The Actuarial Society of Hong Kong

NEWSLETTER

❈ Volume 03/2006 ❈ October Issue

ACTUARIAL SOCIETY of HONG KONG
香 港 精 算 學 會

Editorial

by Ms. Sim Ng

Risk Management seems to be the buzz word of the decade. New regulations, new positions and new departments within organizations have been springing up and exerting increasingly greater influence on the management of any business. Typically, the Chief Risk Officer reports directly to the Chief Executive Officer and may even have the authority to veto decisions that may expose the business to unnecessary risk.

Is risk management really a new phenomenon? After all, isn't business all about taking risks and managing risks? Indeed, good risk management is reflective of good business management.

How then, does the field of risk management add value to business managers?

Risk management provides new tools and structures which can be used to transfer risks to other entities or individuals. In addition, it also provides a structured framework and established methods to identify and quantify risks that may have previously been the "gut feel" of business managers. Ultimately, the management of risk, and the capital required to support the potential adverse impact of risk, rests with the head of the business.

New structures in insurance risk management include the issue of CAT bonds. This is a securitization technique which has been used extensively for mortgages. In the securitization of mortgages, banks transfer pre-payment risk, interest rate risk and default risk to other parties. Mortgage securitization allows banks to get the assets off their balance sheet and capital can be managed more efficiently since regulatory capital does not have to be allocated against securitized assets. In the insurance industry, the securitization of risks has only just become more prevalent with recent issues of CAT bonds. Investors of CAT bonds effectively receive regular interest payments, usually at a margin above the bank bill rate, and the principal at expiry of the bonds. However, if a "trigger" event occurs, i.e. a catastrophic incident, then the interest payment and even the principal repayment will be at risk. Other enhancing features can also be added to the CAT bonds, such as provision of a "credit wrap" or credit guarantees.

With the impending introduction of Solvency II, it is expected there will be significant developments in the insurance industry to identify, measure and allocate capital against operational risks. As actuaries, we can certainly contribute to such developments and expand the sphere of our influence. Hence, the focus of this newsletter is on risk management. We hope that this will give members a wide perspective of the various issues of risk management.

(Chairperson of the ASHK Membership & Publications Committee, Ms. Sim Ng, FIAA, FSA can be reached at sim.ng@cba.com.hk.)

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Council Update

Committee Reports

Investment Committee

Call for volunteers: Investment and Risk Management Committee

Following the over-whelming response to the recent risk management related talks organized by the ASHK and requests for information about risk management, the brief of the Investment Committee has been expanded to cover this area of practice as well. We are therefore looking to recruit members interested in and, particularly, those practicing in the subject of risk management. Our aim is to promote actuaries working in investments and risk management and provide opportunities for more actuaries to broaden their skills and knowledge in these less traditional areas.

We have projects that will only run for a few months as well as more long-term development aims so you can commit for a period and level of participation to suit your schedule. Please contact Naomi Burger at naomi.burger@watsonwyatt.com for more details of our projects and resource needs. If you would like to meet interesting people, contribute to the development of the profession in Hong Kong and have a bit of fun along the way, this is the Committee for you!

(Chairperson of the ASHK Investment Committee, Ms. Naomi Burger, FIA, can be reached at naomi.burger@watsonwyatt.com.)

MPF Investment Guarantee Reserving Committee (ad-hoc)

Earlier this year, the ASHK formed an ad-hoc committee to comment on the consultation paper on revising the framework for the reserving of investment guarantees in MPF schemes released by the Mandatory Provident Fund Schemes Authority (MPFA). Having considered the ASHK's comments and recommendations on the consultation paper, the Insurance Authority (IA) has taken an overall review of the existing version of the Guidance Note 7 for possible improvement. A meeting was held in September 2006 among the representatives from the IA, MPFA, Life Insurance Council of the Hong Kong Federation of Insurers and ASHK for discussion of the revised GN 7. We will keep members posted on the development of the revised GN.

(Chairperson of the ASHK MPF Investment Guarantee Reserving ad-hoc Committee, Mr. Foong Sai Cheong, FIAA, FSA, can be reached at sai-cheong.foong2@aig.com.)

ASHK Best Paper Award

The **Best Paper Award 2006** honors ASHK members who excel in actuarial or business-related research. Submissions are now being accepted. You are strongly encouraged to send us intriguing papers on actuaries' issues and concerns. The top 3 winners will be presented with their awards *(Winner: Cash of HK$10,000; 1st Runner-up: Book Coupon of HK$1,000 and 2nd Runner-up: Book Coupon of HK$500)* at the 2006 ASHK Annual General Meeting to be held on Tuesday, 12 December 2006 and have their papers posted on the ASHK website. Please send your papers to ASHK Office at patkum@netvigator.com or actsoff@netvigator.com or actuaries@biznetvigator.com before the deadline (**Friday, 17 November 2006**). The pertaining requirements and guidelines for authors can be found at: http://www.actuaries.org.hk/doc/ASHK%20Best%20Paper%20Award%20%20Call%20for%20Papers%2006.pdf

Don't miss out this opportunity that can enhance your profile and career prospects!!

ASHK Website Revamp

The ASHK website upgrade is still in progress and we expect to launch our new website in November 2006.

Apart from reorganizing and strengthening the website structure and contents, we have added new sections, namely, 1) "Committee Section" for updating members of the last happening/discussion of each Committee; 2) "Education Corner and Frequently Asked Questions" providing general information on actuarial education and careers in Hong Kong; 3) "Discussion Forum" allowing members to exchange views on issues that are of their interest and 4) "Member Zone" enabling members to update their profile, search other members' contacts instantly and check actuarial job posting. A search engine has also been created to facilitate the searching of information in our website.

By the time, you are welcome to browse our new website and any comments or suggestions will be appreciated.

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Feature Articles

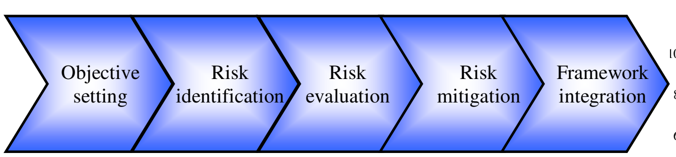
Highlights of the 2005 Watson Wyatt Risk Management Survey

In this article we highlight the main findings from the 131 responses received to our 2005 survey from leading insurers worldwide (covering Europe, North America and Asia-Pacific).

The results of the survey indicate that much change has taken place over the last 12-18 months with companies expending considerable efforts to improve their risk management practices. In particular the results indicate that companies have made significant progress in the assessment of the various risks and that they have refined the techniques used to quantify the risks. The areas of risks that, perhaps unsurprisingly, continue to be cited by respondents as requiring more investment are the identification and quantification of operational risk and the understanding of the correlations between risks.
In some regions the progress has in part been stimulated largely by regulatory developments e.g. prudential regime in the UK, development of Solvency II in Europe and RBC C3 Phase II in the USA, but the strength of the influence of evolving best practice in the industry over the last year suggests that companies appreciate the value that a robust risk framework can bring. Increasingly there are indications that competitive pressures are influencing the need to use a risk management framework as a tool in the decision making process and the day-to-day management of the business.

Risk management process

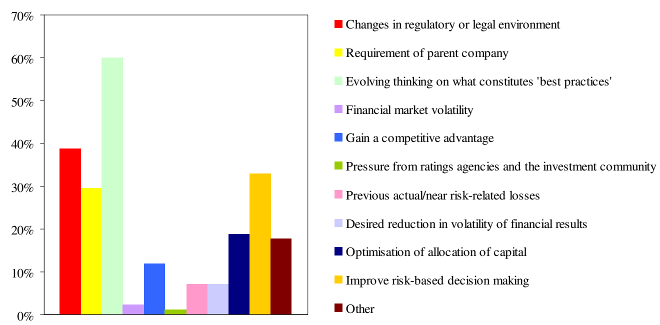
While a diversity of detailed risk management practices across companies and countries still exists, there are some fairly common 'best practice' themes that are emerging. These can best be explained by reference to the generic risk management process set out below:



Risk management framework

Two thirds of the survey respondents operated under a separately identifiable risk management framework. Of those firms operating under a separate risk management system, by far the majority had reviewed their framework within the previous six months and two thirds indicated that they planned to carry out significant development work in the following 12 months.
The principal reason for the review of their risk management systems are shown in figure 1. A large proportion of the respondents indicated that the review of their risk management systems have been stimulated largely by regulatory developments and the rapid development of evolving best practice in the industry over the last year. The quest for a competitive advantage and the desire to improve risk-based decision making was also cited by many companies as drivers for the review of their risk management systems.

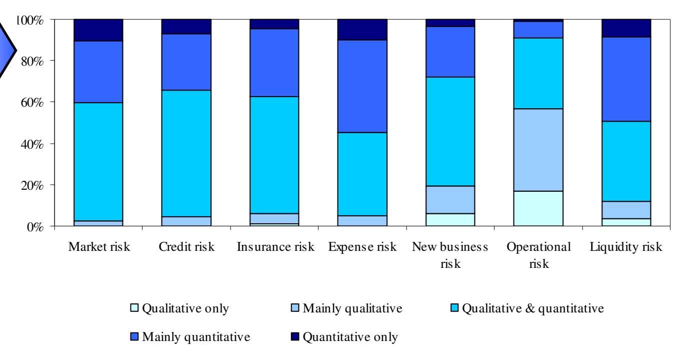
Figure 1: What were the reasons for the last review of the risk management system?



Risk identification process and assessment approach

There is no single correct approach evaluating the risks being run and as a result the survey demonstrated a diversity of risk management practices and procedures. As can be seen in figure 2 most companies are using both quantitative and qualitative techniques for most risks, but operational risk is still assessed mainly by using qualitative methods.

Figure 2: What risk assessment approach was adopted for each risk type identified?



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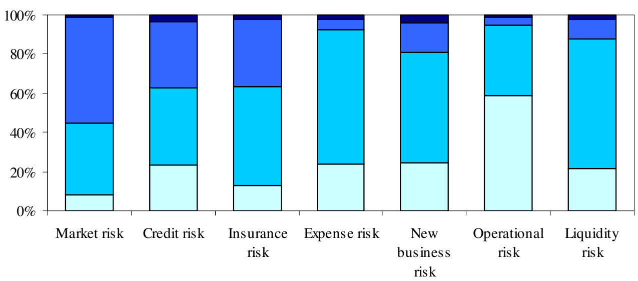
The survey revealed a significant increase over the year in the use of quantitative techniques reflecting the resources expended by firms over the year to bolster their risk evaluation processes and to remain in line with evolving market best practice.

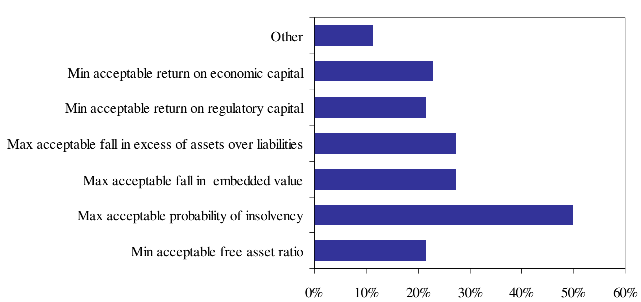
Most companies were reasonably comfortable with their methods for identifying and quantifying market, credit, insurance and liquidity risk with stochastic techniques used relatively widely. Deterministic tests are most commonly used for the assessment of liquidity, new business and expense risks, where scenario testing is often particularly valuable.

Figure 3: What quantitative methods are used?



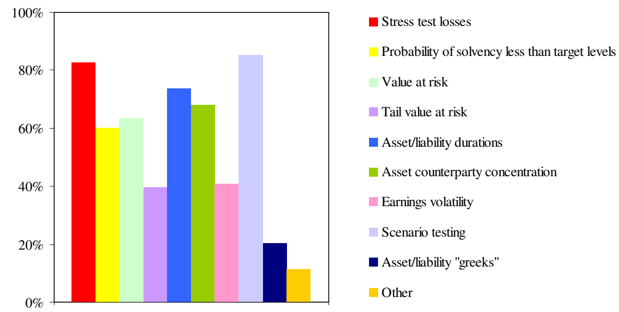
The results of this year's survey (Figure 4) indicate that there has been an increase in the use of a maximum acceptable probability of insolvency as a basis for the risk management system over the last year. At the same time, the maximum acceptable fall in embedded value as a basis for the risk management system has decreased which may, in part, reflect the decline in the use of embedded value as a true value measure of value.

Figure 4: What was the underlying basis of the risk management system?



There does not appear to be any particular risk measure dominating in the risk management framework. The risk metrics adopted by the respondents are shown in Figure 5.

Figure 5 - Which risk measures were used in the risk management framework?



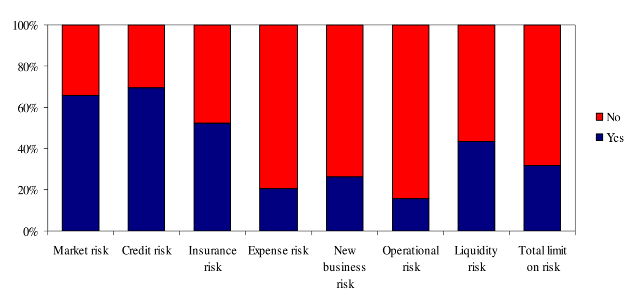
A large proportion of respondents indicated that the calculation of economic capital requirements was standard practice in their organisations. A markedly larger proportion of our European respondents indicated that economic capital was calculated for the business as a whole when compared to our UK and North American respondents, perhaps indicating the greater emphasis of economic capital measures in Europe. However, the liability measure on which the calculation is based and the time horizon used vary significantly.

Integration of the risk management system

Having progressed through objective setting, risk identification and risk quantification, most firms believe framework integration to be the greatest challenge and the area on which they will focus for the next few years.

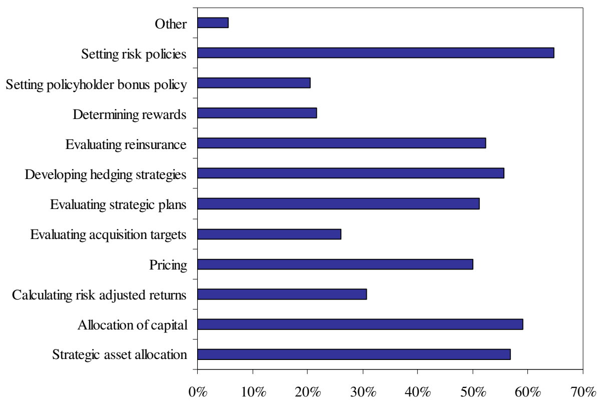
This is backed up by the results of the survey, which suggests that the use of the risk management framework to set risk limits is still relatively rare and that many strategic decisions appear to be taken without reference to the risk management system. The lack of application of a total aggregate limit across all countries indicates that fully integrated economic capital models are far from commonplace as can be seen from figure 6.

Figure 6: Whether aggregate limits were set for exposures to each risk type?



A large proportion of the respondents indicated that they are using their risk management systems as a tool to aid the allocation of capital. Allocation of capital is expected to grow in importance as a result of the convergence of regulatory and economic capital under Solvency II in Europe and the initiatives carried out by individual regulators. This should also provide the foundations for a value based management framework where return on capital is assessed on an economic rather than regulatory basis.

Figure 7 - Whether the risk management system was used in particular strategic processes?



Future of risk management

Further regulatory changes, such as the move to permit the use of internal models to assess capital requirements under Solvency II, and the desire to move towards a goal of enterprise risk management will result in companies expending further efforts in refining their the risk management framework, in particular in enhancing the approach adopted to quantify operational risks over the next few years.

Consistent with the views expressed by respondents the next couple of years are likely to see insurers across the world expending resources to embed the risk management system in their decision-making system. These efforts would assist in achieving a more holistic value driven business management approach and change the cultural focus within organisations to give risk management a higher emphasis.

Overall, respondents stated that the most important expected changes in their in risk management practices over the next 5 years are:

- the integration of risk management and risk capital requirements into the overall decision making processes of all business units,
- improvements in risk measurement models (in particular significant enhancement in the quantification of operational risk),
- compliance with Solvency II requirements (Europe),
- standardisation of reporting requirements,
- improved systems,
- increasing use of economic capital as a decision making tool,
- improved communication and education to Boards and clients, and
- increased emphasis on risk analysis from shareholders.

Conclusion

While the financial markets have been relatively stable over the past 12-18 months, relatively low long-term interest rates in many markets (putting a strain on historic minimum return guarantees) and improving longevity continue to pose challenges to the insurance industry across the world. These challenges add further impetus to the drive to improve insurers' ability to understand and manage their capital needs.

Despite the recent developments resulting from realistic balance sheet reporting and individual capital assessments, there seem to some areas in which UK insurers lag behind the practices of their counterparts in North America and some European countries. Many of these areas relate to the embedding of the risk management system and perhaps mark out the differences between systems developed initially to satisfy a regulatory requirement and those developed to support the management of the company.

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Adding value with Risk Management tools

by Max J. Rudolph

Investing the time and effort to develop a risk management culture and the financial tools to implement it can be the most important initiative a company takes. While rating agencies and regulatory entities pat you on the back and tell you what a good job you have done (hopefully), generating firm value is the underlying basis for these efforts. They work by building an understanding of the firm's unique risks. This allows iterative strategic and tactical adjustments and creates a competitive advantage.

Models built to meet regulatory requirements are the building blocks, leveraging work done previously and analyzing results in new ways. After generating stochastic scenarios, sort the results and look at the tails, both the worst and best results. What caused these scenarios to be outliers? Are the results surprising? What actions could improve these results? The firm might choose to seek out and exploit or avoid and mitigate specific risks. While an insider understands the mix of risks better than someone outside the organization, sometimes a new set of eyes can bring a unique perspective to the process. Skepticism and common sense leads to better understanding of a company's risks and better models.

Tools

There are many tools to accomplish this. In scenario planning, for each deterministic scenario management develops a plan. A pioneering example occurred over 30 years ago, when Shell Oil anticipated the possibility of an oil embargo and the resulting high oil prices. As the scenario played out, pre-determined tactical plans were implemented for a competitive advantage. In the insurance industry, actuaries can participate in the brainstorming phase of this what-if analysis and lead the financial modeling efforts. It is important to utilize historical stress points as well. The 1918 influenza pandemic provides one example. In addition to testing symmetric increases and decreases in mortality, a scenario testing a spike from a severe pandemic will help companies understand the risk of their specific product mix and age distribution, including counterparty risk from reinsurers. For example, payout annuities will earn high profits if mortality is higher than expected while term life insurance does worse. Each company has a unique mix of risks.

In order to utilize these tool sets, a base scenario must be created for comparison. Generally this will have level interest rates, with best estimate assumptions for other variables. For some risks it is nearly the best case scenario. This is true for products with convexity risk, where cash flows predictably adjust as interest rates change. This base scenario is often utilized for incentive compensation payouts and should be created for all product lines and surplus.

Stochastic scenarios, in addition to providing a multitude of statistics such as mean, standard deviation, VaR and CTE, can create information that helps a curious practitioner better understand a product line and the interactions between assets and liabilities. This tool is a great way to test various strategies such as investment purchases and crediting rates. By running all product lines across the same scenarios with an integrated model, a better understanding of enterprise risk and opportunities will emerge. Experience shows that the many surprises will help managers view the business holistically. Sometimes the product line that was thought to provide a hedge in certain situations does not. A long tail liability with expected reinvestment risk can do poorly in a rising environment if the line is duration matched but there are holes in the cash flow match during the early durations.

These models can also be used to look at business added organically or through acquisition. Many companies are leveraging the regulatory based tools used to measure risk to build complex models designed to measure how much capital they should hold. These financial models can greatly increase a firm's understanding of the risks inherent in the business, and how they interact, but modelers should be careful not to attribute too much precision. As is always the case, a model is only as good as the assumptions that go into it.

Assumptions

A new business model will not always be included in financial projections, but might exist by itself (e.g., pricing model). Sometimes an in-force only model is appropriate, such as when testing the adequacy of existing assets. Scenarios, both deterministic and stochastic, should be developed for assumptions such as claims, interest rates, equity returns and expenses. With offsetting products like payout annuities and term life insurance, an assumption like mortality should have scenarios where mortality is both higher and lower. Thinking through the scenario in advance, with potential strategies and tactics, often provides the greatest value.

Metrics

A firm's culture is partly based on the metrics preferred by senior management. The actuary's job includes showing them how to interpret various alternatives. A simple spreadsheet created for the CEO will help them understand the dynamics behind a return on equity (ROE) calculation. This analysis starts with a baseline scenario, including the current level of growth, surplus and expenses. The senior manager can build their own scenarios, estimating internal growth rates, acquisitions, expenses and turnarounds. This analysis is dependent on a realistic baseline scenario and should use best estimate assumptions. Once a few options are developed by the management team, detailed analysis can be performed. This process allows the CEO to develop scenarios without having to worry about putting together what might be perceived by others as an unrealistic or controversial scenario. For example, what CEO wants his employees to know that he is interested in the ROE improvement if expenses are reduced by 25%? While bad for morale, this could be a vital piece of information for the CEO to know.

Exposures

Understanding the interaction of risk exposures is important but rarely implemented. For example, a company might own the commercial mortgage for a building and write the group life benefit for employees. In an area susceptible to risks such as cyclones, earthquakes or terrorism it is important to understand this type of combined exposure.

Summary

Existing financial models can be leveraged to provide a competitive advantage. The key is incorporating healthy skepticism and common sense to extend risk management tools and better understand a firm's unique risk profile, exploiting those where your firm has a competitive advantage and an appetite for the specific risk. This will increase the firm's risk-reward ratio and improve firm value.

(Mr. Max J. Rudolph, FSA CFA MAAA has over 20 years experience building financial models. He currently serves on the Society of Actuaries' Board of Governors and is the Board liaison to the Joint Risk Management Section. He can be reached at max.rudolph@rudolphfinancialconsulting.com .)

Interview

by Ms Bronwyn Loong

We have invited Mr. Peter Telford from AXA Asia Pacific, Strategic Finance Department to be interviewed. Let us hear his thoughts and comments about Risk Management.

How long have you been in your role as Chief Risk Officer?

I was appointed as AXA Asia's first Chief Risk Officer at the start of 2005 so I've been in the role nearly 2 years. As it is a new role, I've been involved for all of that time in building a dedicated risk management function.

How do you contrast your current role with that of the Appointed Actuary?

I'm still an Appointed Actuary, at the same time as being CRO. The two roles fit together very well, although they have some different focuses and they answer to different stakeholders. The AA's primary duties are to maintain a sound financial condition, and to demonstrate this to the OCI. The CRO has very similar concerns, but is answerable to the company and its shareholders.

What are your general duties as Chief Risk Officer at AXA?

My job as CRO is not to manage all the risks directly – that would be impossible, and in any case it is the whole management team's responsibility to follow good risk management practices. The CRO's main duties are to advise and, in some respects, set rules on what is good practice; to monitor that good practice is actually being followed; and to measure the amount of risk being taken, relative to the company's risk appetite.

What advantages do actuaries bring in risk management roles over other finance professionals?

Actuaries are in many ways ideal CROs because we are trained to think in terms of contingencies, especially the unfavourable ones, and we know how to develop and use quantitative tools. However, a CRO needs to operate partly outside the traditional actuarial box, to think in words as well as in numbers about the company's risk profile and its implications.

What are your thoughts on Solvency II and impact on insurers?

Solvency II will be the insurance equivalent of the banking world's Basel II capital standard. It will affect all subsidiaries/branches of European insurance groups (which means many Hong Kong insurers) within a few years. A key aspect of Solvency II (as with Basel II) is that companies with strong risk management functions, and good internal risk models, can use these to work out their own solvency capital requirements – and this will usually mean a saving in capital, relative to companies without those qualities. So there will be a real commercial benefit from doing risk management well.

What are the major challenges you face in your role? Do these challenges differ by different types of risk?

In my actuarial training and career, I've learned how to measure and manage certain kinds of risk – for example insurance risk, financial option/guarantee risk and market risk. And those are the areas which most insurance companies already handle quite well. But a comprehensive risk management framework requires more – such as policies and measurements for credit risk, counterparty risk, operational risk and so on. These are relatively new areas for companies and actuaries to handle in a systematic way. In building AXA's competency across those areas, I have the support of other professionals, such as corporate financiers, investment managers, and internal auditors – they don't all work for me, but we cooperate.

How does the risk management process differ from other non-financial institutions? (eg resource companies)

There is a fundamental difference, not only between insurers and non-financial companies, but between insurers and most banks. Those companies (apart from certain investment banks for example) generally treat risk as something to manage out – by turning it away, or hedging it, or transferring it off their balance sheet. By contrast, for insurers, risk is our stock-in-trade, and we will happily accept it – provided that it's at the right price, and in the right quantity. That's why risk measurement and risk appetite are vital concepts for insurance CROs.

What is the value to the business of having good risk management?

I've already mentioned one potential benefit in terms of lower capital requirements. More directly, product development and pricing is a key opportunity for actuaries to control risk. If we get risk management wrong at this critical point, management teams for years to come will suffer the consequences. Although the value of avoiding or limiting loss events can be very considerable, it can be difficult to measure reliably, because by definition the loss that we want to value is one that hasn't occurred. Perhaps we'll never know how much the value is, but we can be grateful that we won't find out the hard way?

Operational risk is one of the more difficult risks to measure. What has been the trend in allocating capital explicitly for operational risk and do you expect this to change in the future?

Most global insurers are still in the early stages of measuring and capitalizing for operational risk. For example AXA has taken some initial steps in its European Embedded Value results for 2004 and 2005. The industry needs to do much more in terms of capturing historical data on operational risk losses, building models for future loss distributions, and standardizing reserving methods. It will be a growth area for actuarial practice.

How do risk management tools and policy in the Asian region compare with the US or Europe (eg use of Enterprise Risk Management (ERM))?

We need to make sensible use of the new techniques and tools that major world markets are developing. There may not be anything fundamentally different that Asia needs to do in risk management, compared with North America and Europe, but of course the principles need to be applied bearing in mind the generally less developed nature of most Asian markets.

What advice would you give actuaries wanting to pursue a career in risk management? Do you recommend any additional study to support this goal? Do you feel risk management is covered adequately in the current qualification syllabus?

I expect risk management to become an important "Wider Field", that some actuaries will adopt as a core part of their skill set, while the rest of us will need to understand the principles. For specialist risk management actuaries, I don't believe that current actuarial syllabuses cover the ground fully. Much of the necessary knowledge may come initially from other professional disciplines such as banking, project management, or corporate finance.

Membership Update

We would like to extend the warmest welcome to the following new members who joined the ASHK since August 2006.

Fellows
Gilbert CHIN, *FSA (2005),* CIGNA Worldwide
Ross GEOFFREY, *FIA,* Resolution Glasgow
Andy HUI, *FIAA (2006),* Tillinghast – Towers Perrin
Peggy LEUNG, *FSA (1999*), Sun Life Financial
Stanley Ming-Yuan WANG, *FIA (2005), FNZSA (2005),* Transamerica Reinsurance
Ming Wah WONG, *FIA (2004),* Mercer Human Resource

Associates
Hailiang YANG, *ASA (1994),* HKU

Students
Ka Shing CHAN, SOA Student, HSBC Insurance
Lok Man CHAN, SOA Student, HSBC Insurance
Ronald Yu-Ching CHENG, SOA Student, Manulife
Tai Wa CHOY, SOA Student, Milliman
Peter FANG, IAA Student, Watson Wyatt
Chi Wai LAI, Cytez Co
Kim Fung LAI, SOA Student, HSBC Insurance
Yvonne Yan-Yan LAI, CAS, SOA Student, Manulife
Ho Sang LAW, SOA Student, CIGNA Worldwide
Kendy Yee-Man LEUNG, SOA Student, ING Life (Bermuda)
Christy Kwok-Ying LI, SOA Student, HSBC Insurance
Kris Chun-Lok LI, SOA Student
Tze Hing NG, SOA Student, HSBC Insurance
Hilda TSE, IoA Student, Watson Wyatt
Yanum VENKATRATHNAM, FoA Student, AIA
Lawrence Chi-Cheung YEH, SOA Student, Pacific Century
Ka Yeung YIP, SOA Student, HSBC Insurance

Change of Membership Status

The following members have changed their membership status.

Fellows
Brian Yue-Cheung CHAN, *FSA (2006),* Prudential
Cathy Yu-Shan HWANG, *FCAS (2006),* Milliman
Raymond Kwok-Chung WONG, *FSA (2006*), AXA Asia Pacific
Jeffrey Ka-Chun YEUNG, *FCAS (2006),* Cologne Reinsurance

Associates
Iris Nga-Yan HO, *ASA (2006),* Watson Wyatt
Ken Chun-Kin TANG, *ASA (2006),* HSBC Insurance

Reinstatement of Membership Status

The following members have reinstated their membership status.

Fellows
Prudence Hei-Ling CHAN, *FIAA (2004),* AXA Asia Pacific
Nigel HAZELL, FIA, BPP China
Louis Fat-Kwong NG, FCIA (1988), FSA (1988), HKU
Carrie Mee-Fung YIP, FSA (2006), HSBC Life

Students
Jennifer Pui-Yin TAM, SOA Student, AXA Asia Pacific

Actuaries on the Move

The following members have changed their business details from August 2006 onwards.

Fellows
Cherry BRENNAN
Greg BRENNAN
Grace CHAN
Victor Chi-Wai LEE
Richard NG
Michael TSE
Ronald Wing-Lim WAN
Alex Ka-Chun YUE

Associates
Beda CHAN
Raymond LEUNG
Ernest Chong-Wah MOK
Willis Chun-Fai WONG

Students
Elaine Yim-Ling LAW
Rowan Winston MING

Further details of members' movements are available on ASHK online membership directory at: http://www.actuaries.org.hk/doc/2006%20Membership%20Dir.pdf

Actuaries in the Media

We publish the actuarial profession's follow-up responses to the article in the Economist edition of 28 January 2006 devoted to the role of actuaries in the pensions industry.

February 3, 2006

Editor
The Economist
25 St. James's Street
London SW1A 1HG

Sir – Your Jan. 26 article, "When the Spinning Stops," about the problems with defined benefit pension plans, raised some very important issues. Unfortunately, it also contained numerous inaccuracies and, more to the point, muddled the important differences in the histories, laws, practices, and the role of the actuary in the United States versus the U.K. In other words, what was "spinning" in the article was confusion.

Prominently missing was any mention that the U.S. actuarial profession has been working with the government for years to develop new pension rules to strengthen the system to the benefit of employees, employers, and the taxpayer. For example, we support (a) changing the rules to require employers to fund their pension plans to at least 100% of their market liabilities more quickly, (b) removing incentives for equities in the rules, (c) modifying rules that penalize companies for contributing extra funds to their pension funds in good times, and (d) making company balance and income statements more transparent. We deserve to expect more than incomplete and confusing reporting and broadside criticisms from *The Economist*.

Sincerely,
Donald J. Segal
Vice President for Pensions
American Academy of Actuaries
Washington, D.C.

Feb 16th 2006 From *The Economist* print edition

When I'm 64

SIR – Your report on the problems associated with defined-benefit pension plans raised important issues ("When the spinning stops", January 28th). However, you failed to mention that the actuarial profession in the United States has been working with the government for years to develop pension rules that strengthen the system to the benefit of employees, employers and the taxpayer. We support several proposals, which include changing the rules to require employers to fund their pension plans to at least 100% of their market liabilities more quickly; removing incentives for equities in the rules; modifying rules that penalise firms for contributing extra money to their pension funds in good times; and making company balance and income statements more transparent.

Donald J. Segal
Vice President for Pensions
American Academy of Actuaries
Washington, D.C.

Market Update

Revised MPF Guidelines

The following set of revised guidelines has been approved by the Management Board of the Mandatory Provident Fund Schemes Authority.

Guidelines on Central Securities Depositories (Guidelines I.7)
These Guidelines have been revised to reflect the changes in names of the approved central securities depositories due to merger or restructuring activities.

Copies of the revised Guidelines could be downloaded from the MPFA website at:
http://www.mpfahk.org/english/leg_reg/leg_reg_gui/leg_reg_gui_p1/leg_reg_gui_p1_6.html

CPD News

CPD………Have your say

by Mr. Nigel Hazell

For many years doctors and vets have been required to maintain a certain level of on-going professional development, in order to continue practising in their respective fields.

The legal profession was the next to impose mandatory CPD requirements.

And, at long last, the financial professions, including many of the actuarial bodies, have more recently joined the club.

Whilst this may seem, at first impression, as an unreasonable burden for us professionals, who have proved our worth by passing various examinations, often over extended periods of torture, you may wish to consider the following.

- Would you be happy to be treated by a doctor who has not kept up to date with medical advancements since he qualified 20 years ago?
- And likewise, would a board director of a large life insurer feel comfortable relying on the judgment of an actuary who also had not bothered keeping up-to-date with developments (even with events such as the Equitable Life in the UK)?

The ASHK defines CPD as "the maintenance, improvement and broadening of knowledge and skills and the development of the personal qualities necessary for the execution of professional and associated technical duties throughout the actuary's working life."

It has further determined, in principle, that its fellow members are deemed to have fulfilled the ASHK CPD requirements, if they have fulfilled those of their respective professional bodies – but provided a reasonable proportion of the CPD relates directly to the Hong Kong market.

Of the existing base of ASHK fellows, the Society of Actuaries represents the single largest original qualifying body, at 53%. 19% are originally FIAAs and a same percentage from the Institute / Faculty in the UK.

As such a comparison of the CPD requirements of each of these is set out below:

	FSA	FIAA	FIA / FFA
Mandatory	No*	Yes	Yes, for all working Actuaries
No of Hours	-	40	15
No of Relevant Hours	-	-	10 in practice area for Category 2
Formal Verification	-	Verifiable	Verifiable or personally assessed
Professional Content	-	Should include business environment -but professionalism not specified	Category 2:2 hours p.a. (and attendance at professionalism event every 10 years for those in UK)

(The Society of Actuaries have a requirement for individuals to complete 50 "credits" prior to gaining fellowship status – but no continuing PD requirement applies.)*

As can be seen, although the Australian Institute has had mandatory minimum CPD levels for a while, the Society is yet to do so, and the UK bodies only imposed it for actuaries generally from July this year.

The UK's new system requires fellows to decide which category they are in, viz:

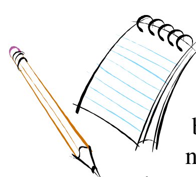
<u>Category</u>

1. If a UK statutory practising certificate from the profession is required.
2. Performing actuarial work (but not in Cat. 1)
3. Working, but not in actuarial capacity
4. Retired

For FIAs / FFAs in Hong Kong, the vast majority would be in category 2.

Given this increasing base of Fellows within the ASHK who need to meet CPD requirements, BPP (the major shareholder of ActEd, and the world's largest provider of actuarial education) has kindly offered to collate your views as to those areas of most interest to you, as far as CPD is concerned.

Accordingly, please go to http://www.actuaries.org.hk/doc/CPDQuestionnaire.pdf to complete the questionnaire no later then 19th November.



The aggregate results of this survey will be presented in a subsequent ASHK newsletter and will give you an idea on how the membership is generally fulfilling CPD requirements.

So please have your say!

(Mr. Nigel Hazell, FIA, BPP China Ltd can be reached at nigelhazell@bpp.com.)

The Actuarial Society of Hong Kong
NEWSLETTER
❈ Volume 03/2006 ❈ October Issue

ACTUARIAL SOCIETY of HONG KONG
香港精算學會

Event Highlights

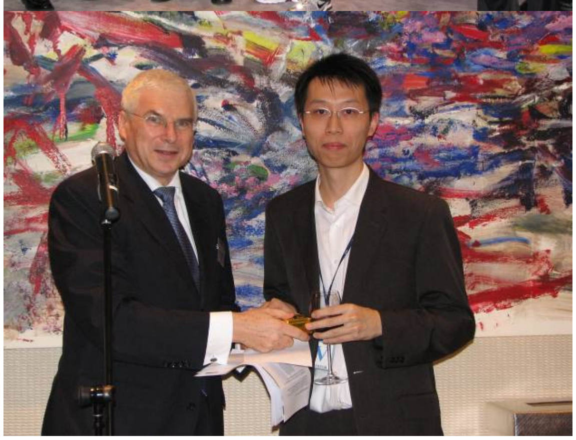
SOA Course 7

Course 7 of the Society of Actuaries was held at Novotel Century Hong Kong on 14-17 August 2006.

Three faculty members flew in from Australia and Canada especially for the Course. In between their tight program schedule, the faculty visited the Hong Kong Actuaries Office and had a dinner gathering with us.

2nd Actuarial Circle

With the success of the first Actuarial Circle, the second Actuarial Circle was held on 8 September 2006 on the 33/F of AIG Tower in Central. With totally unimpeded harbour and city view, fun games and wide variety of food and drinks, all the guests enjoyed a relaxing and wonderful Friday evening!



Faculty President in Town

The President of the Faculty of Actuaries, Mr. Stewart Ritchie visited Hong Kong on 27 September. The ASHK was honored to invite him to deliver a luncheon talk at the JW Marriot Hong Kong, entitled "An Update on the UK Actuarial Profession and the Strategy Review".

Again, a prize will be presented to the member who submits the first correct entry. Join the puzzling craze and submit your entry to ASHK Office by email: actuaries@biznetvigator.com NOW!

Solution for last issue's Sudoku:

5	9	6	3	8	4	2	1	7
7	4	3	9	1	2	8	5	6
8	1	2	5	6	7	4	3	9
3	8	9	1	4	5	7	6	2
4	6	5	7	2	8	3	9	1
1	2	7	6	9	3	5	4	8
6	5	4	8	7	1	9	2	3
9	3	8	2	5	6	1	7	4
2	7	1	4	3	9	6	8	5

Do you Sudoku?

It's time to take a break! Last time we received the 1st correct entry from Mr. Duncan Spooner of Deloitte. Congratulations, Duncan! Our members certainly enjoy the Sudoku challenge as we had received many correct answers from members! This time, we have another Sudoku game here!

.

How to play: fill in each square with a number so that each row, column and each 3 X 3 block contains 1 to 9

	2							7
	7				4		1	
9		5						
	8		6	3				2
7								1
2				1	8		6	
						4		9
	3		1				2	
4							8	

The Actuarial Society of Hong Kong

NEWSLETTER

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Contributions to the ASHK Newsletter
We welcome members' contribution to the following sections of the ASHK Newsletter: *Feature Article, Actuaries on the Move and Do you Sudoku?*

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.

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

Advertising Rates:

	One Off	Whole Year
Full page	HK$4,000	HK$3,600@
Half page	HK$2,000	HK$1,800@
Quarter page	HK$1,000	HK$900@

To advertise, please contact the ASHK Office by tel: (852) 2147 9418 / 9419 / 9420 or e-mail: patkum@netvigator.com / actsoff@netvigator.com / actuaries@biznetvigator.com

INVITATION

ASHK ANNUAL DINNER 14 NOVEMBER 2006

INVITATION You are warmly invited to share the evening with fellow members and guests, along with newly qualified Fellow members.

- **RECEPTION** 6.15 pm – 7.15 pm (*wine served*)
- **DINNER** 7.15 pm – 10 pm

  Hong Kong Jockey Club
  Happy Valley Clubhouse
  The Chater Room I-III, 2/F
  25 Shan Kwong Road, Happy Valley

- **HIGHLIGHTS**
  - Speech by Guest of Honour, Mr Paul Chow, Chief Executive of Hong Kong Exchanges & Clearing Ltd
  - New Fellows Acknowledgement Ceremony
  - The Quavers – A Cappella Performance *(singing without instrumental accompaniment)*
  - Table Game
  - Raffle Draw

REGISTRATION The registration fee is HK$550 per person or HK$5,500 per table of 10 persons. Please download the registration form from the ASHK website.

Newly qualified Fellow Members* are cordially invited to attend the Dinner on a complimentary basis.

* See list of newly qualified Fellows from ASHK website

RSVP 3 November 2006

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Upcoming Events

(More details can be found on ASHK website at www.actuaries.org.hk)

Date	Event
24 – 26 Oct 06	**SOA US GAAP Seminar, Hong Kong**
14 Nov 06	**ASHK 3rd Annual Dinner** *The Hong Kong Jockey Club, Happy Valley Clubhouse*
15 Nov 06	**ASHK 6th Appointed Actuaries Symposium** *The Hong Kong Jockey Club, Happy Valley Clubhouse*
27 – 30 Nov 06	**SOA Course 7, Hong Kong**
4 – 8 Dec 06	**Health Seminar, Hangzhou, China** *by Mr. Howard Bolnick, IAA Health Section Chairman & Adjunct Professor of Finance, Kellogg GSM*
12 Dec 06	**ASHK Annual General Meeting**
13 Dec 06	**SOA Associateship Professionalism Course, Hong Kong**
14 Dec 06	**ASHK Half-Day Talk** *by Prof. Elias Shiu, University of Hong Kong & University of Iowa*
15 Dec 06	**SOA Associateship Professionalism Course, Shanghai**