5% pa over the last 120 years in the US and 4.4% in the rest of the world, though Australia at 6.8% pa has been one of the stand-outs.

The work of Robert Shiller at Yale, on the cyclically adjusted P/E ratio[iv] ("CAPE") is helpful, as he suggests that smoothing earnings for the economic cycle, provides a more valuable valuation tool. This looks more at trend earnings or "earnings power" relative to price.

This chart shows that over the long term, starting from the inverse of the Shiller CAPE gives a reasonable starting point for future returns with for example, realised annualised 15-year returns within 6% of this number through time.



If one starts today for a CAPE earnings yield of 3.5% as an estimate for future real returns, to make a higher or lower estimate requires a view to be taken on the path of earnings and of valuations.

Some things to consider in the specific case today include:

- Corporate profit margins have been at record highs so this may have inflated trend earnings, and led to the CAPE earnings yield of 3.5% being higher than it should; and
- Will the COVID-19 impact on the market generally be transient, or will there be permanent destruction of capital and/or labour. The early evidence is that there is not a loss of working age lives on a scale that has a lasting impact, and capital is not destroyed unless it becomes obsolete through a prolonged curtailment of economic activity or significant change to future behaviour.
- For Australia specifically, thinking about changes to franking credits as a result of much higher government debt, may have an impact on likely future equity real returns.
- Creation of excess liquidity by governments and/or central banks distorting valuations.

The challenge for many investors is that if equities are the assets required to do the heavy lifting for portfolio returns, and their long term real return expectations are around 3.5% then there is a high chance that products targeting real returns of 4% or more, will fall short of this, and a meaningful risk that lower return objectives may also fail to be met.

[i] https://www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Investing-What-Matters/Article-Item/Earnings-yield-as-an-estimate-for-expected-returns and https://www.platinum.com.au/Insights-Tools/The-Journal/Between-a-Rock-and-a-Hard-Place

[ii] All data in the article is sourced from "Credit Suisse Global Investment Returns Yearbook 2020" by Dimson, Marsh & Staunton and from "Online Data Robert Shiller", from Yale University: http://www.econ.yale.edu/~shiller/data.htm accessed on 10 May 2020

[iii] The red dot uses a starting yield of 3.6% on 31.12.09, the return of 6.5% for the 2010's and an imputed return of 1.9% for the 2020's being the yield on 31.12.19

[iv] More detail in the source document, but note I have used the CAPE TR

Douglas Isles

Douglas currently works as an Investment Specialist at Sydney-based Platinum Asset Management, where he has spent a total of 13 years in two spells. Born in Edinburgh, Scotland, he has a MA in Mathematics from Trinity College, Cambridge, graduating in 1996, and he qualified as a Fellow of the Faculty of Actuaries in 1999 and became a Fellow of the Actuaries Institute of Australia in 2019. He has previously worked in Edinburgh and Singapore, and been in financial services for his entire career to date.

Insurers Brace for Further COVID-19 Impacts

By Actuaries Institute Australia

Liesje Jansen van Rensburg, Senior Pricing Actuary at Gen Re, joins Yan Sun, Head of Asia and Australia at AXA Life Re, to investigate and compare the impact of COVID-19 on insurance businesses in Australia and throughout Asia. The following excerpt is from their discussion at the Actuaries Institute Australia podcast.

Speakers: Liesje Jansen van Rensburg, Yan Sun

Liesje:

I'm really excited to be here today to hear Yan's views on the impacts of COVID-19 on insurance businesses in Asia, and also keen to share a few perspectives of what's been happening here in Australia. So, if we start on the practical side of things on COVID-19, I'm keen to hear how it's impacted businesses, especially life insurance businesses in Asia. The purpose of insurance is to pay claims. I'd be really interested to hear about the claims experience you've been seeing during the course of this pandemic.

Yan:

I've got to caveat all of this with "it's just too early". Most people forget that COVID-19 started in January this year. Most of these products are in their waiting periods. The major question mark is around the effects of the economy, unemployment related claims. Something we've got in Asia, which is not there down under, "Accident Products". Personal Accident (PA) products and benefits' experience is improving, as people have been locked down. But that being said, Travel policies are often pay per use. So, if you're not traveling, that's really a volume issue on PA products rather than claims. Early indications are that there's likely to be fewer medical claims, particularly on the inpatient side. (Driven by) I think a lot of the fear around going to hospitals, getting checkups etc. Moreover, the COVID-19 and the treatment costs have been covered by most of the governments around APAC. So, overall, too early to say, too early to tell.

Liesje:

Focusing here on Australia and Australian experience, we haven't had a massive impact on death claims. The market expectation is that we'll see the impact in the coming months on Disability Income (DI) business, and potentially adverse mortality and morbidity, but more from the Mental Health impacts from both isolation and the economic downturn. So basically concerns around suicide rates and how the economic downturn are going to impact DI. It's more the secondary impacts that will impact our claims experience as opposed to the virus itself. COVID-19 just seems to be the perfect storm that encompasses both extreme health and economic impacts. I'm interested in getting your views on some of the indirect claims impacts that you're seeing in Asia as a result of the economic downturn.

Yan:

It's a great question, we probably will see suicide rates going up. I hate using that word, but unfortunately, it's something that we will see post and during economic meltdowns. I think the social pressures in Asia, the cultural aspects of it will really amplify this part of the potential experience. Mental Health claims, which is often correlated to unemployment rates and a classic secondary claims clause. People are already recovering from a critical illness event and facing higher unemployment rate. It's harder for them to think about getting better and coming back to work. What will happen during that time? Mental Health (may develop). It's interesting in Asia, Mental Health isn't splashed around everywhere. Again, I think comes back down to culture in Asia and the awareness isn't as high as say, Australia. What else? I've been living in Asia for so long. Market Yields are so low. It can go to zero, it can go to negative and it can go more negative. It is still a real risk. Many life insurers rely on market returns, not just from bonds, but on equity markets as well, as a profit generator in conjunction with their underwriting profits and this just won't be there. That'll impact their P&L. At the same time, our reserve requirements may be going up, the assets backing these reserves, are likely falling. Together, it's just a terrible outcome where we will have to top up the balance sheet as well.

What we haven't chatted about here is really the operational impact from COVID-19. Sometimes actuaries get bogged down in dollars, cents, numbers and models. So, operationally, COVID-19 will change the way we assess claims. Are you seeing that evolution there? For example, utilising technology as a way forward?

Liesje:

As I said earlier, implementing those processes: How do we assess the financial hardship? Who do we give it to? How do we avoid anti-selection risk when they join back up? That was a bit of an operational process at the outset of the pandemic. Then, considering underwriting, the awareness and motivation to buy insurance definitely increases in the time of crisis. This doesn't mean every new applicant is anti-selective, but it should be considered. Around March when the pandemic started hitting Australia, insurers looked at their underwriting practices and started to do things as mundane as adjusting the questionnaire, trying to make sure that we're not being selected against by people with COVID-19. Particularly for applicants over age 60 with lots of comorbidities like diabetes or cardiovascular disease. Part of the process should consider anti-selection i.e. who's potentially got COVID at the time at which they're trying to apply for cover. Getting medicals for claims can be difficult in this time. People might be scared to go into hospital and possibly contracting COVID-19. Particularly for Income Protection policies if your rehabilitation, in-person doctor or physio visits are affected because of the virus, you could potentially see people stay on claim longer. Insurers have to think practically about supporting claimants. In terms of incorporating technology into the claims processes: things like tele-assessments of claims, tele-consultation with doctors, video conference-based independent medical examinations, accepting digital health certificates and digital signatures. We often rely so much on paper-based signing of things, people have started moving more towards digital and are ready to step into the future.

Let's get real, actuaries are all about looking back using that experience to predict what's happening in the future. Have you been able to use past data or experience to predict the impact of COVID-19 on your business?

Yan:

It's unprecedented events with two tail events colliding: pandemic/health and economic/capital. It's two tail frequency events that we've never seen before, coming together on a severity scale that we've never seen before. Actuaries love a challenge, there's a lot of great GLM models which are highly predictive. We're feeding and calibrating these models with a lot of data points. However, these data points, will be quite scarce. We've never seen double or even triple digits in terms of unemployment rate increases. How do we calibrate a GLM model, without credible data inputs, in order to predict anything that's going to be relevant going forward? Let's stop trying to quantify things out of our control. What's in our control is proactive product changes and adding risk mitigants where we can. Try to proactively top up your reserves and capital where possible, have that difficult conversation with your stakeholders about these difficult topics ahead, and don't forget your customer – the most important stakeholder. Coming back to what Liesje was saying, connecting with your customers e.g. proactively introducing tele-consultations, to proactively enhance the customer experience, is the way forward. It's only through proactively taking action on things we can control that we probably going to fair better throughout this event. Liesje, you're a proactive actuary, what are you doing in the Aussie space?

Liesje:

I've been quite intrigued by what a few insurers have put out in Australia on their websites, to explain how the claim process works or clarifying what their products cover and do not cover in this time of COVID-19. It's useful to set it out in a nice, clear layman's terms for people what they've actually got and how things change because of COVID-19.

We talk about being proactive, and here I keep returning to the Australian context of Disability Income business. In terms of setting up reserves, there are four factors that you can particularly look at. First, it's unemployment rates. In Australia, the different states have very different economies, so your book is exposed to different unemployment rates and it's important to look at unemployment by state. The next factor is industry. Is a lot of your book exposed to people that work in the arts and hospitality, travel and restaurants? Are there people like you and me that are actuaries and could just take their laptops home and keep working? How are they impacted by the virus based on what industry they work in. Next thing is waiting period. If you've got a seven day wait, chances are even if you're isolating or got COVID symptoms and you can't go and work that product will bite and you'll have to start paying claims versus a 90-day waiting period where someone could have contracted COVID and recovered by then. The last one on the Disability Income book is whether someone's self-employed or not. Especially an Australian product that covers things like health, it'll have a very different impact if you're self-employed versus someone working for an employer. If you've got the data, consider your book in this perspective and try to assess what reserves you need. Disability income itself is steeped in uncertainty with so much interaction between economic conditions, community attitudes, and consumer behaviour. We're actually living in a Black Swan event, and you don't know what's going to happen.

Yan:

Let's see the data, we've had a Black Swan event. I mean, what other color swans? We're going through blue swans and magenta swan events, but black swans we already have……

Liesje:

Good lessons for the future. What's the new normal after this? Talking about economic and behavioral impacts and black swans, governments across the world have introduced a number of stimulus and intervention packages. Are they just delaying the inevitable tsunami? More than 5 million Australians have actually benefited from the two Australian government's JobKeeper and JobSeeker programs. The official unemployment rate in June was 7.4%, which is well below the estimated 11% unemployment rates once you exclude these government supports. I definitely think the real economicimpacts of the virus will only start becoming apparent once these packages start winding down. It will impact claims and life insurance practices going forward, once the economies really start suffering.

I'm keen to hear in Asia, what sort of stimulus packages have you seen and what are your perspectives, do you think that helped?

Yan:

Australia, we continue to be that lucky country. Let's not forget we're very lucky to live in a well-structured social security system. Many Asian countries don't have that foundation. They've got some elements of it, but they're starting on a very different foundation of government support than Australia. Knowing that, I think the government will try to inject some stimulus and support, where possible. I mentioned earlier they're covering COVID-19 costs, that's certainly the case in Singapore up until recently for certain segments that are non-citizens. You do have credit relief schemes with banks in certain countries. You've got rental assistance, which has been announced in Singapore. So, you've got a few things, but it's never going to be to the extent of intervention/support in Australia. That said, I agree with your point - *are just delaying the inevitable claim tsunami?* - whether it be direct or indirect impacts on our industry. What's going to reduce the severity of this, is if the governments all manage to come together and solve the vaccine problem, the cure problem, reduce local transmissions, put in the efforts there. That will dampen, reduce the severity of whatever it may come, and it will come.

I do see product innovation opportunities coming out of COVID-19 and am already seeing COVID-19 related or styled products in Asia. For example, COVID-19 travel riders, something that's starting to be a little bit more prevalent, as travels become a bit more unpredictable. If you do get sick abroad, the local governments are unlikely going to pay for your medical needs. That said, the coverage is often small, limited, with heaps of exclusions and premiums are very high and constantly reviewable. On the positive side, we're thinking, developing, innovating and evolving as an industry. At the same time, we are repositioning, taking the opportunity to reposition the business and perhaps focus on more housekeeping things like "the bottom line". Asia is such a growth driven culture, especially in the insurance industry that I think we can all take some time off to think about "the bottom line" and really reconnect with our customers around new technology. Coming back to some of the things you were saying around customers and connecting through tele-consultation processes. Making that customer experience better during these difficult times.

Liesje:

The focus on technology is definitely a silver lining in the storm part of the pandemic. Doing business more seamlessly and making it easier for customers is fabulous. For me, there's been an increased focus on data and statistical analysis that everyone's been engaging with. I just loved how much data and statistics have really come forward. We've seen a lot of people relying on the science which is great as opposed to just forging ahead in doing whatever you want. I think the positives from the pandemic in terms of insurance are that people actually understand their vulnerabilities and realize some things just aren't in their control. No matter how well you plan, how healthily you eat, how much you run, you just can't always control what happens to you. That's what insurance is for - supporting people so that they can safely navigate life's curve balls. And maybe people have a new appreciation for the value of insurance and understand the purpose and the needs that it meets. From an insurance industry perspective, that's very positive.

That sort of brings us to the end. I've learned a lot about Asia, it's interesting to hear your perspectives and thinking how businesses are been impacted and what might happen and how we can take this going forward, so I really enjoyed this. Thanks, Yan!

Yan:

Thank you. Stay safe and healthy.

Listen to the podcast: https://www.spreaker.com/user/actinst/final-edit_1

About the Actuaries Institute Australia

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems.

This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

MARKET UPDATES

MPFA

Revised Mandatory Provident Fund (MPF) Guidelines

The Mandatory Provident Fund Schemes Authority (the Authority) has recently approved a set of revised MPF Guidelines on MPF Intermediary Registration and Notification of Changes (Guidelines VI.1).

Guidelines VI.1 are revised in relation to: (a) the specification of a new electronic form (i.e. the new Annex F to Guidelines VI.1) by the Authority for use by a principal intermediary (PI) who intends to give the Authority a notice of withdrawal of consent to a subsidiary intermediary attached to the PI for carrying on regulated activities for the PI; and (b) the publication of the information about the designation of the electronic system known as "eService" by the Authority under section 6KA of the Mandatory Provident Fund Schemes Ordinance for submission of the new electronic forms by MPF intermediaries.

Copies of the revised MPF Guidelines can be downloaded from the Authority's website at www.mpfa.org.hk. If you would like to have hard copies of the revised Guidelines, please contact Ms Teresa Lee on 2292 1286.

MPFA

Revised Mandatory Provident Fund (MPF) Guidelines

The Mandatory Provident Fund Schemes Authority (the Authority) has recently approved the revised Guidelines on Election for Transfer of Accrued Benefits (Guidelines IV.3).

The Appendix to Annex C to Guidelines IV.3 contains a list of approved trustees and MPF schemes (the List) for scheme members to elect for the purpose of consolidation of MPF personal accounts. As a result of the merger of **Principal MPF Scheme Series 600** into **Principal MPF Scheme Series 800**, the List and paragraph 7 of Guidelines IV.3 have been amended to reflect the relevant changes and the effective date of the revised Guidelines (i.e. 22 October 2020).

Copies of the revised Guidelines can be downloaded from the Authority's website at www.mpfa.org.hk.

MPFA

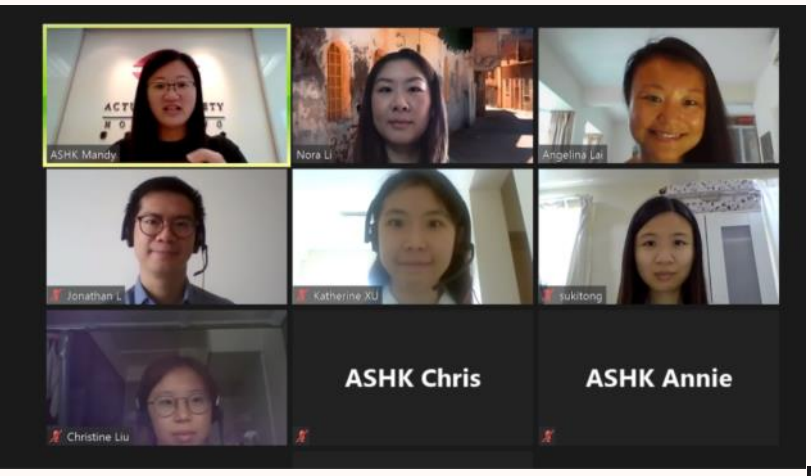
Revised Mandatory Provident Fund (MPF) Guidelines

The Mandatory Provident Fund Schemes Authority (the Authority) has recently approved the revised MPF Guidelines on Giving of Notices or Documents by Electronic Means (Guidelines IV.26).

The amendments to Guidelines IV.26 aim to streamline certain requirements in the Guidelines in order to encourage MPF trustees to pro-actively obtaining consents from scheme members for being given notices and other documents by electronic means of communication, thus promoting digital take up.

Copies of the revised MPF Guidelines can be downloaded from the Authority's website at www.mpfa.org.hk. If you would like to have hard copies of the revised Guidelines, please contact Ms Teresa Lee on 2292 1286.

EVENTS HIGHLIGHTS



6 August 2020

ASHK Actuarial Innovation Webinar 5

AI based illiquidity premium model

27 August 2020

ASHK Health Virtual Talk

3 September 2020

HKA18 Online Press Conference

14 October 2020

ASHK Online Professionalism Seminar

UPCOMING EVENTS

3 November 2020

Business Development and Marketing for Actuaries Webcast (Co-hosted by SOA/ASHK)

See More

11 December 2020

Annual General Meeting

20 November 2020

ASHK/IAAust Joint GI Webinar

Register Now

14 December 2020

Hong Kong Assured Lives Mortality 2018 (HKA18) Webinar

See More

25-26 November 2020

ASHK Hong Kong Actuarial Summit 2020 (Virtual)

See More / Register Now

26 - 28 April 2021

International Actuarial Colloquium 2021 —"Global Pandemic - Beyond the New Normal"

See More

MEMBERSHIP UPDATE

New Members

Associate		
Tang Ho Man	AIA Group	Associate [FSA (2020)]
Chan Yat Fung	Guy Carpenter & Company Limited	Associate [FCAS (2018)]
Yang Jue	Guy Carpenter & Company Limited	Associate [FCAS (2014), FCIA (2016)]
Zhang Ziyi	Milliman	Associate [ASA (2018)]

Membership Advancement

Fellow		
Steenberg Ernst Adriaan	AIA Group	Fellow [FASHK (2020), FFA (2011)]
Hung Yat Man	AIA Group	Fellow [FASHK (2020), FSA (2019)]

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Communications Committee

Editor

Alexander Wong E-mail: alexanderkpwong@hsbc.com.hk

Coordinators (ASHK Staff)

Patricia Kum Tel: (852) 2147 9418
E-mail: patkum@actuaries.org.hk

Chris Lam Tel: (852) 2147 9168
E-mail: chrislam@actuaries.org.hk

Janet Kwok Tel: (852) 2147 9419
E-mail: janetkwok@actuaries.org.hk

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

Assistant Editors

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

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

Scott Chow E-mail: scott.chow@milliman.com

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

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

Florence Li Email: fn.li@kpmg.com

Frank Zhang E-mail: frank.zq.zhang@gmail.com

Jamie Zuo E-mail: zjmgyx@hotmail.com

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