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ASHK Newsletter

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Editorial

Dear Readers,

Once again, Christmas is around the corner. It is hard to believe that another year has gone by. It just seemed like yesterday when we held the ASHK Regional Conference on "Post Financial Crisis: A New World?" In fact, it just seemed like yesterday when the financial crisis occurred, and there was the feeling of doom and gloom throughout the world. Now, two years later, there is a strong feeling of optimism in Asia. Emotionally, the recession is over in Asia with consumers shopping, inflation rising and asset prices increasing rapidly.

We hope that you will find this newsletter interesting. The theme is "non-traditional" areas of practice for actuaries. The support and contributions from the "non-traditional" actuaries who have kindly written short articles about their respective areas of practice are greatly appreciated. Actuaries are certainly capable and adaptable to a wide variety of work, breaking new frontiers and exploring new lands, and boldly going where no actuary has gone before!

As the Christmas edition of the newsletter, there are lots of photos and highlights of events held during the year. The year started with the ASHK risk management regional conference, followed by the education and careers expo, visits by the presidents of actuarial associations, luncheon meetings, soft-skill programmes, joint regional seminars and ending with the appointed actuaries symposium. Enjoy all the moments captured in between Christmas drinks and festivities.

The publications committee thank our readers for their support throughout 2010 and wish everyone a Merry Christmas, Happy New Year and best wishes for 2011.

Happy Reading!

SIM NG
EDITOR

PRESIDENT'S REPORT 2010

Simon Walpole
Actuary (DAV), FIA
President 2010

Members, it is my pleasure to present this President's report nearing the end of another busy year for the Actuarial Society of Hong Kong (ASHK) and a fascinating year for Hong Kong and the global community.

The Year in Review

In some ways it is tempting to say that the most notable thing about 2010 was that it was not like 2008 or 2009. Financial markets stabilized significantly, and we in Asia appear to have left the worst of the financial crisis behind us. Headlines have changed, thankfully for the most part away from the major bankruptcies, layoffs and corporate losses we saw only a year or two ago. In their place we see reports of "austerity measures", "quantitative easing", and "Euroland bail-outs" from the United States and Europe, whilst in Asia we have witnessed mega-IPOs, the influx of overseas capital, strengthening currencies, and even the first signs of rising inflation. We can be thankful to live and work in a part of the world which is generally still positive, optimistic and growing, but can surely expect a few surprises and challenges ahead of us as the world as a whole still adjusts to the post-crisis environment.

This has also been a year of significant regulatory discussion, with the insurance and pensions industries debating changes to financial reporting, and draft standards being released by the IASB in respect of both insurance and pensions liabilities. Both are far-reaching, game-changing, and subject to some uncertainty when applied in Hong Kong and elsewhere in the region. We as actuaries in Hong Kong should be vigilant in following the development of these standards and energetic in submitting our thoughts and responses, both to the IASB and to the local accounting and regulatory bodies. This year has also seen significant work carried out in Europe by the bodies tasked with introducing Solvency II. This has had a direct impact on some companies operating in Hong Kong, but it is also being followed closely by the Insurance Authority and other regulators across Asia. Whilst we might not see an unamended version of Solvency II introduced in Hong Kong, it seems highly likely that Hong Kong will adopt an updated set of solvency standards in the future which will at least be heavily influenced by the thinking underlying Solvency II. Again, we will do well to keep abreast of the latest developments in this area.

It is now my pleasure to share with you aspects of ASHK's activities and the Council's work in 2010. With your support, the Council has been able to formulate a number of strategies to lead ASHK over the next few years. We have focused our energy on a range of initiatives - carrying on with the statutory body project, working with regulators and the industry in reviewing various AGNs, initiating courses to develop the soft skills of actuaries and delivering a full slate of CPD events in different practice areas to help members meet their CPD requirements. In addition, the ASHK responded on behalf of its membership to the request for comments from the Insurance Authority on its proposals to become an independent body, offering generally strong support for this initiative.

With respect to the ASHK's initiatives to become a statutory body, this year has seen intensive discussion on the draft Memorandum and Articles of Association, with Council and smaller groups arranging several special meetings to discuss both the full drafts and certain key areas. We have also gained clarity from our legal advisors on the structure of certain areas of the documents, which have enabled us to focus on completing the fundamentals of the documents whilst keeping flexibility to make changes to certain areas which are likely to evolve in the near future. Such an area is the definition of a Fellow and Associate, which we would like to align more closely with definitions used by the IAA, but which is still the subject of some clarification. The ASHK is now in a good position to prepare a final draft of the Memorandum and Articles next year; these will be circulated to members and the process of becoming a statutory body will move into its more formal stages. At this point I would like to thank Mr Peter Luk, who stands down from Council this year, for his tireless work in moving this initiative to its current stage today.

I will now give a brief update on the activities of the other committees of the Society during the year.

Asia Regional Support Committee: this Committee was newly formed in February this year, with its objective to provide support to actuaries working in Hong Kong who have an Asia regional role. In its first year, it has investigated the latest mortality tables and investment market information for key Asian markets, and has sent a letter to actuarial societies across Asia introducing the Committee and requesting support to peer review the information and future analytical reports. It has had supportive responses. Links to these Asian actuarial societies as well as to Asian regulators were published on a new page on the ASHK website in November, as were links to the local solvency and reserving rules in each jurisdiction. A summary of these solvency and reserving bases is under development for publication next year.

China Committee: Through the China Committee, the ASHK has assisted in the general development of the actuarial profession in mainland China and provided on-the-ground assistance to the International Actuarial Association in its relationship with the China Association of Actuaries. A highlight has been that in September the CAA submitted its application to the IAA for full membership, and following a number of exchanges in November, the IAA formally recommended to its 62 full member associations to approve the admission of the CAA. It is anticipated therefore, that the CAA will become a full member of the IAA shortly. In May this year the CAA also proposed that a formal Memorandum of Understanding be entered into by the ASHK, the CAA and the Actuarial Institute of Chinese Taipei. The MOU has not yet been signed but in fact there is already a high degree of understanding between the three professional bodies. Furthermore, considerable assistance was rendered during the year by a number of Hong Kong actuaries to help revise the CAA's syllabus as well as translation of text books.

Education Committee: The Committee met its objectives for the year which covered liaising with other actuarial associations offering international actuarial examinations, in particular the Chinese actuarial exam centre in Hong Kong, to assist developing local education seminars and projects for members to fulfill CPD requirements, and to assist in the development of education for actuarial students and actuaries in Hong Kong. This year the Committee also performed a thorough study on the recognition of overseas qualifications and the issuance of "Practicing Certificates" for offering actuarial opinions in Hong Kong. A report was submitted to the Council in September and the committee will continue this project in the coming year. The ASHK, together with the Society of Actuaries, the Casualty Actuarial Society, the Institute and Faculty of Actuaries, and the Institute of Actuaries of Australia participated in the Education and Career Expo to promote actuarial education and profession to the public. A note of thanks goes to the many volunteers and students who devoted their time and energy in supporting the event.

Experience Committee: In 2010, the Experience Committee focused on the completion of the Hong Kong Assured Lives Mortality and Critical Illness Experience Study, in order to provide an update based on the mortality and critical illness experience in the life insurance industry of Hong Kong covering the period of 2002-2006. Preliminary results were sent out to companies in 2009. Further results were analyzed and the final results were presented to industry in an evening talk in November. The final written report will be available for download on the ASHK's website within a few weeks. The successful completion of this valuable study would not have been possible without the data contribution and immense support from all 23 participating companies. In particular, the dedication and hard work of the individual members primarily on the Experience Committee who were involved in collating and analyzing the data is much appreciated.

General Insurance Committee: the focus of the Committee this year has been on the impact on the general insurance industry of the financial crisis and the future challenges faced by the industry, and on the proposed healthcare reform in Hong Kong. The former has resulted in an article in the ASHK Newsletter based on interviews with various companies, and the latter in an evening talk attended by members of both the ASHK and the HKFI.

Investment and Risk Management Committee: the Committee has continued to promote the role of the actuarial profession in the risk management area this year with a focus on education and experience sharing. The Regional Risk Conference in Macau in the early part of this year proved a great success with 240 participants from across Asia. The Committee also organized a sharing session on currency mismatch management, and recently conducted breakfast training on stochastic modelling and calibration.

Life Insurance Committee: During 2010 the committee continued working on a number of key areas of guidance to appointed actuaries and actuaries responsible for liability valuation, including the supplement to AGN3, an update to AGN7, AGN8, and guidance on benefit illustrations.

The supplement to AGN3 covers statutory reserving for life insurers and has been updated to take account of the Circular Notice on the reinvestment yield as well as members' feedback, whilst AGN7 relates to Dynamic Solvency Testing and has been refined following suggestions and feedback from members both before and after the financial crisis. The AGN3 and AGN7 work streams will be circulated to the membership of ASHK for a second round of consultation. This consultation process is expected to be initiated shortly. AGN8 will be removed; this guidance note covers the determination of reserves for Class G guaranteed MPF and ORSO business, and has effectively been superseded by the more detailed requirements issued by the MPFA. With respect to benefit illustrations, a joint working group has been formed in conjunction with the HKFI, and work will continue on this into 2011. The Committee also engaged with the OCI, and agreed on a process to review the Circular Notice issued in December 2008 on reinvestment yield assumptions under the Insurance Companies Ordinance in Hong Kong. In November the 10th ASHK Appointed Actuaries Symposium was held, covering a range of topical subjects; as usual it was well received.

Membership and Publications Committee: In 2010, there were 2 issues of the ASHK newsletter in May and October respectively, with another issue following this month. The theme of the May newsletter was Asia, which included an introduction to newly formed ASHK Asia Regional Support Committee, a publication from Asia Insurance Review on the "Recipe for operational success in Asia", and contributions by the actuarial societies in Australia, Chinese Taipei, India, Japan, the Philippines and Singapore. The October issue gave updates on the work of the various ASHK committees, whilst the December issue will the more exotic areas of actuarial work with contributions by actuaries working in non-traditional areas (i.e. areas other than insurance and pensions).

Professional Matters Committee: During 2010 the Committee developed drafts of new by-laws covering CPD and Expedited Due Process. The CPD by-laws would impose mandatory CPD requirements on all fellow members of the Society. The Expedited Due process by-laws would provide a means for Standards and Guidance Notes to be adopted on a temporary basis based on expedited procedures when a three quarters super-majority of the Council votes to do so. The proposals were exposed for comment to the general membership and over fifteen comments were received on the two proposals. The Committee is currently reviewing the comments and will make a recommendation to the Council in early 2011. There were no disciplinary matters that came before the Committee during 2010.

Retirement Schemes Committee: During the year, the committee has produced a revision of the Professional Standard 2 (PS2) for circulation in the New Year. It has also submitted a paper on behalf of the ASHK responding to the IASB on its Exposure Draft ED/2010/3 which will have a major effect on company disclosure in respect of their retirement schemes. Discussions have also taken place in Hong Kong concerning longevity risk and the ageing population; this will become an important issue for all of us to consider much sooner than many of us would imagine.

Climate Change Working Group: this group was established in 2007, with an aim of reflecting and researching on how actuaries can allow for climate change in their daily work. It ran a survey in 2008 to gauge members' views on climate change, and has since performed work to collate existing academic and industry research (conducted both locally, in the ASPAC region, and further afield), and to provide an executive summary for the membership.

Throughout 2010, there have been many opportunities for members to network and meet CPD requirements locally and regionally - luncheon meetings, evening talks, the Risk Management Regional Conference in Macau, the Annual Dinner, Joint Regional Seminars in Asia, soft skills courses, etc etc. The ASHK was represented at the International Congress of Actuaries in Cape Town and the IAA Meeting in Vienna. All these could not be achieved without the tireless support and dedication of Council and volunteers who devoted their time, resources, and ideas to ASHK.

ASHK is in good financial standing. We contributed US$2,500 to the IAA Fund in aid of the development of the global actuarial profession. A further HK$450,000 has been earmarked as the remaining legal fees pertaining to the statutory body project. For your information, the schedule of completed and expected future payments is as follows:

1st Payment:	HK$50,000 was paid upon signing the contract with the legal firm in 2008;
2nd Payment:	HK$170,000 expected to be paid upon the initial presentation of the Bill to Legco;
3rd Payment:	HK$170,000 expected to be paid upon the conclusion of the Bill Committee stage; and
Final Payment:	HK$110,000 expected to be paid within one month of passing of the Bill at Legco.

Our membership growth has been steady. We now have 840 members, of whom more than 490 are Fellow members.

The detailed membership figures are shown as follows:

Membership

	As at 12/05	As at 12/06	As at 12/07	As at 12/08	As at 12/09	As at 12/10
Fellows	283	318	358	415	437	494
Associates	113	127	125	149	167	168
Students	150	167	200	170	161	178
Total	546	612	683	734	765	840

The occupational split is as follows:

Insurance/reinsurance companies	610
Consulting firms (insurance and/or retirement schemes)	159
Others (including government and investment firms)	66
Unknown	5
	840

Conclusion

When I assumed the Presidential role at the beginning of the year, I encouraged members especially Fellow members of the Society to step forward and contribute towards our profession, by participating in various ASHK activities like meetings, seminars, surveys, social events, by volunteering our service to various committees and working groups, by working with ASHK in different ways playing an active role in our areas of expertise, and even by running for Council positions. I am heartened that many of us have responded to the call for volunteers and have chosen to give back to the profession in a very meaningful way. Like myself, I am sure you have been rewarded by the enriching experience gained through such service to the Society and by the satisfaction from the fact that we do make a difference.

I would like to thank our members, our volunteers, our honorary legal advisor and honorary auditor, the Council and staff members of ASHK for the support and guidance I have received in my role as President. In respect of the Council, I would like to mention those who served this year:

Committee	**Council Member**
Asia Regional Support Committee	Mr Trevor Kreel & Mr Nigel Ke
China Committee	Mr. Stuart Leckie
Education Committee	Prof Chan, Wai Sum
Experience Committee	Mr. Tony Cheng
General Insurance Committee	Mr. Chye, Pang Hsiang & Ms Queenie Hui
Statutory Body Project Committee	Mr. Peter Luk
Investment & Risk Management Committee	Ms. Wong, Ka Man
Life Insurance Committee	Mr. Foong, Sai-Cheong & Mr Jeremy Porter
Membership & Publications Committee	Ms. Sim Ng
Professional Matters Committee	Mr. Peter Duran
Retirement Schemes Committee	Mr. Jack Mak
Secretary & Treasurer	Ms. Sim Ng

I would also like to especially thank Mr. Foong, Sai-Cheong, Immediate Past President, and Mr. Jeremy Porter, Vice President, for their wisdom and advice on a number of important issues during the year. I am sure that the ASHK will progress well under the leadership of Mr. Porter, our President for 2011. I would like to close by thanking you again for the opportunity to serve you as President in 2010, a role I have been honoured and proud to perform. I wish you all a merry Christmas and best wishes for a successful 2011, and look forward to seeing you at many ASHK events in the near future. Thank you.

(Quoted from the President's Report in the ASHK Annual General Meeting on 16 December 2010.)

MESSAGE FROM THE NEW PRESIDENT

Jeremy Porter
MA, FIA
President 2011

Ladies and gentlemen, fellow professionals and supporters of ASHK, let me first express my gratitude to you all for the opportunity to serve as President of the Society for 2011; this is indeed a special moment in my career and also for me personally.

I would like to start by thanking Simon for his leadership and his contribution to the profession as our President in 2010. He has set a strong example for the Council over the year. He has also set a high bar for me to follow in 2011.

I would also like to extend my thanks to Sai Cheong as the Immediate Past President and my fellow co-Chairman of the Life Insurance Committee. His enthusiasm for and support of the ASHK and his dedication to the various committees he sits on was evident throughout the year. At a time when he was at the sharp end of Hong Kong's largest IPO, this could not have been an easy set of responsibilities to juggle.

Simon has already taken us through many of the achievements in 2010.

Before looking to 2011 I would like to reflect on a couple of these to set the direction I hope we will continue along next year.

- First the Risk Management Conference held in Macau in January. Given my own recent move into the risk management area I am particularly excited by the success of this event and its ability to broaden the horizons of members of our profession. ASHK continues to play an instrumental role to define who we are and what we can do for the insurance industry in Hong Kong.

- Secondly I look to the continued strengthening of the relationships between the regulators here in Hong Kong and our profession. It is clear to me that the interest and involvement for example of the OCI in matters that are important to us as a profession has never been greater.

It has been a privilege to be on the council in 2010 and to witness the progress and achievements that we have all made together.

Looking forward, I hope we can continue to look for growth in ourselves and in the profession, to ensure we are properly placed at the forefront of the insurance, investment and pensions industries in Hong Kong. I would like to ask every one of you to continue to challenge yourselves both in your roles, to be more relevant to the profession, to allow your industry to be better managed and understood, whether it be by the professionals we work with every day, by the media or by the man in the street. Let's all be more relevant in our roles as actuaries and as risk managers.

We have a level of knowledge and understanding which should be the envy of all other professionals in the industry. We understand a wide variety of techniques encompassing financial projections, valuations, factors that influence the financial strength of our employers and perhaps more importantly, the limitations of the techniques and models that support these analyses.

Therefore, we are in a unique position as a profession to take positions as the leaders and senior managers in the industries that we serve.

On top of our ability in technical areas, we have to show ourselves worthy of this position through our judgment, our people management, our EQ and most of all our communication skills – and that means meeting other professionals in their areas of expertise, learning their language, understanding their techniques and adding to our own skill sets in the process.

We all carry the title of "actuary" of some sort in our business cards – it is part of our identity. How do we wish to be collectively perceived as a profession in Hong Kong? Are we positioned with other professionals in a way that reinforces our value in our traditional areas of strength, and takes us into new areas?

How do we wish to position ourselves in terms of professionalism, quality assurance and leadership?

ASHK will be working on these questions in the coming year. We wish to continue the discussions amongst actuaries and continue the work of putting the ASHK at the forefront of today's financial world in Hong Kong and moving towards making the ASHK into a statutory body.

I invite you to be a part of this; to begin with, by building connections with the actuaries and other professionals around you; to support ASHK by working on topics where you can contribute; to be a volunteer; if you have the time and relevant experience, to join one of the ASHK committees; to consider standing for the council in 2012.

Let's all challenge ourselves to be **more relevant** to our chosen profession.

I would like to finish by thanking all of you again for the honour to serve as President for the coming year, and to look forward to the challenges ahead. I wish you an enjoyable Christmas and a Happy New Year. Thank you.

(Quoted from the Presidential Acceptance Speech in the ASHK Annual General Meeting on 16 December 2010.)

At the end of 2010 the institute of Actuaries of Australia (IAAust) has approximately 3,800 members, including nearly 1,800 Fellows. Approximately 21% of those members are based overseas, with the largest single concentration of members outside Australia in Hong Kong with nearly 200 members.

There has been a significant shift and spread of the practice areas members list as their primary area. Twenty years ago, two thirds of active fellows worked in either life insurance or Superannuation (pensions), with Life Insurance being the single largest practice area. In 2010, Life Insurance and General Insurance each have just over 25% of active members reporting them as their primary area of practice, followed by Superannuation (10%), Banking and Finance (9%) and Investments (9%), with the emerging area of risk management given as the primary area of interest by 3%. However, the number of active members giving their primary area as management has declined over the last 20 years, both in terms of absolute numbers and as a proportion of the membership. These changes highlight both the opportunities and threats that face the profession in Australia.

The opportunities lie in the benefits and contributions actuaries can make in moving in to less traditional practice areas. This is supported by the IAAust's promotion of risk management through its ERM initiatives over the last few years. The number of actuaries working in the banking sector is also increasing. To a lesser extent, the IAAust's promotion of Health Insurance as an area of expertise (in the Australian contest this is mostly restricted to private health insurers and the actuarial services they require).

In terms of threats, as actuaries expand out of their traditional areas, which may, to an extent, be protected by legislation, there is competition from other service providers and so a need to promote the actuarial profession and its distinctive skill set. This raises the question of identifying what our distinctive actuarial skill set is. As we broaden the reach and applicability of actuarial skills, it is not sufficient to presume users will choose to use them in the face of competition without active brand promotion of the actuarial profession. It is a mistake to presume legislated requirements to use actuarial services will support the profession in the longer term.

This may not be the current situation in Hong Kong, given the expansion of the financial services and the ongoing need for traditional actuarial services, both locally and regionally. However, it may serve as something of an alarm for the long-term success and development of the actuarial profession in the region. As an international profession, we need to be thinking of, and planning for, the long term development and strengthening of the profession. This debate is at the level of the profession in contrast to the success (or failure) of specific individuals who may happen hold actuarial qualifications.

In the longer term …

To reflect on these longer-term issues, the Australian experience provides one instance of a range of possible future scenarios. It is important that actuaries are seen as part of the solutions to problem, rather than being part of those problems. This is not an abstract consideration, as shown by the stress the actuarial profession underwent in the United Kingdom as a consequence of the difficulties of Equitable Life and its policyholders since 2000.

To provide actuarial value, in the eyes of the users of actuarial services, raises the challenge of establishing a clear actuarial value proposition. While the technical actuarial skills are important, and are a necessary condition for the success of the profession, they are not a sufficient condition for that success. Professional skills, supporting the application of the technical skills and the analysis that is required to provide clients with good advice, are also a necessary condition of the success of a profession, but not a sufficient condition. To be recognised as the providers of insightful, unbiased and relevant advice to our clients, actuaries need to develop broader capabilities and effectively communicate their messages. The core issue is whether users of actuarial serviced believe they get business value through utilising these services. This raises the crucial questions of what additional skills and attributes actuaries need in order to both protect and then develop the profession.

These are 'deep' questions to consider. To provide a starting point we discuss actuarial 'control cycles', and expand this idea to a more specific 'actuarial practice and control' process, ultimately leading to 'actuarial value'.

Actuarial value - control, governance and management

The idea of a control cycle, in the actuarial context, was introduced by Jeremy Goford in 1985. He has also noted the idea is not specifically actuarial. Engineers and biologists, to name a few, have utilised the principle of a feedback loop for a long time. At its core, a feedback loop follows a sequence of 'what is the problem', 'what has been done about it', and then 'did it work'. Key to success is recognising that it is a cyclic process and feeds back on itself, with each step able to inform the others on an ongoing basis. This contrasts to a linear process of 'what is the problem', 'what has been done about it', but without any subsequent follow-up.

Typically, actuarial work will require the development of a model (of some form), often focused on the assessment of long-term and uncertain cash flows, followed by an analysis of the results and communication of options to decision makers. In a professional context, work needs to be controlled and managed.

We can formalise the feedback loop into three generic steps:

- Specify. Clarify what the problem is.
- Solve. Design a solution.
- Monitor. Assess whether the proposed solution was successful.

These steps are linked to each other in what we call an 'Analytic cycle' and they encase a 'model'. The Analytic cycle provides the context in which all the 'techie stuff' is developed and employed. This is important, but it is not the whole game. That is, it is a necessary, but not sufficient, component of the process of reaching the ultimate business solution. A characterization of this is that it is one thing to get the numbers, but the real value-add comes when you can make the numbers talk.

The Analytic cycle is then embedded into a 'Professional cycle'. The Professional cycle provides a context for analyses and options to be considered by businesses for making their decisions. Again, the professional cycle is a necessary, but not sufficient, requirement for the ultimate business solution to be reached. There are four elements, again with no particular order but interlinked:

- Professionalism. Compliance with professional guidance and standards, adherence to a code of conduct and responsibility to the public.
- Governance. Overseeing the management and control of the project, including risk management aspects.
- Environment. This includes legal, regulatory and other business constraints and how they change over time.
- Implementation. It is the outcome that is judged and the best decisions will not succeed unless properly implemented.

Pictorially we have:

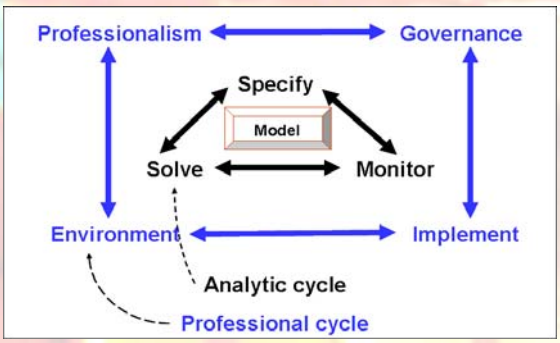


Figure 1: Analytic and Professional cycles

Surrounding and supporting the Professional cycle there is a set of more general attributes including judgement and materiality, integrity and ethics, communication and interpretation, intellectual exchange with the broader business and academic community, and business acumen.

Ultimately, if the messages being sent are not received then, in effect, they were not sent and the work may as well not have been done. The application of these capabilities to an actuarial control process leads to actuarial practice and changes the perspective from inward looking to being outwardly focused on user needs. Finally, advice needs to be delivered in a timely and accessible manner to provide actuarial value. We can summarise a chain starting with a problem and resulting in the provision of actuarial value as follows:

Assess symptoms and identify the problem

= Apply Actuarial tools + Develop model
+ Analytic cycle
= Govern model + Actuarial paradigms
+ Professional cycle
= Actuarial control cycle
+ Apply to financial services
= Actuarial control
+ Actuarial capabilities and experience
= Actuarial practice
+ Deliver timely, respected advice

Figure 2: Actuarial value chain

Actuaries become valuable when they are engage in actuarial practice and deliver the outcomes of that clearly. At that point, reflecting all the identified capabilities, not just the technical ones, the focus has changed to that of the users of the actuarial services rather than the providers of that advice.

Conclusion

The broad applicability of the actuarial value chain is embedded in the concept of annual Financial Condition Report, an established statutory requirement for insurance companies in Australia, the United Kingdom and a number of other countries, is to be required under the developing Solvency II regime in the Europe, and is endorsed by the International Association of Insurance Supervisors.

More broadly, the value actuaries can add to businesses, traditional and more widely, is demonstrated by the following quotes, made by senior banking executives in Australia earlier this year:

> *"When I was in consulting, I used engineers because they applied structure in their thinking. I employ actuaries for the same reason in the bank."*

> *"The rigour of the analytical approach is hugely beneficial. It helps senior executives get clarity around the facts, the impacts on business performance, on a concrete basis. It, therefore, allows for improved decision making."*

The feedback loop driving the Analytic cycle can applied much more generally than as a means to harness technical actuarial skills. The challenge is to apply the 'specify, solve, monitor' paradigm in new and different ways in a professional actuarial context.

Dr. Jules Gribble
FIAA, FSA,
FCIA, CERA

He has over 25 years experience in the financial services and consults in superannuation and life insurance, including expertise in all aspects of unit pricing and related matters. Jules also has a long standing interest in international regulatory capacity building training in the financial services and professional actuarial education. He has recently been elected to the Council of the institute of Actuaries of Australia for a 4 year term

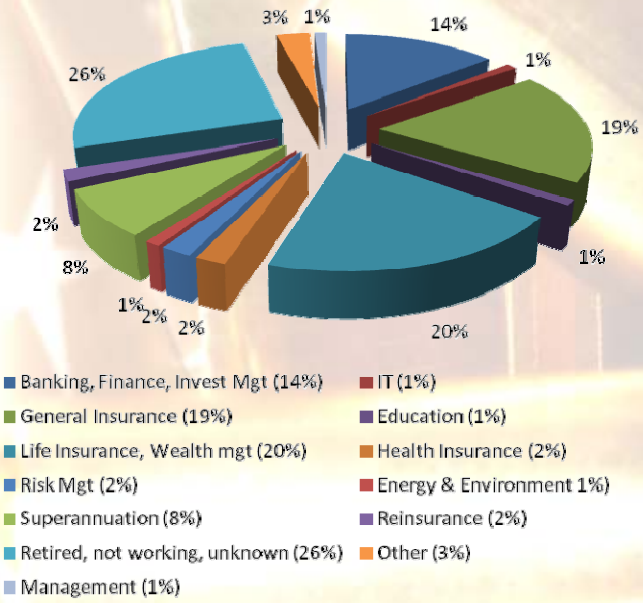
Disclaimer: The view and opinions in the article are those of the author and do not necessarily represent the view or opinions of the Institute of Actuaries of Australia.

Actuaries Working in Non-Traditional Roles

Being asked to write an article on actuaries working in non-traditional fields I reflected on the fact that Australia seems to have a reputation globally for having more than the average number of actuaries working in non-traditional fields. I think this partly reflects a relatively small market in which people with actuarial qualifications have marketed their skills to expand the range of opportunities available to them and also a relatively high supply of people with actuarial training as the actuarial degree has been a large part of our education process in Australia for over 40 years.

To try and get a sense of the numbers of people working in non-traditional areas I reviewed the Institute of Actuaries of Australia Annual Report for 2009 which shows the following distribution :

Comparing this with the UK's published results I noted that 58% of members of the UK profession work in the traditional insurance fields of life, general, health and pensions compared with 47% in Australia and the proportion in general insurance was 10% compared to 19%. Similarly a much lower proportion work in investment management or investment banking 5% compared to 14% in Australia and the numbers working in alternative non actuarial fields is less than 1



Looking for other evidence I reviewed the Actuary Unearthed page of Actuary Australia for the last five years . This is a fairly select group and so while I didn't feel a lot of analysis could be applied I can make the following observations

- Life Insurance, and Financial Services more generally, was a common starting point. The various career paths included consulting, a core actuarial role including progression to Appointed Actuary, transition to general management and less commonly a move to investment management, financial planning and directorships.
- Superannuation and employee benefits has also been a core training ground for actuaries and while some have stayed in this field, many now work in alternative fields as the specific need for actuarial skills in superannuation has reduced with the move by most companies to defined contribution schemes.
- Around half of the contributors had worked in more than one country and quite a few had worked in several countries.
- It appeared that the majority had chosen an actuarial career early on, however there were some who came from different backgrounds including manufacturing, the navy, programming, and teaching.
- Interestingly those who were working in general insurance tended to stay there.

One field which seems to have become less main stream for actuaries in Australia is the progression into general management, only 1 % according to the results above. The published figures may well reflect the fact that many senior managers are no longer members of the Institute but perhaps this is a message in itself. In Asia, my experience has been that the actuarial qualification and work experience is for many a first step on the path to management and that many actuaries in Asia work in much broader business roles even if they are predominantly in the financial services arena.

A Board Career?

One topic which is attracting much discussion in Australia is that of the gender composition of Boards. From 1 January 2011 there is a requirement for boards to report on their gender mix. The proportion of women on boards in 2010 at 9.8% is very low on a global comparison (and this is a big improvement on the 2009 figures). This will hopefully lead to a change in the way board members are recruited with less focus being placed on individuals who are part of a specific network and a more robust risk management approach to the recruitment process being adopted. I wonder whether a new area for growth for actuarial skills is a managed board career.

Actuaries have technical knowledge and their training ensures they will address governance and the risk management implications of decisions so those who also bring strong business skills are well placed to add value at board level *(and of course many do*). However, there is no doubt that if you want a board career it is a good idea to start planning early as there are certain skills and experience which will be helpful in positioning yourself.

You will need to have a good understanding of the role of the board. While a Financial Services company may be looking for someone with a specialist understanding of insurance, they need to know that the individual will be able to work with the other board members accepting that each brings their own skills and experience and that they will not want to be bogged down in actuarial detail. A brief summary of the experience of the sorts of people who are considered for boards would include :

- Work experience on or with a Boards
- People who have lead businesses and taken responsibility at the highest level – CEO's, CFO's, CRO's COO's CIO's
- Senior management experience
- An ability to listen, communicate and influence
- Knowledge of the business/industry in which the company operates
- Formal directorship qualifications – in Australia the AICD runs a number of courses
- A strong network

There is no doubt that networking should be one of the strands you start to develop from early in your career. This will happen naturally if you get involved and take an interest in people and what they do. However it should also be a planned part of your thinking so that when you have the opportunity to extend your network you make the most of it in a positive way. Social networking sites such as LinkedIn are making reconnecting with old colleagues and keeping in touch with people significantly easier. In my view you can learn and benefit from any contact you make but it needs to be genuine – you get back what you put in. If you treat people well and with respect it will be repaid to you in some way in the future.

I would be pleased to Link In with any members who are interested in the development of the profession.

Jenny Lyon
FIAA
Qed Actuarial, Part of the global recruitment group, Acumen Resources

A Day in My Life at the Food & Health Bureau

My position as Actuary at the Food and Health Bureau is the first of its kind. It was created after the government announced in the 2009-10 Policy Address the plan of putting forward a supplementary healthcare financing scheme involving insurance and savings components in enhancing the long-term sustainability of our healthcare system in view of the aging population.

Being part of the Research Office at the Bureau, I work closely with a team of diverse background on healthcare policy and financing. There are days on which I discuss information asymmetry, moral hazard and price theories with economists. There are days on which I discuss medical complexities and diagnosis related groups with doctors, as well as inflation indices and overseas experience with statisticians and researchers. There are also days on which I discuss policy considerations with administrative officers in other teams.

During the formulation of the Health Protection Scheme for public consultation, my main responsibilities were to provide internal support in terms of insurance and actuarial knowledge, and to coordinate consultancy studies related to the reform. My day-to-day work involved meeting with external actuarial consultants, independent advisors, and representatives from other government bureaus, the health insurance industry and the medical profession to discuss various aspects of the Scheme. I also participated in the planning of consumer market research projects in gauging the public's opinion towards different Scheme features. Lately, I'm tasked with policy research about overseas experience related to private health insurance.

As the only actuary in the Bureau, I occasionally feel challenged when trying to convey actuarial and insurance technicalities to parties from other professions. There are also times I miss the more traditional actuarial work I used to do. Yet I am delighted about working with a multi-disciplinary team and being able to contribute to the healthcare reform.

The second stage public consultation on healthcare reform is coming to an end soon. I look forward to receiving the different views from our society and contributing to the next steps of the reform. If the Health Protection Scheme is taken forward, I believe actuarial expertise will be much needed for its implementation and more atypical actuarial opportunities similar to mine will be available.

Hidy Lee
FCAS
Food and Health Bureau
Government of HKSAR

Government Healthcare Reform Consultation Study: Here We Go Again?

The government issued a public consultation document entitled, "My Health, My Choice" in October 2010. This follows several other healthcare reform public consultation papers over the last 20 years or so, all trying to revamp the current healthcare financing system to make it more sustainable as the population ages. To many, the immediate thought that comes to mind is probably, "Not another one!"

However, there is a sense that this one could be different. The biggest difference this time is the proposed scheme is voluntary. Secondly, it is less ambitious than earlier proposals in that it is not looking to re-engineer the financing and delivery systems, but it seeks to take incremental steps to enhance the existing system for the benefit of consumers.

The Health Protection Scheme

The HPS is the government's version of private health insurance, which would be sold alongside existing PHI products. However, any existing PHI products could qualify or be converted to be a HPS product if it meets the minimum requirements set out by the government:

- Benefits are at least as generous as the Standard Plan illustrated by the government. For example, this includes a daily R&B rate of $550, which would allow the patient access to the general ward of a fairly standard private hospital.
- Product benefit limits should integrate with any packaged services offered by medical service providers. For example, if a hospital offers a fixed charge for appendectomies, then the HPS product should have a single benefit limit for this condition, so that the patient knows exactly how much needs to be paid out-of-pocket.
- Coverage of medical expenses related to pre-existing conditions, according to a sliding scale, with full coverage after three years.
- Guaranteed issue and guaranteed renewable for life
- Portability from one insurer to another, including from group insurance to individual insurance. This means that the individual will not be re-underwritten and will not need to serve additional waiting periods when switching insurers.

On this basis, the majority of existing PHI policies would qualify as HPS products by tweaking the benefit limits and modifying the terms and conditions.

Financial Viability

As with any voluntary system where issue is guaranteed and pre-existing conditions are eventually covered, the immediate concern is the financial viability. The HPS addresses this by allowing insurers to set premium rates, medically underwrite, and apply premium loadings on individuals up to a maximum of 200%. [Incidentally, there are no rating restrictions on group plans]

Individuals deemed to require a risk loading greater than 200% can be fully reinsured into a high risk pool, financed by premiums from the high risk individual plus reinsurance premiums paid by all participating insurers. If the HPS attracts sufficient members and a good mix of standard and high risk individuals, then the reinsurance premium required should be negligible. However, if the HPS attracts a disproportionate number of high risk individuals, then the reinsurance premiums will probably become onerous, in that it may compromise the HPS' ability to compete with regular PHI products for healthy lives. The government has indicated it will step in with funding to support the High Risk Pool if necessary, in order to keep it and the HPS financially viable.

Who Wins?

Existing and prospective PHI policyholders are clear winners because of the more favourable terms and conditions and improved regulation of insurers and medical providers through increased transparency. However, proponents of the Hospital Authority and those who cannot afford PHI premiums are worried that the government's financial support of the HPS and a potential shift of doctors and nurses from the public to the private sector will eventually lead to longer queues and lower quality of care for HA patients.

Insurers benefit from the government's involvement through the HPS, helping to address issues with medical service providers. In recent years, insurers have been facing significant increases in medical costs and inpatient medical investigations that are strictly speaking not medically necessary. The government cannot allow public money to be used to enrich a handful of private doctors and therefore the HPS plans to encourage more fixed-priced medical packages, medical necessity review boards, and clinical audits; something the insurance industry would probably not be able to achieve on its own. However, the HPS also advocates transparent financial reporting by participating insurers so that policyholders know what portion of premiums paid are spent on actual medical costs, as opposed to operating expenses and commissions. Insurers would also have to be transparent in its reasons for increasing premium rates. Some insurers are therefore worried that HPS products will have extremely narrow profit margins.

Medical providers are worried that the HPS will curtail the income of doctors; packaged pricing would make it easier for patients to compare prices between doctors and hospitals, and medical necessity reviews could curtail excess utilisation. Also, several doctors have pointed out that packaged pricing will cause an ethical crisis, as doctors may be inclined to provide the minimum within the package, rather than prescribe what is best for the patient. Existing established medical providers personally have little to gain from the HPS. However, a more transparent private medical industry, as a whole, could benefit if the HPS manages to enlarge the demand for private services.

The government recognises there is a shortage of private hospital beds. To this end, it has identified four plots of land where new private hospitals will be built. More difficult to overcome is the shortage of doctors and nurses. The private sector can always turn to the Hospital Authority, but then to whom can the Hospital Authority turn to? There are solutions, but it will involve various medical and nursing associations agreeing to expand the pool of medical practitioners available to the Hong Kong public.

Forward, March!

The HPS is not the complete solution. But then again, there may be no complete solution and any attempt at one would probably not get off the ground. However, the government should be commended for tackling some of the thorny issues head on, in particular transparency and better regulation of insurers and private medical service providers.

To move forward, two things need to happen.

Firstly, the government needs to provide concrete reassurances that the public's access to quality Hospital Authority care is not diminished. The government has already promised to increase funding to Hospital Authority, but sceptics may want further reassurances.

Secondly, the government needs to provide sufficient incentives to enlarge the PHI market and bring insurers and medical service providers to the HPS discussion table. The government has highlighted various financial incentives. The most interesting of which is a possible premium rebate at the older ages, where the size of the rebate increases with how long the individual has been an HPS policyholder. Currently, around 2.4 million Hong Kong residents have PHI, but less than 4% of people aged over 65 have PHI because PHI premiums at the older ages are expensive and HA is practically free. What would happen if everyone over 65 gets a 50% premium rebate?

With that much money on the table and a rapidly aging population, I'm sure there will be a lot of people interested in figuring out a solution. And if this "small" step works and gains the confidence of the public and politicians, who knows where the next step will take us?

Pang Chye
MAAA, FIA
Milliman Limited

CLIMATE CHANGE WORKING GROUP: UPDATE OF ACTIVITIES AND PUBLICATION EXTRACT FROM OUR ASHK WEBPAGE

The ASHK Climate Change Working Group was established in 2007, with an aim of reflecting and researching on how actuaries can allow for climate change in their daily work.

The working group ran a survey in 2008 to gauge members' views on climate change, and the survey findings can be found on our ASHK webpage (http://www.actuaries.org.hk/publications.php?id=23) and in the ASHK Newsletter (Vol. 01/2009, pages 19-21). Further to this survey, we have performed work to collate existing academic and industry research (conducted both locally, in the ASPAC region, and further afield), to provide an executive summary for the membership. It is hoped that this executive summary of research already undertaken, which we expect to evolve and will be updated over time, will provide actuaries with the means to understand and further investigate relevant climate change topics.

For certain research papers or publications, which we see as more relevant for actuaries in Hong Kong, we will expand on the title of the publication to provide a high-level summary. We have included an example here from a recent Munich Re publication. The summaries appear on our ASHK webpage, and we will provide additional summaries in future editions of this Newsletter.

A collection of views on the impact of climate change on liability insurance

Publication by Munich Re: "Liability for Climate Change?: Experts' views on a potential emerging risk"

Publication located by the CCWG in October 2010 via the following URL: <http://www.munichre.com/en/reinsurance/magazine/publications/default.aspx>

Purpose of the publication

- The publication is a collection of views from industry and academic professionals.
- As mentioned in the Foreword, the articles look at the role of professional indemnity, as well as the risk of liability claims based on damage allegedly resulting from CO_2 emissions caused by industry, for example on the lines of class-action suits against tobacco producers or companies processing asbestos.

Conclusion / results / themes of the publication

- We have selected two of the articles that we believe to be of interest to the reader; for a full list of articles the reader should refer to the original publication.
- 'Attributing extreme weather events: Implications for liability', written by Myles R. Allen, comments that the dominant impacts of climate change over the next few decades are likely to be due to changing risks of extreme weather events. The article comments that the scientific evidence for human influence in specific damaging weather events is evolving in such a way that the issue of liability is almost certain to figure more prominently in the near future. That said, the article points to there being difficulties in asserting liability to specific parties, due to the large number of parties that could be considered to contribute to the climate change problem.
- 'Professional liability and global warming claims', written by Scott M. Seaman and John E. DeLascio, draws similar conclusions, for example that determining the exposure to global warming-related claims faced by a range of professionals (possibly including actuaries) is a difficult task, due to the large number of potential impacts of climate change and an uncertain legal and regulatory environment regarding climate change-related liabilities. The article also points to the suggestion that legal costs of insurers may rise significantly given this uncertain legal environment.

Why might the paper be relevant to members of the ASHK?

- This publication offers insight into potential impacts of climate change on liability insurance business, which is widely written in Hong Kong and across the region.
- Any emerging trends of liability business would be expected to impact a wide range of actuarial and insurance processes, including pricing, reserving, risk and capital management, product design and asset management.

Disclaimer: This is a high level summary and is not intended to be an executive summary of the publication or to formally summarise the publication in any way. The reader should refer to the original publication and should not rely on this description for any purpose.

If anyone is interested in joining the group, or has any comments on this article, please contact the ASHK office at info@actuaries.org.hk or Martin Noble at martin.noble@kpmg.com.

Martin Noble
Chairperson
Climate Change
Working Group

THE HONG KONG GENERAL INSURANCE INDUSTRY: LOOKING BACK AND LOOKING FORWARD

The impact of the financial crisis has been felt far and wide, and Hong Kong was no exception. Hong Kong's GDP contracted in 2009 and the territory experienced a rise in the unemployment rate, as it was hurt by the collapse of the financial markets and the resulting global slowdown.

From 2010 however, and according to IMF projections, Hong Kong's economy is forecast to rise, buoyed by the resurgence of the financial markets and its close economic ties to the Mainland Chinese economy.

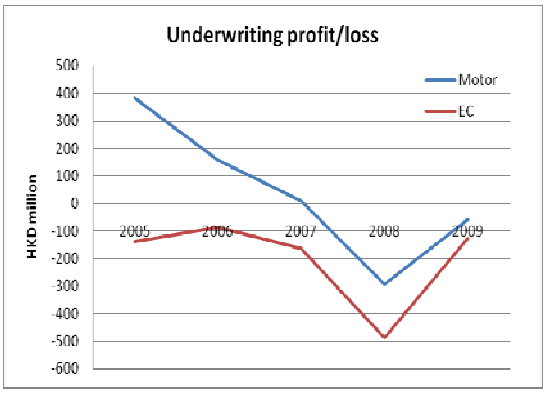
In this article, we look back at the financial crisis and its impact on Hong Kong's general insurance market, before looking towards the future direction of the market.

Hong Kong has a mature general insurance market, and in many respects organic growth is restricted by the growth in the population (personal lines) and the business community (commercial lines). According to statistics released by the OCI, general insurance business recorded an increase of gross premiums of 6.9% to HKD 28.6 billion in 2009 compared to 2008, which contrasts sharply with the global economic picture. Business growth in 2009 was driven by General Liability business, Accident & Health, Pecuniary Loss (i.e. comprising mortgage guarantee insurance) insurance, whilst volumes for Property Damage and Motor Vehicle business were comparable with their 2008 volumes.

Marine business was in many respects one of the most affected by the crisis, though the impact of the drop in Marine Cargo premium volume was limited to the extent that insurers are exposed to Marine business.

Turning to claims experience, the crisis did not lead to significant difficulties in the market. Specialised insurers in the Credit Insurance market were impacted by a rise in bankruptcies and payment defaults by local, Asian and global corporations. By and large, fears of an increase in claims fraud in troubled economic times were not realised, related to arson and EC claims for example. And for most other lines of business, claims frequency and severity is not considered correlated (positively or negatively) to the status of the economy.

In many situations where premium volumes drop or are under threat, premium rates also drop as insurers compete for market share. Hong Kong did not generally experience this trend in the midst of the crisis, largely because the market for many lines (particularly Motor and EC) was already soft in 2008 as the crisis hit. In fact, there was a steady decline in margins for these lines over the few years leading to the crisis.



Source: OCI Annual Statistics

A number of companies were relatively heavily invested in equities in 2007 and locked in large profits. Hefty investment income in 2007 may have been used to subsidise lower rates in 2008, but in many

cases insurers de-risked their investment portfolios as the crisis hit, with the realisation that investment income may not be relied upon to subsidise loss making business for some time. The significant drop in asset values impacted solvency ratios across the industry, and may have been a contributing factor in the failure of Anglo Starlite.

So what, if anything, has the financial crisis changed about the general insurance market in Hong Kong?

Premium rates were in general not impacted by the crisis, and rates are not expected to harden in the short term – the market remains very competitive. This is particularly poignant when considering that XOL reinsurance rates have seen modest increases, broker commissions have increased in certain business segments and that investment income is certainly a riskier and more uncertain prospect. Fortunately however, this was countered by very good 2009 and 2010 Property loss experience and by the apparent low impact of claims fraud during the crisis.

Some companies, for example (but certainly not limited to) the Credit Insurance sector, have practiced stricter risk selection. Investment strategies are on the whole much less risky than the often bullish strategies observed pre-crisis. Demand for business in other lines, for example D&O, has increased. And market share has shifted to a degree, caused by the damage resulting from the crisis on certain brands.

Since 2010, we are also seeing a turnaround in exports volume. This may be due to the monetary policies adopted in the US and Europe to induce economic activities. The Hong Kong Government has also been pushing out a lot of infrastructure projects in 2009 and 2010 to boost the economy. Therefore premium volume for Marine, Engineering and Liability is expected to increase.

Overall then the HK general insurance industry were not impacted greatly by the financial crisis, although it did not emerge entirely unscathed. To lessen the potential impact of futures crises, the global trend of tightening regulations and improvements in risk and capital management will no doubt impact the HK general insurance industry.

Recently, the Hong Kong Government is proposing the establishment of an independent insurance authority. This will better align the insurance regulatory regime in Hong Kong with international practices. It is proposed that the independent authority will have greater power in regulating the industry, including the insurers and the insurance intermediaries, whilst promoting its stability and viability.

After the establishment of an independent insurance authority, a more stringent regulatory environment is expected, leading to potential adoption of international regulatory standards such as enhanced risk and capital regulation (for example risk based capital or European-style Solvency II regulation). In Asia, a risk based capital framework has been implemented in both Singapore and Malaysia. The adoption of risk based capital in HK will increase the compliance costs of insurers and may lead to higher capital requirements for some.

Although HK is a mature market, the insurance landscape in the medical insurance segment is changing which creates opportunities for organic growth in this sector. The Hong Kong Government is currently proposing to reform the health care system. Under the current proposal, the Government will encourage the public to get coverage from the Health Protection Scheme. This scheme is voluntary and the basic cover (both benefit and premium) is regulated by the Government. The insurers have flexibility in designing the top-up covers. This will create opportunity for insurers to increase market penetration.

Looking ahead, what the future holds for the HK general insurance industry is both exciting and challenging. With improvements expected both internally and externally, the industry would be better protected from future potential crises.

Queenie Hui
Chairperson
General Insurance Committee

Martin Noble
Member
General Insurance Committee

COMMITTEES UPDATE

- Climate Change Working Group
- General Insurance Committee
- Investment & Risk Management Committee
- Life Insurance Committee

Ka-Man Wong
Chairperson
Investment & Risk Management Committee

THE CURRICULUM TOWARDS YOUR CERA CREDENTIAL

In the previous ASHK newsletter, we have described the role actuaries play in the Enterprise Risk Management field, with an increasing trend of actuaries expanding their traditional role to take up senior management roles in insurers and banks as Chief Risk Officers and risk analysts.

This article continues on the theme with focus on the curriculum and examinations required to pave your way to the CERA credential. We would like to express our special thanks to contribution of the Society of Actuaries (SOA) on this article.

It is considered that skills needed to be a CERA include specialized mathematical knowledge, business sense in finance and economics, keen project management and problem solving ability, as well as strong communications.

CERA CURRICULUM

The CERA curriculum combines basic actuarial sciences, ERM principles and professional conduct requirements. The CERA credential curriculum includes:

- Exam P (Probability): to develop knowledge of the fundamental probability tools for quantitatively assessing risk.
- Exam FM (Financial Mathematics): to provide an understanding of the financial mathematics concepts and how those concepts are applied actuarial calculations.
- Validation by Educational Experience (VEE) Economics: this is typically gained by taking approved college courses or standardized examinations. CERA credential candidates may apply for VEE credit after they have passed two examinations.
- Exam M (Actuarial Models): to develop knowledge of the theoretical basis of certain actuarial models and the application of those models to insurance and other financial risks.
- Exam C (Construction of Actuarial Models): provides introduction to modeling and covers important actuarial methods that are useful in modeling.
- Advanced Finance/Enterprise Risk Management Exam: covers product knowledge, capital funding and structure, financial reporting, measuring value, risk management, ERM framework, fundamentals, and credit risk.
- Operational Risk Module: e-Learning module where candidates acquire and use knowledge that is distributed and facilitated electronically.
- Associateship Professionalism Course.

FSA EXAM PROCESSES

For members of the Society of Actuaries who have already attained Fellowship (FSA) and are seeking the CERA credential must successfully complete the Advanced Finance/ERM examination and the Operational Risk Module.

NON-SOA MEMBER EXAM PROCESS

For actuaries interested in obtaining the CERA credential, the first step is to apply to the SOA for membership under the relevant mutual recognition agreements. Subsequently, the candidate can begin the required examination process and the exam requirements will vary in accordance with the credential / exams the individual already possesses.

For those who are credentialed from actuarial organizations without a mutual recognition agreement with the SOA, full examination required as described above is required.

On the casualty side, Fellows of the Casualty Actuarial Society (CAS) can apply to receive a waiver for all of the preliminary exams and VEE requirements. The Professionalism course requirement would also be waived for Fellows of CAS holders if they attended a comparable CAS program.

The above information can be found in more details by visiting www.ceranalyst.org.

LIFE INSURANCE COMMITTEE UPDATE

The Life Committee undertook a survey to seek the current views of Appointed Actuaries in Hong Kong as they relate to the Circular Notice concerning the reinvestment yield for reserving, AGN3, AGN7 and AGN8.

Here is the presentation of the survey results delivered at the ASHK Appointed Actuaries Symposium which took place on 3 November 2010:

Agenda

Background

Results of the ASHK Survey for Appointed Actuaries

– Circular Notice (Notice for Appointed Actuaries: Chapter 41E – Reinvestment Yield for Reserving)
– AGN8
– Supplement to AGN3
– AGN7 Exposure Draft

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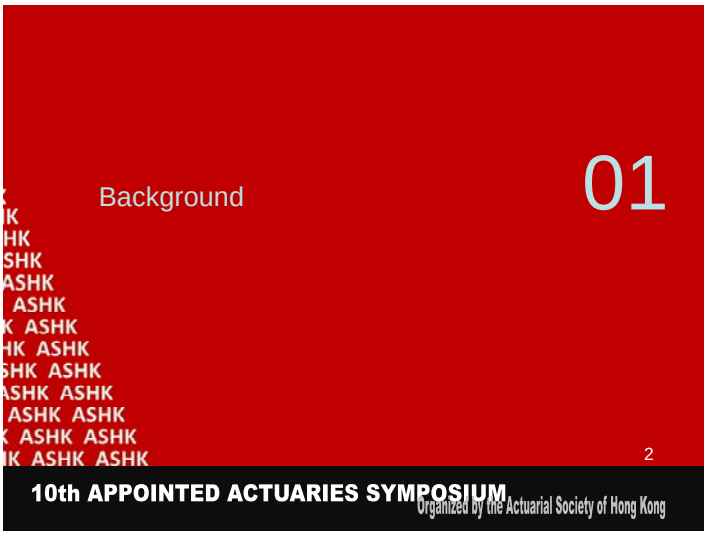


Background

This presentation will:

- Present the results of the survey
- Lead further discussion of the conclusions of the survey

The survey aimed to seek the current views of Appointed Actuaries in Hong Kong relating to the Circular Notice concerning the reinvestment yield for reserving, AGN3, AGN7 and AGN8

- Circular Notice
  - The Office of the Commissioner of Insurance intends to review use of the approach proposed in the Circular for valuations post December 2010
- AGN 8
  - MPFA has prepared more detailed guidance on the determination of reserves for Class G retirement business
- Supplement to AGN3
  - Strengthening the guidance provided to Appointed Actuaries under the actuarial guidance note AGN3
- AGN7 Exposure Draft
  - Enhance the clarity of the guidelines and facilitate more consistent practice as well as to provide a framework for actuaries to consider when deciding upon which additional scenarios (if any) should be prepared as required by the current DST framework

Scope of Survey

- Appointed Actuaries of life insurance companies regulated by the Insurance Authority
- Survey was sent to 44 companies
- 22 responses were received
- Responses have been collated in an anonymous format

02 Results of the ASHK Survey for Appointed Actuaries

Circular Notice

Circular Notice (1)

Principles under which circular was developed:

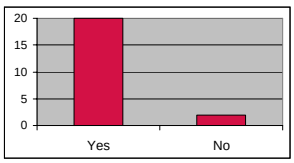
- Judgment should be prudent
- Assessment of the yield to apply on investments in the future can involve a forward looking consideration of how yields are expected to move up or down from their level at the valuation date
- The yield, current on the valuation date, is the starting point for this consideration and should not be overlooked
- Relevant economic and other external data at and prior to the valuation date should be considered in judging any movement away from yields at the valuation date
- Any chosen method should be actuarially sound and should remain robust under changing future interest rate conditions. If interest rates move, the method should not require substantial adjustment.

The final choice of approach remains a matter for the Appointed Actuary

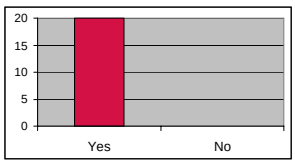
Circular Notice (2)

Results of survey

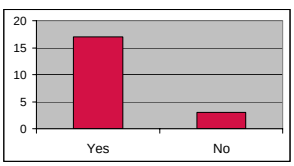
Companies that have long term business



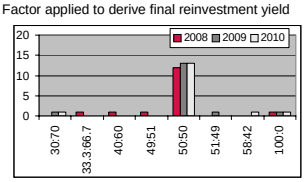
Awareness of the Circular Notice



Use of the framework set out in the Circular



Factor applied to derive final reinvestment yield



Circular Notice (3)

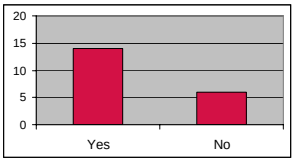
Views on using a factor other than 50%:

- It should be the appointed actuary's decision to choose the appropriate factors as long as they are acceptable to the OCI.
- Have used weights that are the estimated proportions of assets from each category – existing assets, assets bought within 3 years and after 3 years of the valuation date – via asset and liability cash flow projections.
- Using X=100%:
  - Is in line with the market consistent approach to valuing liabilities that is gaining international acceptance.
  - It is consistent with the methodology employed for our business since before the 2008 year-end and was considered more conservative than the X=Y=50%.
- The X% can be viewed as the probability that yield at valuation date will be credible.

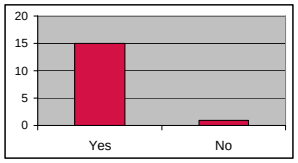
Circular Notice (4)

Results of survey

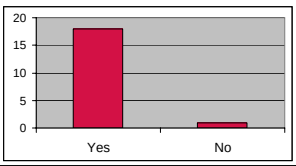
Awareness that OCI plan to review approach



Are you in favour of the framework continuing



Favouritism for a consultation process to consider future direction



Comments:

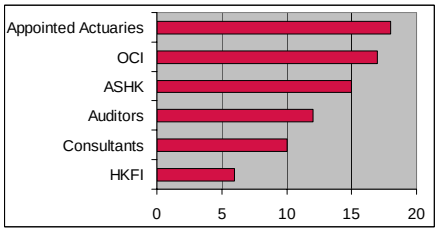
- Include reference to and analysis of methods used by other countries.
- Take into account the whole subject matter of liability valuation regulations and solvency requirements in light of Solvency II.

Circular Notice (5)

Results of survey

Who should be involved in a consultation process

- Support expressed for each group as follows:



Comments:

- A task force should be set up. A draft report should be sent out to all members for comments and a forum should be conducted before finalizing the report.
- Appointed Actuaries, ASHK and then negotiate with the OCI. Audit firms should be posted.

Circular Notice (6)

Additional observations

- If market value assets are used then the yield on existing assets can move around quite a bit, however the framework set out in the circular note results in liabilities that are less sensitive to yield movements.
  - Example: when rates rise liabilities don't change much, however asset values fall. Therefore solvency deteriorates.
  - When rates are going down the framework gives relief – perhaps resilience margins should be adjusted for counter cyclical consideration.

Discussion

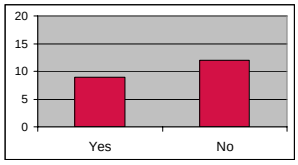
- Comments on principles
- Other concerns

AGN 8

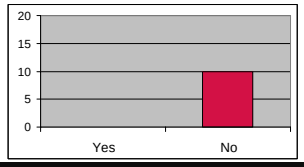
AGN 8

Results of survey

Companies that have Class G retirement benefit products for which GN7 reserves are calculated



In light of MPFA guidance, are there strong reasons to retain the AGN8?



Unanimous No…

Supplement to AGN 3

Supplement to AGN3 (1)

Purpose of the Supplement

The supplement should not introduce additional requirements.

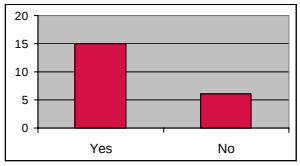
It is to strengthen the guidance provided to Appointed Actuaries under the actuarial guidance note AGN3.

- Enhance consistency across industry practice in respect of Chapter 41E of the Insurance Companies Ordinance
- State where certain practices currently observed from the Appointed Actuary survey conducted by the ASHK in 2006 are not acceptable
- Not to challenge the authority of Chapter 41E
- Not to contradict any applicable guidance notes or professional standards already adopted by the ASHK
- To be generally accepted by Appointed Actuaries practicing in Hong Kong

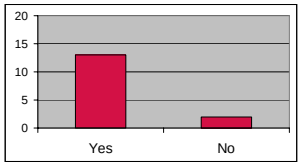
Supplement to AGN3 (2)

Results of survey

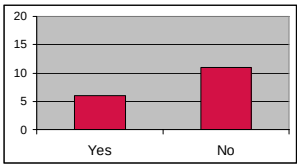
Awareness that Life Insurance Committee has been working on a supplement to AGN3



Do you support the overall direction of this work?



Are there areas of the work that concern you?



Supplement to AGN3 (3)

Comments and areas of concern:

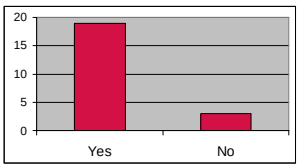
- Yields
  - Supplement states "yields used should be those as at the valuation date itself". Could this have inconsistency with the Circular Notice.
  - Using separate valuation interest rates for HKD and USD business.
  - The interpretations of yield on asset and government yields.
  - Should address the artificially low HKD Government yield due to the inefficient market.
  - Valuation interest rates, currency considerations including reinvestment yields and mismatching.
- Other comments
  - The supplement is too complicated and without a clear guidance.
  - The relationship of IFRS, any transition from the existing practice and compliance with the supplement.
  - Provision for pegged currency.
  - Better and wider consultation process e.g. through audit firms , Appointed Actuaries, ASHK

AGN7 Exposure Draft

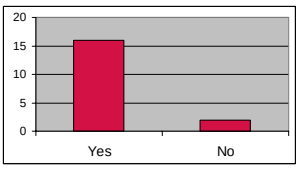
AGN7 Exposure Draft (1)

Results of survey

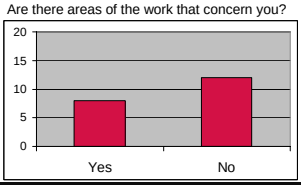
Awareness that Life Insurance Committee has been working on the AGN 7 Exposure Draft



Do you support the overall direction of this work?



Are there areas of the work that concern you?



AGN7 Exposure Draft (2)

Comments and areas of concern:

- Alignment with other requirements (e.g. IFRS and Solvency II)
  - Would be useful to compare this with the EU Solvency II Own Risk and Solvency Assessment requirements
  - Should be better aligned with Solvency II
  - There are many similar requirements from different regulators. It would be helpful if the Hong Kong DST report could refer to other similar reports rather than having to repeat the same information.
  - The methodology prescribed still leaves little room for actuarial judgement; if anything it's more prescriptive. This is not the way that the rest of the world is going (IFRS, Solvency II, etc.)
  - Need more detail on relationship to IFRS and transition from existing practice to comply with the supplement
  - The appointed actuary should be able to follow the DST rules that apply to the parent company if HK business is written in a branch of a EU based company, especially if the amount of business concerned is small.
  - Changes should align with intended direction of liability valuation regulation and solvency requirement changes
- Intended audience
  - Messages can get lost amidst the multitude of "prescribed" scenarios – there is a danger that the report is seen as an academic actuarial exercise
  - Sample report layout is too long to enable sensible discussion, and requires a separate summary report.
  - May be excessive and unnecessary for small and simple insurers
  - Don't like sending DST results to OCI - need a view from OCI on how much information to present and monitor

AGN7 Exposure Draft (3)

Comments and areas of concern:

- Scenarios to be considered:
  - If testing on some compound scenarios is good practice, then it should be put into the compulsory category and the guidance note should provide more guidance on it.
  - A minimum number of additional scenarios should not be prescribed. Consideration should instead be given to the appropriateness of specific risks to the solvency of the company.
  - Applying the same economic shock on company's capital position after a financial crisis may be too onerous on company's financial position.
  - Issues with the revised scenario - interest rates to be set to 85% of the rates projected in the base scenario; and equity and real estate market values fall by 25% in the first year.
  - additional economic stresses, e.g., credit spread widening / narrowing and currency appreciation / depreciation
- Responsibilities
  - It is the Board's responsibility to ensure management actions are carried out if solvency is threatened. It may be appropriate for the actuary to formally "recommend" actions to the Board within the report – or at least get the Board to agree that such actions would be considered if the scenario were borne out in practice.

Jeremy Porter
Co-Chairperson
Life Insurance
Committee

Sai-Cheong Foong
Co-Chairperson
Life Insurance
Committee

New Members

Fellows

Cherry CHAN - Barnett Waddingham LLP, *FIA (2004)*

Tony Chi-Kin CHAU - AIA, *FSA (2007)*

Ai-Chin CHIEW - AIA, *FSA (2010)*

Andrew Yui-Fung CHOW - KPMG, *FIA (2009), FSA (2010)*

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Louise LAM - PricewaterhouseCoopers, *FIAA (2006)*

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Associates

Fabrice HAMON - University of Occidental Brittany (UBO) *French Institute of Actuaries (2000)*

Gavin Guan-Wen JIANG - Sun Life, *AIAA (2007)*

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Joe Kai-Cho KONG - HSBC Insurance, *ASA (2008)*

Thomas Ying-Tai LAM – KPMG, *AIAA (2009)*

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Ruoxu LIU – KPMG, *ASA (2010)*

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Hing WU - KPMG, *ASA (2008)*

Rick Sheng-Yi YUAN – AIA, *ASA (2008)*

Students

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Jerry Hing-Yip YEUNG - Zurich, *SOA Student*

Nick Man-Chun YUEN - AXA, *SOA Student*

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Dennis Lik-Him CHIU - HSBC Insurance, FSA (2010)

Ka-Hei CHOI – Deloitte, *FSA (2010), CERA (2010)*

Pinky Shuk-Man CHU - Manulife Financial, *FSA (2009)*

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Wendy Wenyi GUO - Manulife Financial, *FSA (2010)*

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Jihyun KIM - Towers Watson, *FSA (2010)*

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Kay-Ying SHONG - Towers Watson, *FSA (2010), CERA (2009)*

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Fiona CHENG

Tony HO

Sing-Yee YEOH

Vincent YU

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Christopher YIP

Johnny KWOK

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Peter Yi-Dong FANG

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Horace Ka-Wo KO - Zurich, FSA (2007)

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Simon Yat-Tung LAM - Munich Re, FSA (2005)

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Tak-Chi WONG – Manulife, FSA (2007)

William Chi-Wing YEUNG – BOC, FSA (2010)

Associates

Natalie Yi-Man MOK - Manulife Financial, ASA (2007)

Michael Chi-Hang LEUNG - HSBC Insurance, ASA (2008)

Students

Tracy Ching-Man LEUNG – BOC, SOA Student

Market Update

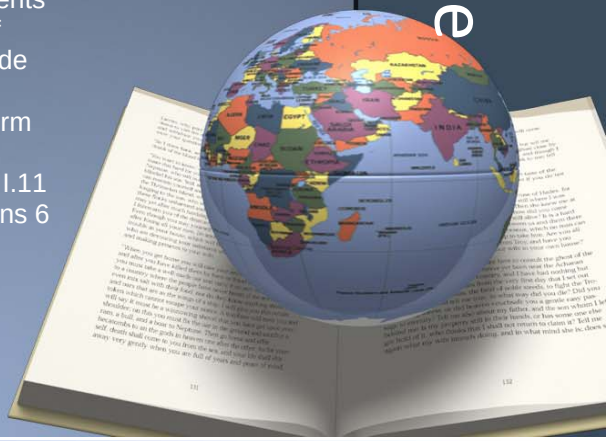
The Management Board of the Authority has recently approved two sets of new Guidelines:

Guidelines on Application for Cancellation of Approval of Constituent Funds (Guidelines I.10)

Guidelines on Application for Cancellation of Approval of Pooled Investment Funds (Guidelines I.11)

Section 36 and 6 of the Mandatory Provident Fund Schemes (General) Regulation ("Regulation") were amended by the Mandatory Provident Fund Schemes (Amendment) Ordinance 2008 to clarify the mechanism by which applications could be made for the cancellation of the approval of constituent funds ("CFs") and pooled investment funds ("PIFs"). Section 36(5) of the Regulation provides that the Authority may approve the form and specify the information and documents required for determination of the application for cancellation of approval of CFs. Section 6(5) and 6(6) of the Regulation provide that the Authority may specify the persons who can make an application for cancellation of approval of PIFs, approve the form and specify the information and documents required for determination of the application. The new Guidelines I.10 and I.11 have been issued for the purposes of section 36(5) and sections 6 (5) and 6(6) respectively.

Copies of the new Guidelines can be downloaded from the Authority's website at http://www.mpfa.org.hk.



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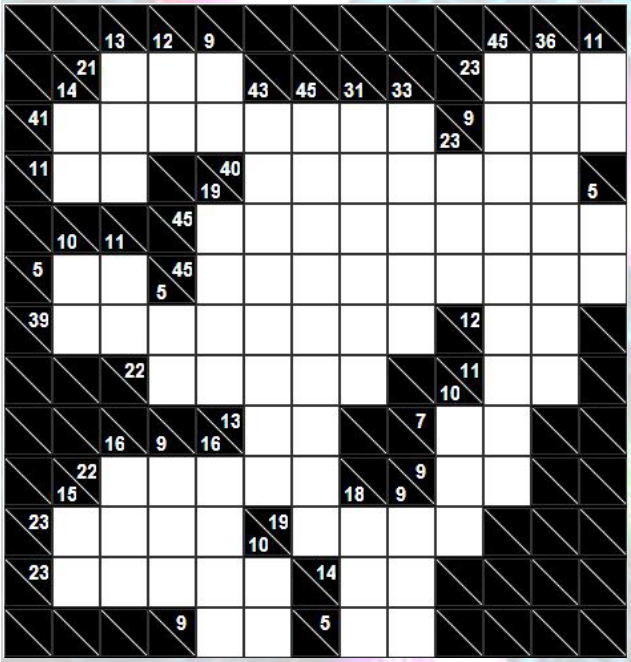
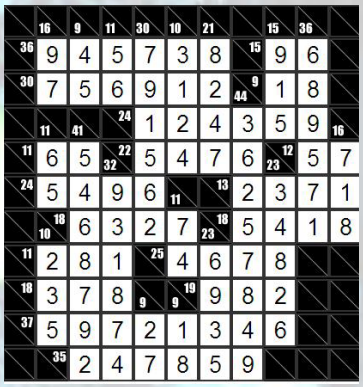
PRIZE TO GIVE AWAY!

A prize will be presented to the member who submits the first correct entry of **the Kakuro**. Join the game and submit your entry to ASHK Office by email: actuaries@biznetvigator.com **NOW** !!!



How to play:

- Place the digits 1 to 9 into a grid of squares so that each horizontal or vertical run of white squares adds up to the clue printed either to the left of or above the run.
- Numbers below a diagonal line give the total of the white squares below; numbers to the right of a diagonal line give the total of the white squares to the right.
- **No digit can be repeated** within any single run. Runs end when you reach a non-white square.



Suggested solution for Oct 2010

AND… the winner of the last issue is **Mr. Brian Lai**!

Upcoming Events 2011

- **14 Jan** SOA Global ERM Webcast
- **3 Mar** IAAust Presidential Dinner, HK
- **4 Mar** ASHK Luncheon Meeting, HK
- **23 Mar (tbc)** ASHK Luncheon Meeting, HK
- **17-20 Feb** Education & Careers Expo 2011, HK
- **20-22 Feb** Institute of Actuaries of India and IAA, 13th Global Conference of Actuaries, Mumbai
- **Apr (tbc)** ASHK Luncheon Meeting, HK
- **Apr** SOA APC, HK SOA APC, Beijing
- **30-31 May** SOA EBIG Conference, HK
- **2 Jun** SOA EBIG Conference, Tokyo
- **Jun** SAS 3rd General Insurance Conference, Singapore
- **Aug or Sep** SOA IFRS and US GAAP, HK
- **7 Nov (tbc)** ASHK Annual Dinner
- **8 Nov (tbc)** ASHK Appointed Actuaries Symposium
- **Nov** SOA APC, HK SOA APC, Shanghai
- **10-13 Oct** 16th EAAC, Kuala Lumpur, Malaysia
- **Dec** ASHK AGM, HK

EVENTS' HIGHLIGHTS

ASHK
Evening Talk
25 Oct 2010

Speaker: Mr. Tom Herget

There were over 160 members and guests attending the Annual Dinner. We were honoured to have Ms. Annie Choi as our distinguished guest speaker and also the VIPs joining us. The ASHK would like to extend sincere thanks to the following companies which had provided raffle draw sponsorship for the 2010 Annual Dinner (in alphabetical order): Ageas Insurance; Barrie & Hibbert; Darwin Rhodes; Deloitte Actuarial and Insurance Solutions; Ernst & Young, Actuarial Services, Asia; General Reinsurance AG; Hannover Life Reinsurance, Hong Kong Branch; HSBC Insurance; ING Asia Pacific; KPMG; Manulife (International); QED Actuarial part of the Acumen Resources Group; RGA Reinsurance; Sun Life Financial Asia; Swiss Reinsurance and Transamerica Reinsurance.

ASHK
Annual Dinner
2 Nov 2010

EVENTS' HIGHLIGHTS

ASHK
AA Symposium
3 Nov 2010

ASHK
Luncheon Meeting
24 Nov 2010

Speaker: Mr. John Hibbert

EVENTS' HIGHLIGHTS

ASHK
Soft Skills Course
24 & 25Nov 2010

ASHK
Evening Talk
29 Nov 2010

Speaker: Ms Daisy Ning

Speaker: Ms Tinny Tsun

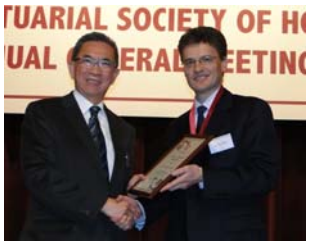
ASHK
One Day Course
6 Dec 2010

Speaker: Dr. Frank Ashe

EVENTS' HIGHLIGHTS

G.I. Talk on Healthcare Reform 16 Dec 2010

Speaker: Mr. Pang Chye



Honorary Member:
Mr. YK Chan

ASHK
EGM & AGM
16 Dec 2010

14 Jan 2011 for Asian Pacific region. Register NOW!

Register now and take part in one of the three global ERM webcasts that will take place **12-14 January 2011** in the following regions: United States, European & African and Asian Pacific. The programs in each of the regions are a mix of technical and qualitative dissertations on regulatory reform, strategic and operational risks and modeling on tail risks and implied volatility surfaces.

For the first time, and in keeping with our desire to ensure a global exchange of information, each of the regional programs will have presentations from speakers from the other two regions on subjects that have particular relevance to their markets.

To register or for more information click here.

Actuaries
Risk is Opportunity.

ASHK NEWSLETTER

Volume 03/2010

Editor

Sim Ng

Tel: (852) 3720 7872 E-mail: sim.k.ng@prudential.com.hk

Assistant Editors

Winnie Ching

Tel: (852) 2213 2949 Fax: (852) 2511 8827 E-mail: wching@hk.rgare.com

Sing-Yee Yeoh

Tel: (852) 2152 3266 E-mail: singyee.yeoh@milliman.com

Coordinators (ASHK Staff)

Patricia Kum

Tel: (852) 2147 9418 Fax: (852) 2147 2497 E-mail: patkum@netvigator.com

Tiffany Wong

Tel: (852) 2147 9419 Fax: (852) 2147 2497 E-mail: actsoff@netvigator.com

Emily Lye

Tel: (852) 2147 9420 Fax: (852) 2147 2497 E-mail: actuaries@biznetvigator.com

Contributions to the ASHK Newsletter

We welcome members' contribution to the following sections of the ASHK Newsletter: Feature Article, Actuaries on the Move, Puzzle Corner and Message Board.

Send correspondence to the ASHK Office at the address below. When sending in correspondence which has been created in a word processing program, when possible, email a copy of the file to either the editor's or the coordinators' e-mail address. Publication of contributions will be at editor's discretion.

Corporate Advertisement

The ASHK will accept from insurance companies' or actuarial consulting firms' advertisements in the ASHK Newsletter provided that the advertisements do not detract from the actuarial profession. Positioning of advertisement will be at the editor's discretion.

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