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Thoughts on the Proposed Risk-based Capital Framework for the Insurance Industry of Hong Kong

Initial Observations of the Hong Kong IA's proposed Risk-based Capital Framework

The RBC Consultation Paper: A defining moment for Enterprise

A Risk-based Capital Framework for Insurers in Hong Kong: Looking to the Future

Feature Article Theme:

Hong Kong Risk-Based Capital Framework

Call for Articles or Views for the next issue of Newsletter

While all articles are welcome, we would especially like to receive articles for the Feature Articles and Knowledge Sharing sections. If you have written any inspiring articles or have read any interesting articles from other actuarial organization(s), please feel free to let us know. We will try to reprint the article(s) in our newsletter to share with our members. For the above issues, please e-mail your articles or views to Simon Lam by email at slam@munichre.com or ASHK's office by email at actuaries@biznetvigator.com.

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Dear Readers,

Season's greetings from ASHK! We are delighted to present the fourth issue of newsletter in 2014.



In this issue, we are featuring the topic of the latest proposed Hong Kong Risk-based Capital Framework. In September 2014, OCI has issued the consultation papers on this subject which will probably affect our coming solvency regime and even business model. Thus, we have invited several consultants to share with us their views on this topic. We would like to express our appreciation to Deloitte Consulting, Ernst & Young Actuarial Services, Milliman Limited and PricewaterhouseCoopers (the companies listed in alphabetical order) for their generous insights. We hope that these will be inspiring food for thoughts for all of you.

It is our pleasure to announce the formulation of 2015 ASHK Council, which was newly elected on 15th December 2014. With all of your support, the Council will surely try their best for another fruitful year ahead. We are happy to share with you the president's report and message from the new president in this issue.

We would like to take this opportunity to thank all volunteers for their wonderful contribution towards ASHK in 2015. Their kind efforts are irreplaceable in ASHK's continuous development. Their contributions are certainly well recognized by all of us.

Last but not least, may I show the greatest gratitude to the entire ASHK staff and the Membership and Publications Committee for their helpful contributions for both of 2014's newsletter and membership services. We will continue to work together and strive forward for ASHK.

Merry Christmas and happy New Year!

Best Regards,

Simon Lam

EDITOR

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Thoughts on the Proposed Risk-based Capital Framework for the Insurance Industry of Hong Kong



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The Insurance Authority ("IA") issued the Consultation Paper on a Risk-based Capital Framework for the Insurance Industry of Hong Kong ("Consultation Paper") on 16 September 2014. The Consultation Paper proposes a three pillar structure approach to the new capital adequacy framework, which is designed with the objective of complying with the Insurance Core Principles ("ICP") issued by the International Association of Insurance Supervisors ("IAIS").

The existing capital adequacy framework in Hong Kong is a rule based approach where the risk exposure specific to an insurer is not quantified explicitly. The introduction of a risk-based capital ("RBC") framework by the IA is a natural enhancement to the existing framework given the international trend towards a more risk-sensitive approach to quantifying capital requirements, enhancing corporate governance, enterprise risk management ("ERM") and public disclosure practices of insurer.

The IA has invited written comments regarding the Consultation Paper by interested parties on or before 15 December 2014. The Consultation Paper has included 37 consultation questions in total, divided into the following areas:

Areas	Number of Questions
Pillar 1	19
Pillar 2	7
Pillar 3	1
Group-wide Supervision	10



It is worth highlighting a number of areas of the Consultation Paper that have attracted a higher amount of discussion and debate amongst the actuarial profession.

Total Balance Sheet Approach

The Consultation Paper proposes the adoption of a total balance approach whereby the assessment of solvency, valuation of assets and liabilities and determination of capital resources should be measured on a consistent basis.

While the profession generally agrees with the total balance sheet approach, a proportion of people have expressed concerns over the unavailability and a lack of liquidity in sufficiently long dated assets where the consistency with long duration liabilities can be meaningfully defined. The preference is that the stability of the financial position is not significantly compromised by the goal of trying to achieve a perceived but potentially arbitrary level of consistency.

One Year's Forecast of New Business

The Consultation Paper proposes to include an allowance for one year's forecast of new business in the Prescribed Capital Requirement ("PCR") determination.

There are mixed views across the profession regarding this proposal. For life insurers, one of the arguments against inclusion of new business is that an insurer should not be required to be capitalised in respect of business not yet sold as the sale is controllable by management. There are also concerns over the solvency of an insurer being potentially dependent on future unsold but highly profitable business even under a stressed scenario.

Some have argued that from a comparability point of view, the inclusion of new business valuation in the PCR calculations potentially reduces transparency due to the subjective assumptions used in the allowance of future sales volume and mix of new business. Impact from future new business will also be assessed under the Pillar 2 assessments; it will also be difficult to avoid double counting of capital requirements relating to new business if it is included in the PCR calculations.

Others have made reference to the European Solvency II standard formula approach, which is similar to the preferred standardized approach proposed by the Consultation Paper. The former applies instantaneous stresses to the balance sheet at the valuation date; it does not take the changes in assets and liabilities as well as forecast of new business in the 12 months following the valuation into account.

The major argument put forward by proponents of inclusion of new business in the PCR calculations is around the going-concern interpretation. The PCR is proposed to be determined on a going-concern basis and a measure without considerations for new business is not perceived to be aligned to the said basis.

For non-life insurers, there is strong support for the inclusion of new business. The underlying rationale is that for non-life insurers in Hong Kong, new business accounts for a material proportion of the risk due to the much shorter liability duration.

99.5% Confidence Value-at-Risk

The Consultation Paper proposes the alignment of PCR with a Value-at-Risk ("VaR") calculated at a 99.5% confidence level over a one-year time horizon.

Again there are mixed views across the profession. Proponents agree with the 99.5% confidence level being consistent with the short term probability of insolvency for a minimum investment grade security over one year.

An alternative view is agreement with the VaR approach but a feeling that mandating the level of confidence at this stage, before any Quantitative Impact Studies ("QIS") is performed, is premature. It is also noted that the ICP only mentions a 99.5% VaR as an example of calibrated confidence level rather than specifying what the target should be.

There are some further comments that question the value to policyholders from specifying and disclosing any particular level of confidence at all, compared with the alternative of IA maintaining more flexibility in adjusting the levels to provide a very prudent level of protection to policyholders, depending on current economic conditions.

While the majority agrees with a VaR approach to measuring capital requirements, there are also suggestions to simply focus on maintaining a positive equity component under a stressed balance sheet (more on this later in the Risk Margin and Allowance for Options and Guarantees part).

Internal Models

The Consultation Paper proposes to adopt a standardized approach as a starting point for PCR and MCR calculations but retain the flexibility to allow internal models, subject to the approval by the IA.

The dominant view is agreement with the theory behind internal models. However, it is not an uncommon view that consistency and comparability will be issues that cannot be addressed initially for internal models to be implemented from the outset. Some feel that internal models should only be allowed after approval guidelines have been established by the IA and there are sufficient resources to assess them properly.

Risk Categories

The Consultation Paper proposes 5 broad categories of risks, namely, underwriting risk, market risk, credit risk, operational risk and liquidity risk.

The profession is generally in agreement with the proposed categories. Policyholder behavioural risk such as lapses and other policyholder options (e.g. reduced paid up, annuity vs lump sum payout, option to increase sum assured) has been raised by some as being different from pure contingencies type underwriting risk such as mortality and morbidity. The thought is that these two kinds of risk are driven by fundamentally different risk factors, and so could belong to different risk categories.

Alignment with General Purpose Financial Statements

The Consultation Paper proposed that the valuation of assets and liabilities to support the determination of capital should be derived from adjustments to the general purpose financial statements based on HKFRS or IFRS.



There appears to be a high level of agreement across the profession in aligning with general purpose financial statements to minimise the administrative and compliance burden caused by dual reporting. There are comments around recognising that general purpose financial statements based on HKFRS or IFRS may not have consistent basis of measure for asset and liabilities so adjustments will be expected.

The Contractual Service Margin ("CSM") under the existing proposal of IFRS 4 Phase 2 is an example of the above adjustments. There are some views to removing it entirely from the solvency technical provisions while others have suggested that this should be an allowable item when considering capital resources.

Class G

The Consultation Paper proposes to exclude Class G of long-term business from using economic valuation and that the valuation basis for Class G business should remain the same as the prevailing Guidance Note on the Reserve Provision for Class G of Long-Term business ("GN 7"), published by the Office of the Commissioner of Insurance ("OCI").

Some respondents have indicated uncertainty about the rationale to exclude Class G, in particular, it is noted that GN 7 requires a 99% level of confidence for reserving, as opposed to the Consultation Paper proposal of a Margin over Current Estimate ("MOCE") approach to reserving and a 99.5% confidence level for determining PCR. There are suggestions to amend GN 7 to allow for a consistent methodology with the new framework.

Market Consistent vs Amortised Cost Approach

The Consultation Paper proposes to adopt a market consistent valuation approach or a combination of market consistent and amortised cost approach, depending on the class of business.

Many people have been supportive of having the option to use an amortised cost valuation approach, particularly in relation to the business with discretionary benefits that are dependent on long term asset returns rather than short term market volatility. It is also consistent with the general purpose financial statements under HKFRS and IFRS.

Avoidance of Pro-Cyclicality

The Consultation Paper proposes two techniques to reduce pro-cyclicality under a market consistent approach: (a) using a market-referenced rate, defined with reference both to current yields and historical yields, (b) the IA retaining an ability to apply alternative valuation techniques during anomalous market conditions.

There has been generally high support for the intention to avoid pro-cyclicality. There have been discussions and concerns around the difficulty in achieving consistency between asset and liability valuation under a total balance sheet approach if market-referenced rate is used for liability valuation. Some suggestions include requesting a more clearly defined approach (a), which has been argued to implicitly suggest the necessity of having approach (b) in place at the same time since it is very difficult to ensure any pre-defined approach will work during market distress, particularly for longer durations.

Margin over Current Estimate and Allowance for Options and Guarantees

The Consultation Paper proposes that the technical provisions should include a MOCE and an explicit allowance for options and guarantees.

While many seem to be generally in agreement with the proposal, there are a number of related comments regarding these items.

The Consultation Paper stated that it does not consider it appropriate to specify a particular approach to determining MOCE due to the diverse nature of insurance businesses. The same considerations could also be applicable to the setting of standardised approach to PCR calculations, but a centralised approach has been proposed by the Consultation Paper instead. There are suggestions that the two calibrations/approaches should be consistent.

Following on from the previous view between a stressed balance sheet approach vs a VaR approach, where the former is thought to be appropriate, there have been some debates about the value of calculating a MOCE and allowance for options and guarantees. The rationale is that a 99.5% confidence stress is already an extreme event, further calibrations around a stress and valuation of cost of asymmetry under such a scenario would appear spurious.

Cash Value Floor

The Consultation Paper proposes that the valuation of technical provisions should make allowance for cash value floor. The rationale is to provide additional protection to policyholders in the event of a high level of surrenders, which seen to be beyond the control of insurers.

There appears to be a near universal view that the cash value floor should be removed. Applying a cash value floor in the valuation of technical provisions is felt to be against the principles of an economic valuation, which is required by ICP 14.4. The existence of a cash value floor is seen to potentially create distortions in the perceived risk exposure as the technical provisions can become fixed due to the cash value floor during the calculations of capital requirements under stress testing approaches and therefore the "economic value" of the insurer appearing incorrectly insensitive.

A number of alternate techniques have been voiced to provide similar levels of protection:

- * Apply a full or partial cash value floor at an aggregate technical provisions and capital requirement level.
- * Calculate a mass lapse risk capital by assessing the financial impact of having a proportion of the portfolio lapsing immediately.
- * Introduce different tiering of capital resources arising from (1) shortfall of technical provisions with cash value floor and (2) negative reserves.

Investments in Financial Instruments

The Consultation Paper proposes to expand the Guidance Note on Asset Management by Authorised Insurers ("GN 13"), published by the OCI, to enhance the existing regulations around asset allocation and management with a focus on assessing maximum possible losses and provision of information on more complex and less transparent classes of assets.

There appears to be general support in enhancing the provision of information with recommendations to take a proportionate approach particularly for less complex asset types.

Other comments around disclosure is that the more complex and less transparent classes of assets are also covered by the HKFRS 12 %Disclosure of Interests in Other Entities+ and HKFRS 13 %Fair Value Measurement+. HKFRS 12 requires disclosure in the nature of, and risks associated with, the insurer's interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

HKFRS 13 requires disclosure of the fair value measurement including quantitative information, valuation processes and sensitivity to changes in unobservable inputs. Both disclosure requirements provide useful information to help stakeholders understand and measure the risk of such investments and so the enhancement to GN 13 should take this consideration into account.



Proportionality for Pillar 2 Requirements

The Consultation Paper proposes to apply the principles of proportionality to the Pillar 2 requirements of the proposed RBC regime.

There is wide agreement with the proposal. There are also comments, however, around the importance to ensure that no policyholders will be offered an inferior amount of protection as a result and that guidance should be provided to the industry such that the application of proportionality will only be allowed if policyholders will enjoy the same level of protection regardless of the nature, scale and complexity of the insurer they insure with.

Group-wide Supervision

The Consultation Paper proposes a three-tier group-wide supervisory approach.

There has been general support for the concept of a group-wide supervisory approach but a number of respondents have indicated that the wording in the Consultation Paper on this topic has been difficult to follow.

Many comments in the profession are centred on the avoidance of duplication of supervisory requirements. A view is that provided an insurance group or sub-group is subject to an ICP-compliant supervisory regime, then the extent of supervision requirements of the IA could be focused on the specific operations in Hong Kong only.



Initial observations of the Hong Kong IA's proposed Risk-based Capital Framework



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Background

On Sep 16, 2014, the Hong Kong Insurance Authority (IA) released a consultation paper (CP) on a proposed Risk-based Capital Framework for the insurance industry of Hong Kong, inviting the industry to comment on the proposed framework. Since the 1980s, Hong Kong has followed a rule-based capital adequacy regime for insurers, i.e. a Solvency I framework, which sets a predefined formula to determine the solvency margin requirement. The CP symbolizes a significant step for the IA to move towards a risk based capital regime and to enhance the corporate governance, Enterprise Risk Management (ERM) and public disclosure practices of insurers.

There is a growing trend towards a common regulatory framework for financial institutions. This follows in the aftermath of global financial turmoil and substantial market developments since legislation was first drawn up. Aiming to align with international standards and practices, the IA began discussions and consultation with the industry on the introduction of an RBC framework in 2013. The IA is reviewing the solvency and capital regime with a view to develop an appropriate RBC framework for Hong Kong, taking into account experiences in other jurisdictions and the latest international regulatory requirements. The new RBC framework is expected to be implemented in 4 phases, including Quantitative Impact Studies (QIS) in 2015/2016 and a legislation amendment period of 2 to 3 years.

Considerations

According to the IA, the proposed RBC framework considers the following key aspects:

- * Latest Insurance Core Principles (ICP) issued by the International Association of Insurance Supervisors (IAIS)
- * Experience of overseas jurisdictions that have already put in place RBC regime
- * Hong Kong's unique market situation
- * The need to foster a level playing field for all insurers in the market
- * Incentives to introduce enhanced risk management
- * Balance policyholder protection and cost of doing business in Hong Kong

Implications

Although there are no QIS or detail rules during the initial consultation period, some insurers have already started their potential impact studies.

Will more capital be required?

This is a difficult question at this stage given the limited visibility of the quantitative requirements. We can, perhaps, infer the potential impact from observations of the other regime.

- * The total balance sheet approach places increasing emphasis on asset liability matching. Companies with well managed asset and liability movements under stress scenarios will likely have lower capital requirement.
- * More refined risk categorization introduces additional capital requirements for investment risks.
- * The proposed surrender value floor will likely to kick in more often under the best estimated projection, flooring the technical provision at a certain level.

Will there be changes to valuation of assets and liabilities?

The proposed RBC requires setting up %Margin over the current estimate+and suggests insurers use either a market consistent valuation approach or a combination of market consistent and amortized cost valuation approaches for solvency purpose. The valuation of assets and liabilities for solvency purpose is expected to move in tandem with the valuation of assets and liabilities for general purpose financial reports. It should be noted that adopting a market consistent approach may cause greater volatility in capital adequacy. The proposed RBC also considers scooping out Class G business.

Will internal model be allowed?

Companies subjected to Solvency II are incentivized to develop their own internal models. Under the proposed RBC, internal models should not initially be required for the purpose of calculating regulatory capital, although they may be permitted subject to approval by the IA.

How will Enterprise Risk Management (“ERM”) come into play?

Under the current framework, there is no explicit ERM requirement. GN10 and GN13 provide guidance on corporate governance, risk management and internal controls. Dynamic Solvency Test (%DST+) is also required for long term business. Pillar 2 of the proposed RBC framework aims at encouraging increased standards of corporate governance and ERM. The proposed RBC framework requires, as a minimum, processes and reporting procedures necessary to identify, measure, monitor, manage and report the risks to which insurers are or may be exposed, and their interdependencies.

What is the group level capital requirement?

The CP proposes that group-wide capital adequacy assessment should be based on the group level focus approach using the consolidation method. Use of other method is subjected to the IA’s approval. There is, however, the concern about the capital fungibility, especially under stress situation from both capital and liquidity perspectives.



The RBC Consultation Paper: A defining moment for Enterprise



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The Hong Kong Insurance Authority recently issued the Risk Based Capital (“RBC”) Consultation Paper outlining a proposed new capital framework. In this article, Michael Daly and Lin Sun, Consulting Actuaries from Milliman, discuss the key challenges and opportunities for insurers as they plan the integration of Enterprise Risk Management (“ERM”) principles set out in the new framework into their business operations.

Introduction

The proposed RBC framework adopts a similar three pillar approach as required under Solvency II. One crucial requirement, and a cornerstone of Pillar 2, is that insurers must be able to demonstrate they have adequate and appropriate risk management systems. Since the state of ERM in the Hong Kong insurance industry is under development, there is an opportunity to leverage the experience of insurers in other markets and to build an ERM framework unencumbered by legacy issues.

However, the challenges of ensuring compliance in practice are multi-faceted. In our experience, successful ERM integrations are built to satisfy the following three goals:

- * Risk reporting that both captures idiosyncratic business unit risks and allows for aggregation of risk measures to formulate an enterprise risk profile;
- * Systems, processes and models that enable continuous and reliable monitoring of risk and produce timely reports and analyses for decision makers at multiple levels in insurance organisations; and
- * Risk operations that go beyond regulatory accounting requirements and are used to inform management decisions in assessing the impact of business strategies.

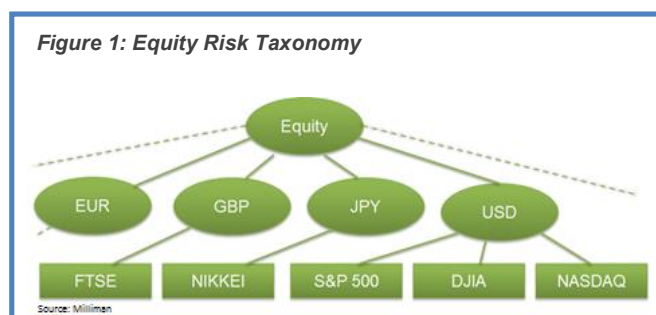
We discuss some key considerations within these three areas in the following paragraphs.

Risk Reporting

During the risk reporting design phase, insurers need to balance the considerations of gathering unique risk profiles and risk perspectives from different business units against enforcing standardised risk definitions and measures for meaningful risk aggregation. This fundamental tension in the ERM process arises in the selection of the risk driver universe, construction of risk driver probabilities/scenarios and definition of report templates and metrics.

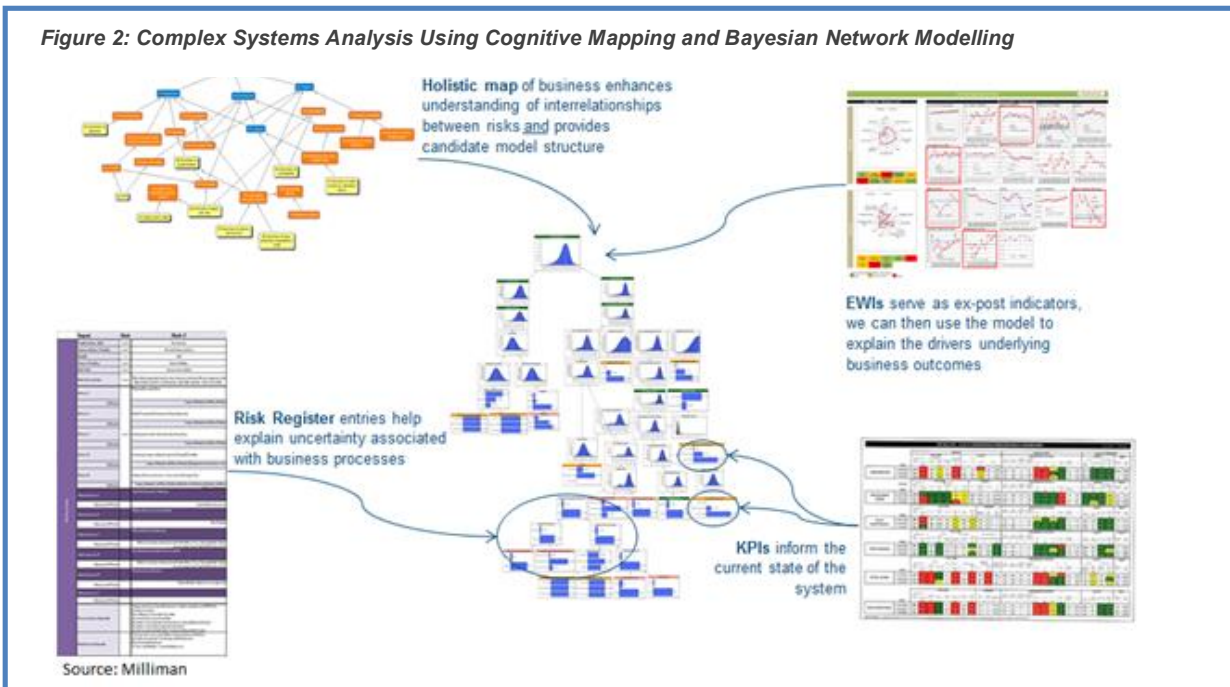
The RBC Consultation Paper outlines a standard set of risk categories e.g. underwriting risk, market risk, credit risk, operational risk and liquidity risk. However, in reality the risk universe is unlimited. Each category can be represented by innumerable quantifiable drivers, and business units will often have existing risk definitions unique to their operations and functions.

A simple example is the definition of equity risk. Naturally, business units operating in different countries will reference different equity indices. As a result, it is crucial that the risk reporting design offers a consistent unifying framework and provides a structure for grouping related risks, which offers granularity and facilitates reporting at different levels. We show an illustrative equity risk taxonomy below:



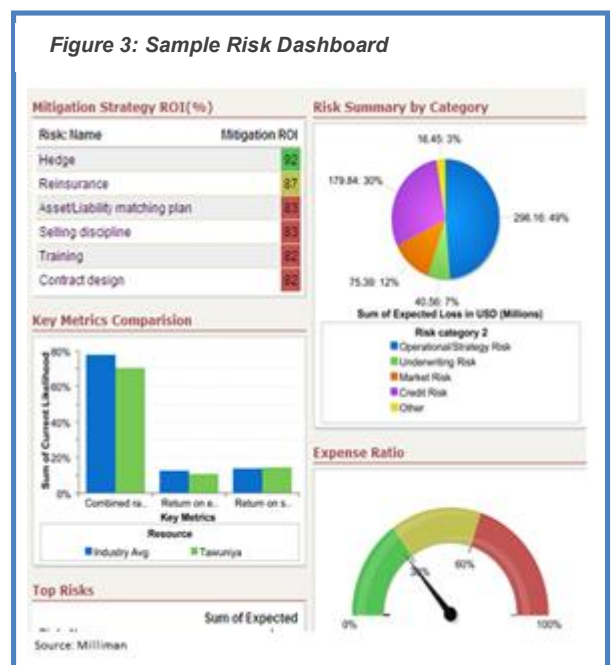
Defining risk distributions and their correlations requires a high level of expertise. This represents a significant challenge that many insurers have struggled with in other markets, especially for risks that are not easily quantifiable, such as operational risk. The RBC Consultation Paper acknowledges this difficulty and allows insurers to make qualitative assessments.

However, as operational risk is a fundamental driver of enterprise risk and value creation, some insurers are pioneering new frameworks for analysing multi-faceted business dynamics. They are leveraging complex systems analysis developed in other fields to connect business outcomes directly to key processes and risk factors. For example, one life insurer in Asia used this type of analysis recently to better understand its new business distribution risk drivers. Using cognitive mapping and Bayesian network modelling, the company was able to determine the different dynamics relating to agency and bancassurance distribution channels and to quantify potential operational losses associated with new business sales.



As many insurers who are subject to Solvency II will attest, ensuring consistency between assets and liabilities is time consuming for many areas of the company. Typically, business units have differing viewpoints on the appropriate basis for reporting. Investment departments, which operate in the capital markets world, often prefer market consistent valuations to report asset values and yields. Actuarial valuation departments have liability models and output based on regulatory requirements, which might include some element of market consistency, but will most likely be on a prescribed book value basis. Finance departments produce reporting numbers and forward-looking metrics based on their applicable accounting bases.

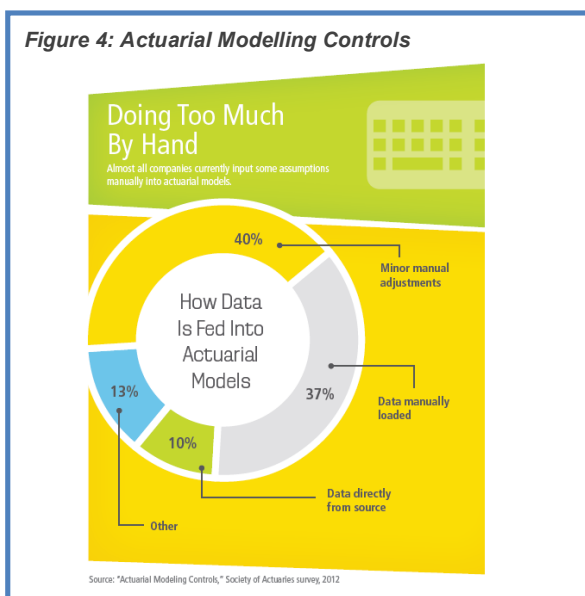
As a result, embedding risk templates and metrics into existing processes across multiple business units and functions requires a thoughtful and nuanced approach to defining enterprise wide standards. The selection of the templates and the key performance indicators from each unit and function should leverage existing reporting tools and processes as much as possible to reduce additional work load. The chosen templates should fully represent the main risks of the individual unit while addressing the need for seamless aggregation to create digestible risk dashboards for the Board and senior management.



Systems, processes and models

The ERM process and the Own Risk and Solvency Assessment (ORSA) requirements in the RBC Consultation Paper are heavily dependent upon the ability of the insurer to actively monitor business risks and produce reliable analysis relevant for pertinent stakeholders in a timely fashion. With the advancement of regulatory and accounting standards, it has become increasingly important that the processes and models be built with sophisticated automation capabilities in mind. As a result, the technology platform should be built to manage and store vast amounts of data at a very granular level whilst ensuring a high level of security compliance. Some insurers are now combining high performance computing and proxy modelling to facilitate a rapid reporting and feedback cycle.

The ability of an insurer to produce detailed results within a short timescale is paramount to decision makers, who need sufficient time to react and plan after receiving the results. As business complexity increases and production time pressures intensify, insurers will need to ensure their models are industrialised and the reporting production process is automated in a controlled and efficient manner. For many insurers, the reporting process can be extremely time consuming as it incorporates many manual touch points and the use of multiple spreadsheets. According to the Society of Actuaries 2012 Actuarial Modeling Controls survey, 77% of the data fed into actuarial models requires some form of manual manipulation.



Such manual processes run the risk of human errors and result in significant resources being spent on identifying and correcting inaccuracies. It is not the most productive use of specialist technical resources.

At the other end of the spectrum, some UK insurers have been embarking on a journey to replace their legacy infrastructure with software platforms that automate the entire process of updating models, refreshing assumptions, creating in-force liability and asset files and manipulating results files. To highlight the benefits of industrialisation, one UK insurer was able to reduce quarterly production time by 97.5% and associated person hours by 95%. Achieving such staggering reductions means that senior resources can devote more time to critical value-added analyses as opposed to laborious manual tasks. This has significant spin-off benefits in terms of retaining talent.

A key consideration in developing the underlying ERM system is the need to store and produce vast amount of data for both internal and external purposes in a secured

manner. The advantages of the data warehouse concept cannot be underestimated. The database should be structured to eliminate data flow bottlenecks and to optimise multiple concurrent transactions so that data can be readily accessible from multiple departments in disparate locations. Some insurers have employed enterprise-wide relational databases to facilitate storage, analysis and reporting of valuation results to achieve performance optimisation. They have paid increasing attention to issues concerning data security and privacy, and have built platforms to deliver data protection at an enterprise-wide level.

Increasingly, the insurance industry is looking at new technology solutions to reduce result production times. This includes utilising parallel computing resources and exploring web-based interfaces for collecting requests and accessing reports. In particular, cloud-enabled high performance computing provides insurers access to virtually boundless computing capacity without the high upfront server investment and ongoing maintenance costs. It provides insurers the significant advantage of on-demand computing resources with usage-based costs. Expense savings can be substantial.

In conjunction with the use of high computing technology solutions, insurers are also employing advanced modelling techniques to create simplified representations that facilitate ongoing monitoring of operations and rapid re-calculation of assets and liabilities for scenario testing. All of these techniques require a quantification of the trade-off between accuracy and computational expense. The degree of compression and simplification will also depend on the complexity of the full model and the insurer's targeted error tolerance.

Figure 5: Cloud computing service types



Software as a service (SaaS)

Cloud-based applications—or software as a service (SaaS)—run on distant computers “in the cloud” that are owned and operated by others and that connect to users’ computers via the Internet and, usually, a web browser.



Platform as a service (PaaS)

Platform as a service provides a cloud-based environment with everything required to support the complete lifecycle of building and delivering web-based (cloud) applications—without the cost and complexity of buying and managing the underlying hardware, software, provisioning and hosting.



Infrastructure as a service (IaaS)

Infrastructure as a service provides companies with computing resources including servers, networking, storage, and data center space on a pay-per-use basis.

Source: IBM

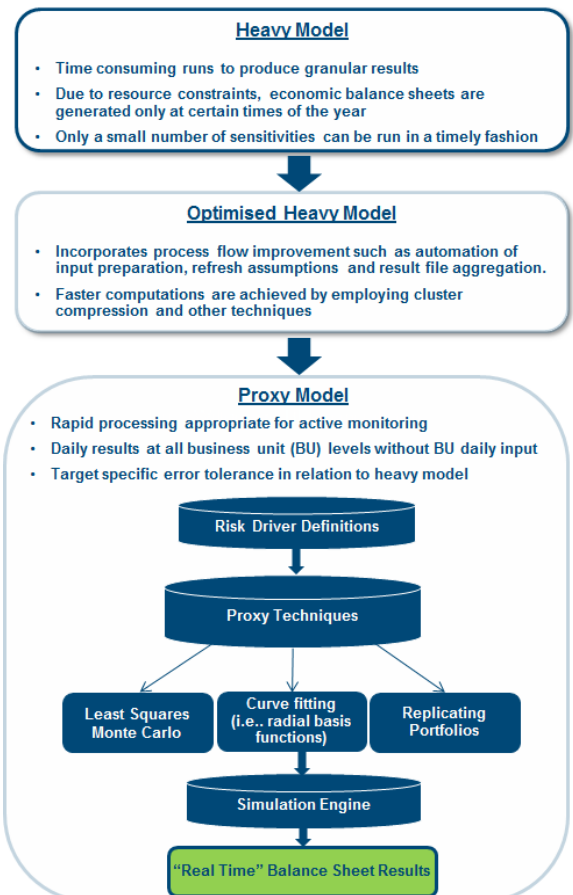
Common approaches include:

- * **In-force compression** . In particular, cluster compression uses normalised distance measurements to compress the in-force asset and liability files. In some instances, insurers have reduced the in-force file down to 1% of the original size while maintaining in over 95% accuracy for key metrics.
- * **Proxy modelling** . Many insurers are currently using this category of techniques to meet Solvency II and ORSA requirements. Least Squares Monte Carlo, replicating portfolios and curve fitting (i.e. radial basis functions) are three popular methods. By creating a proxy model, insurers can achieve daily solvency monitoring without re-running the full production model. In many instances, a market consistent enterprise-level balance sheet incorporating the latest risk driver values can be created within the same timeframe it used to take to run a single liability model.

Risk Operations

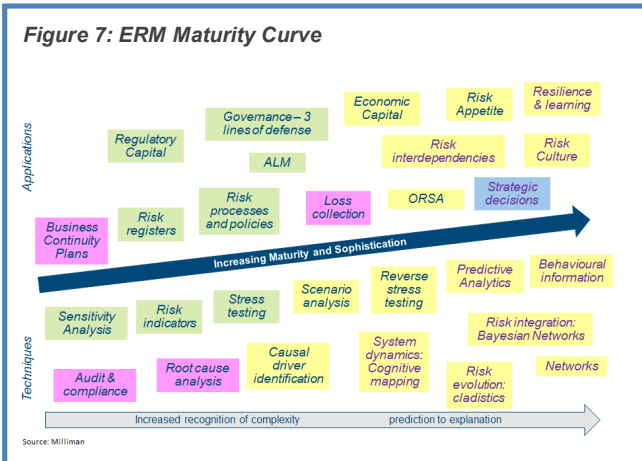
The most effective ERM processes are fully integrated into business operations and are part of the continuous business cycle. This requires involvement from multiple stakeholders at different levels of management. The roles of the Board and executive management are crucial to ensuring the establishment of embedded ERM processes and the smooth integration into day-to-day operations. The internal audit’s role is to provide oversight and confirmation that the principles and risk limits are being adhered to. Successful integration also requires considerations to be part of setting strategy and making key business decisions such as new business pricing and projection of future risk exposures and capital requirements.

Figure 6: Optimising Existing Actuarial Modelling Infrastructure



Source: Milliman

Irrespective of regulatory compliance requirements, the scale of the ERM undertaking necessitates strong and continual support from the top in order to make impactful differences to the organisation. Embedding risk culture throughout an organisation is a complex process and requires challenging the existing risk management paradigms. We have seen the risk function increasing in prominence as insurance companies have moved up the ERM maturity curve. One key example of this development is the creation and elevation of the Chief Risk Officer role, and its advancement from dealing with strictly compliance issues to playing an active role in operational decisions.



Increased standards of corporate governance are a stated goal in the RBC Consultation Paper. Enhanced training and education may be required to facilitate greater Board level understanding and engagement. Insurers may also need to consider redefining roles and organisational structure to ensure necessary independence of the second line of defence from the front line business units. The internal audit function needs to be empowered with enough authority to protect the integrity of the risk management process and with enough scope to provide feedback on improvements throughout the company. When established risk tolerances are breached, it is also important that, the internal audit function is able to quickly escalate the matter to higher management levels and trigger necessary actions to restore risk exposures to acceptable levels.

New business planning is a key activity that benefits from incorporating a holistic ERM framework. The ERM process facilitates the analysis necessary to determine the capital needs associated with different types and volumes of new business. The output can be used to determine the risks the insurer would be undertaking and the amount of capital sufficient for underwriting the additional risk. With timely analysis under a range of scenarios, decision makers will be better informed to appreciate the capital and risk outcomes before crystallising their business plans.

Summary

The RBC Consultation Paper represents a game-changer for the Hong Kong insurance industry in a number of key areas. The proposed Pillar 2 requirements are likely to lead to significant planning and implementation challenges. From our experience in other markets, building and maintaining an effective ERM framework that evolves with changing demands is a non-trivial undertaking. However, as we have highlighted in this article, companies who embrace change and construct market-leading ERM frameworks are in a position to create significant value. How insurers react in the months ahead will be a defining moment for ERM and for the Hong Kong insurance industry.



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A Risk-based Capital Framework for Insurers in Hong Kong: Looking to the Future



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The direction of travel of prudential regulation for insurers across Asia is becoming clear. Hong Kong is gearing up to move in that direction, by focusing regulations on sound risk management and governance, and supported by risk-based capital (RBC) requirements.

On 16 September 2014, the Hong Kong Insurance Authority released a consultation paper on a Risk-based Capital Framework for the Insurance Industry of Hong Kong. This represents an important first step for insurance regulation in Hong Kong towards recognised international standards, as embodied by the Insurance Core Principles (ICPs) established by the International Association of Insurance Supervisors (IAIS).

In this article, we are seeking to provide some context around why this shift is taking place, and to outline some practical considerations for insurers, and the role of actuaries, as the industry begins to prepare for this significant change.

While many of the details will be subject to future consultation, it is clear from the consultation paper that the proposed framework is conceptually consistent with that already in place or in development in a number of other regulatory regimes, such as in Singapore, Australia and Europe. Looking around Asia, we see that many countries have some form of RBC based approach in their regulation. By starting on this journey now, the Hong Kong industry can benefit from the implementation investment and lessons learned elsewhere.

The consultation period has seen debate and discussion across the industry, to which the ASHK has made a major contribution through its RBC Task Force, over many important aspects of the proposals, including:

- * the details of the definition of technical provisions
- * the scope and definition of risks to be included in the capital requirements
- * the approach to the capital requirements calculation including the allowance for dependencies between risks
- * the notion of internal model approval for regulatory capital requirements and when it should be introduced
- * the structure and definition of capital tiers
- * the supervisory approach to the ORSA and the provision for capital add-ons
- * the details of group supervision, and
- * the appropriate application within supervision of the concept of proportionality.



To the credit of the Insurance Authority and industry, the quality of debate so far has been high, and it's clear that there's an appetite in the industry to get moving on the details. The Insurance Authority has set out in the consultation paper a series of phases beginning in 2015 with the development of detailed rules, including a quantitative impact study and a further consultation exercise, leading to amendment of legislation for which at least 2 to 3 years will be needed to complete all the preparatory tasks including public consultations.

So, while final implementation may be some distance away, insurers should be engaging in discussion on the proposals, and beginning to prepare to understand the detailed impacts of all three pillars on their business. Experience from elsewhere has shown that the development path to development of the full capability is long, and that starting early can result in a significantly smoother and ultimately less costly exercise.

So why move to a RBC framework?

The current rules-based approach to solvency, while underpinned by the concept of prudence, does not align to an economic view of capital requirements. This could lead to certain products and insurers holding a different level of capital than is necessary to cover an economic valuation of the risk exposures. A key objective of the new proposals is to improve the definition of capital requirements to one which reflects the level of risk, and to link this definition to enhanced corporate governance, ERM practices and public disclosures.

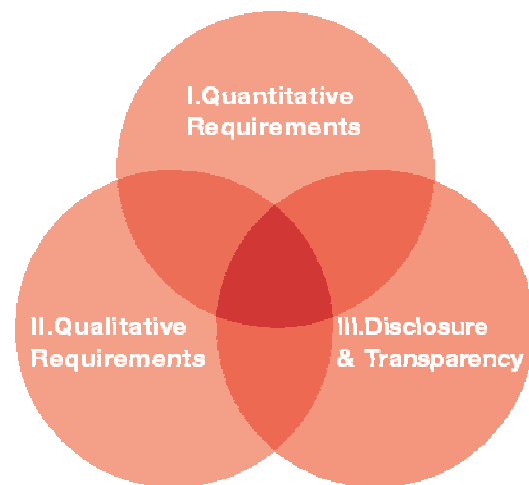
A one-size fits all approach to solvency regulation for an industry that is this complex and segmented between: life/non-life, local/global and specialty/full-suite companies can lead to inequality. As the current solvency regulation stands, there is not a real differentiation in regulatory capital requirements, between companies that have superior asset-liability matching capability and a strong risk management process, and those companies that do not. There is therefore a significant prize for the industry of better capital management, better decision making and improved confidence from providers of capital by moving towards this regime. However it is not the regime, of itself, that will lead to the change, but the preparation and engagement by the industry in the development of the regime, and well planned implementation by individual insurers. This should include active participation in the future consultation and QIS, and constructive engagement with the Insurance Authority in terms of:

- a) What works well for your company?
- b) What are the issues and what needs further clarity?
- c) What alternative solutions do you propose?

The Three Pillars

The Three Pillars forms the basis of the proposed RBC framework in Hong Kong. All three pillars together are planned by the IA to provide the foundations for a robust and resilient insurance industry, and have been introduced in other markets.

- * **Pillar I:** the assessment of capital adequacy, based on a risk-based approach to the measurement of underwriting risk, market risk, credit risk, operational risk and liquidity risk.
- * **Pillar II:** a focus on the enhancement of corporate governance and ERM, brought together the process of the Own Risk and Solvency Assessment, covering continuity analysis, a forward-looking view of capital requirements, stress and scenario testing and reverse stress testing.
- * **Pillar III:** periodic public reporting of capital resources and capital requirements. While the consultation paper gives little detail on the requirements, based on industry experience elsewhere pillar 3 has the potential to be one of the greatest operational implementation challenges.



An opportunity for the industry

The opportunity for insurers to demonstrate and showcase their effectiveness in the measurement, monitoring and management of risk is a significant one, and one that we believe the Hong Kong industry must grasp in order for Hong Kong to remain an attractive insurance market for the providers of capital. Companies that do this effectively have the ability to identify and optimise all of their risk and value drivers, make more optimal decisions over product design, distribution strategies, pricing, capital deployment, reinsurance, acquisitions, disposals and mergers, and in so doing will have advantage. This has already been demonstrated by the market performance of leading insurers in a number of developed markets globally, where strong risk and capital management is undoubtedly a key ingredient in successful execution of strategy and that success is increasingly recognised by investors and analysts.

Proportionality

Implementation could be a significant challenge for smaller companies that do not have the existing capability in risk management and modelling and the associated governance infrastructure envisaged by the consultation proposals. The costs of compliance could be substantial if new rules are not clarified quickly and made proportionate for smaller insurers without diluting capital requirements.

The consultation paper introduces the concept of proportionality to be applied to pillar 2, such that the new requirements are appropriate to the nature, scale and complexity of an insurer's business.

In practice, from the regulator's point of view, the development of requirements which reflect proportionality is not straightforward, and has been a key challenge for regulators in other countries. What is needed is a transparent approach that has clearly defined levels of requirements and supervision under pillar 2, based on the company's size and nature. Within each level, there needs to be guidance on the expectations of the minimum requirements, for all aspects of the regime to which proportionality apply, without diluting the effect of the rules or the capital requirements.

Key lessons learned from implementation elsewhere

- 1) Form a dialogue with the regulator
- 2) Start early . don't wait until the rules are final
- 3) Plan and build adaptive models

1) Form a dialogue with the regulator

- * Start a dialogue with the regulator early on and building on that relationship over time.
- * By being proactive, providing the regulator with constructive feedback, and raising questions early, will lead to better outcomes. If similar proposals come from all segments, across many companies, it will be easier for the regulator to understand the importance and impact.
- * Being open and forthcoming with the regulator gives a clear signal that that you are ready to work collaboratively for the success of your business and sound regulations.

2) Start early – don't wait until the rules are final

- * A recent PwC poll of insurers found that over two-thirds of insurers were less than half way ready to being able to publish Solvency II disclosures required by pillar 3, after over 6 years of implementation effort on top of a regulatory regime that was already well positioned for Solvency II. The lesson is that there is a huge amount of effort required to implement a new solvency reporting regime as complex as envisaged, and realistically, companies never have too much time on this; starting early . even if the detail is still to come . is therefore one of the keys to being ready.
- * The pace of change in Hong Kong and the rest of Asia is already such that there is a shortage of skills in risk and capital management for insurers, and the shortage is widely anticipated to increase. The implementation costs could therefore increase over time. Shortfalls can be mitigated to some extent by getting into the market early, developing and retaining in-house talent and spreading the peak demand for skills over a longer period.
- * Don't be complacent, instead strive for early adoption. Target the adoption and use of an economic capital model internally for pillar 2 early. This provides the time needed to embed understanding of the linkage of risk to the output of the model, validate the model over time, and begin to take decisions on affecting capital based on the model, and subsequently manage market expectations effectively.

3) Plan and build adaptive models

- * When starting out on this long voyage, it's very easy to focus just on Pillar 1, i.e. just the regulatory capital calculations. Doing this without focusing on the pillar 2 requirements could result in a missed opportunity to understand the capital requirements and relate them to pillar 1 proposals . key to being able to engage in the debate around pillar 1 and ultimately in being able to manage capital effectively.

- * Any model may also need to adapt the regulation changes that emerge with the QIS exercise. This also extends to the IFRS Phase II changes that are in the pipeline, with a critical feature of the RBC model being that it can adapt to changing liability valuation methods.
- * Above all, it is important to have come to an agreement on what output is needed first, before actually building and implementing the models. Output here covers both in management information and the Pillar 3 requirements.

Start with the ORSA?

Experience has generally shown that those companies that have invested in the risk management framework and its effective implementation throughout the organisation, supported by financial management and capital modelling tools, have already seen the benefits of their investment being rewarded in better decision making, and, increasingly, greater recognition by the investment community of the benefits of strong risk management.

The Own Risk and Solvency Assessment is, then, potentially the most important part of the proposed regime, and companies can start to develop it now. Doing so will not only give a head-start in preparation for the new regime, but also enable companies to demonstrate sound risk management, and a forward-looking view of capital requirements, within the current regime. The current dynamic solvency testing regime under Actuarial Guidance Note 7 already partly addresses the techniques required to demonstrate sound asset and liability management, and the Insurance Authority has suggested that the requirements of the existing regime may be enhanced at an early stage to incorporate the requirements of the ORSA.

In essence, this is a process . not just a report . that demonstrates:

- * An effective framework and processes for assessing and managing risk, with a foundation built on a clear articulation of the risk appetite
- * An assessment of the adequacy of financial resources to meet liabilities as they fall due, and also to achieve the objectives in its business plan . an economic capital model with capital requirements projection functionality is the best way to demonstrate this
- * The holding of an adequate level of capital taking into account the risks to which the business is exposed
- * The use of stress and scenario testing of the capital position to monitor assumptions underlying its solvency assessments and identify those scenarios that might require management action

All of this is about sound risk and capital management, built on a sound economic capital modelling approach. The industry can now build on the good work that it has done in recent years, to develop this capability in the months ahead, even ahead of the QIS exercise. Indeed doing so would position companies well to perform and understand the implications of the QIS.

The role of actuaries

The role of actuaries to successful implementation of risk-based capital regimes is clear. The technical requirements of the development of economic capital models to enable a sound approach to risk management as envisaged by the ORSA, and the adaptation of models to be able to produce the required capital calculations envisaged by pillar 1, are challenges that actuaries are trained for. Actuarial skills will therefore be in high demand for the industry throughout the development and implementation of the new regime. Longer term, actuaries will continue to play a key role in helping insurers to be well governed and to deliver successful outcomes for their customers and the providers of capital. Actuaries who can successfully manage and measure risk, who can clearly explain the techniques and judgements behind their measurement approaches, and, most importantly, can support the development of business strategies that appropriately reflect the assessment of risk, will be vital to those successful outcomes.

The time to begin is now

There is a long road ahead, and the time to begin is now . with the development of the capability and processes that underlie the ORSA, and using that preparation to be ready for the detailed discussions that will follow, through the QIS, on pillar 1. The role of actuaries will, in our view, be critical to these preparations and to the longer term success of insurers in this regime. For the insurance industry, the opportunity is to showcase sound risk management for the benefit of all stakeholders, and, for our profession, there are many opportunities for actuaries, as leading risk management professionals, to shine in the months and years ahead. ☺



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President's Report 2014



Billy Wong
BSc, FSA, CFA, LLB
President 2014

Members, it is my pleasure to present this report to you at the end of my term as President of the Actuarial Society of Hong Kong. This past year, it has been a privilege for me to work with a dedicated team of Council members. I am pleased to report that we had a memorable year in 2014, thanks to the tireless efforts and support of the Council, volunteers and the membership at large.

Membership in general

During the year, the Society had 1,058 members in good standing. This is quite encouraging given the size of our profession in Hong Kong and it is important for the work and health of the Society that membership continues to grow. I encourage each and everyone of you to get involved in the Society and encourage your colleagues and friends who are not yet part of the Society to join us.

The membership breakdown is as follows:

Honorary Members	3
Fellow Members	664
Associate Members	145
Student Members	246

Membership Analysis

By area of work:	
Life Insurance	71.13%
General Insurance	5.82%
Retirement Schemes	4.36%
General Corporate Management	4.26%
Financial/Investment	2.18%
Others (e.g. Education, IT)	7.27%
Undisclosed	4.98%



The Year in Review

The past year has been busy and interesting one for the Society on a number of fronts. Over the course of this year, Council had worked hard to address the issues and challenges faced by the profession. A new Committee structure was developed aimed at focusing our limited resources in key areas important to the future development of the ASHK and in decision-making. The priority of the ASHK over the next few years is likely to be more Hong Kong oriented with the ASHK looking to become a Statutory Body, preparing for a new solvency regime for insurers in Hong Kong, reforms to the medical insurance environment, the independence of the OCI, etc. As a result the Council decided that the number of Committees should be reorganized to recognize this changing environment and to better serve the membership.

One of the re-organisations was to combine the China Committee and the Asia Regional Support Committee into one committee called the International Committee. The Committee would be charged by the International Actuarial Association (IAA) to undertake liaison work with the CAA and to encourage CAA's participation at IAA Meetings and the International Congress and maintain harmonious relations with other actuarial societies and the IAA. I had the privilege to meet the new CAA President Chen Dongsheng when I attended the CAA Annual Meeting in Guangzhou in September. President Chen was keen to consider collaborating on a future event involving three professional bodies in China, Taiwan and Hong Kong.

The Life Committee and the Experience Committee were also reorganized and combined to operate under 3 Co-chairs. The Experience Committee would be a Sub-committee of the Life Committee dealing with experience studies matters going forward. The Investment and Risk Management Committee would be disbanded.

The Experience Committee had secured clearance from the companies that had contributed data towards the mortality study for the use of the data in a Suicide among Insured Individuals Hong Kong Report.

The Life Committee and its working groups had been busy consulting with various parties, including the government and members. The Reserve Working Group drafted the second supplement to AGN3 exposure draft. In drafting the supplement, at the request of the Insurance Authority, the ASHK had sought legal opinion last year. The supplement was exposed to membership this year and approved for release by Council effective 17 November 2014.

The ASHK had engaged the Insurance Authority in discussions over several important topics, for instance requesting that advance consultation be made with ASHK on matters relating to Appointed Actuaries, on ILAS benefit illustration, DST, statutory capital and solvency requirements, valuation interest rate framework, etc. Similarly an open communication channel with the HKFI was maintained.

IMF had published a summary report on Hong Kong financial sectors in May and it seemed that they were impressed by the professionalism of ASHK. There were two items in the report that were relevant to ASHK. OCI had requested ASHK to review DST in particular on the shock on mortality and solvency margin improvement.

The Committee had also spared no effort in organizing a successful Appointed Actuaries Symposium at which Ms Annie Choi, The Commissioner of Insurance delivered the opening address on the theme of Regulatory Impacts on Products. This event was held back to back with the Society Annual Dinner where we had the privilege of listening to a keynote speech from the honorable Mr Richard Yuen, the Permanent Secretary for Food and Health Bureau.

An RBC Task Force was put together to provide ASHK's comments on OCI's consultation paper on a Risk-based Capital framework for the Insurance industry. The task force had met intensively over the last few months culminating in a RBC Evening Talk which was well attended and an important comment paper which we would be submitting to the OCI today. The proposed revised RBC framework will fundamentally change the solvency supervision of insurers in Hong Kong for decades or come.

The Professional Matters Committee conducted a CPD audit and organised a Professionalism Course on ethics and conflicts of interest. Members would be pleased to know that the IFoA has granted recognition to ASHK's Professionalism Course. The Committee also briefly reviewed International Standard of Actuarial Practice 1 (ISAP 1), a model standard promulgated by the IAA and recommended that ISAP 1, a general standard governing the actuarial practice of actuaries should perhaps be modified as a PS or AGN to meet Hong Kong requirements. ISAP 2 relates to social pensions, it would be entrusted to the Pension and Employee Benefits Committee. ISAP 7 on international capital and basic capital requirements would be looked into by the Life Committee. The Professional Matters Committee would review and consider whether to adopt IAA's ISAP 1 and examine the effect on PS 1 if any. The intention of ISAP is to achieve greater consistency of approach and it is set at minimum standards. IAA member organisations may decide whether to adopt ISAP.

In the past decade business analytics has become a major force for innovation transforming insurance business. Recognizing this trend, the Non-Life Committee undertook to organize its inaugural general insurance and data analytics seminar in October. Thanks to the hard work put in by the Committee and the generous support of the sponsors, the feedback received was very promising and encouraging. The Committee has also been in regular dialogue with the OCI on the expansion of the role of GI actuaries to extend sign-off to all lines of business. A joint talk was held with the HKFI this year featuring Mr Bob Conger, Past President of the Casualty Actuarial Society.

If you visit the Healthcare webpage of the Healthcare Working Group, you will find that the working group had posted several relevant literature. If you've not had a chance to read them yet, I encourage you to get online. The Working Group also kept itself busy with liaison with actuarial bodies in the region and the Hospital Authority on healthcare issues such as medical inflation. As preparations are in the pipeline, members can look forward to another exciting Healthcare Seminar scheduled in April 2015.



The aims of the Pension and Employee Benefits Committee this year were to work towards having the ASHK exert influence on public policy, shape the pension industry, influence the MPFA, engage the public and instill in them a sufficiency concept post retirement and looking at post retirement, housing, and medical issues in a holistic way to support the work of fellow pension actuaries and build up and promote the brand of actuaries in the retirement landscape.

Prof Nelson Chow has been commissioned by the Poverty Commission to prepare a paper to assess the feasibility of implementing universal public pensions in Hong Kong. ASHK Pensions and Employee Benefits Committee commented on the as-

sumptions, reasonableness of the results and limitations of the conclusion.

The Committee also represented the ASHK at a Legco meeting after submitting comments on the MPF Schemes Amendment Bill 2014. In addition the Committee had also submitted a response regarding the consultation document on providing better investment solutions for MPF members as well as responded with feedback to the IAA on ISAP 3, Actuarial Practice in relation to IAS 19 Employee Benefits. Members also responded to a review of the proposed changes to PS2 from the MPFA.

The Education Committee was renamed Professional Development Committee and two career workshops on general industry info, latest trends and developments in the industry, experience sharing by experienced actuaries and interview tactics by a recruitment firm were presented to students at the University of Hong Kong and the Chinese University of Hong Kong.

The Membership and Publications Committee had a fruitful year conducting a membership survey earlier in the year, arranging evening talks and issuing three newsletters on relevant themes of actuarial advice from recruitment consultants, IAIS and country updates. The last newsletter issue of the year is underway for HK RBC Framework. A business skills workshop will be held in the first quarter of 2015.

The Statutory Body Committee had a busy year consulting with key stakeholders, interested parties and key regulators. An update on the statutory body project was presented at the Appointed Actuaries Symposium on the five key areas proposed by the law firm that the ASHK should be working on over the next 12 months in preparation to becoming a statutory body. The five key areas are conduct and guidance, examination, governance, CPD and disciplinary process.

With the office lease expiring this year in September, Council had explored options to remain in Lippo Centre or move away. Since there would be cost savings due to our current synergy like sharing of reception, office space and meeting room with other co-tenants, the Council voted to remain in our current office premises. It would also be beneficial in that Council and staff resources would be better utilised in focussing on various existing projects including the statutory body path project. In renewing the 2-year office lease, the ASHK became a major co-tenant and hired the receptionist and a part-time accountant.

Conclusion

Finally, we are a volunteer organization. I would like to thank the members of the Council and Committee members for their support, dedication and contributions to the Society. I would also like to offer special thanks to Mr Jack Mak, Immediate Past President and Ms Queenie Hui, Vice President for their unflinching support and advice during my term as President.

It has been my honor and privilege to serve this Society as its President in 2014. I have been very fortunate in my career as an actuary and I believe it is a great privilege to serve the public and private sectors of Hong Kong as an actuary. Thank you for the opportunity. I now pass the leadership torch to Ms Queenie Hui, the new President and I know that the Society will be in good hands in 2015 under her capable direction and governance.

May I take this opportunity to wish all of you a Merry Christmas and a blessed 2015! 🎄

Billy Wong
President
15 December 2014

Message from the New President

First of all, I would like to express my gratitude to have the chance to serve as President of the ASHK for 2015. It is my honour and my privilege to take on this challenge.

I would like to thank Billy Wong for his leadership and contribution to the Society, serving as our President in 2014, and to Jack Mak serving as our Immediate Past President. I would also like to thank all the council members and volunteers who have sacrificed their personal time and served on various committees of the ASHK.

30 years ago in 1984, there were 54 members in ASHK, of which 16 were fellows. Today, we have approximately 1000 members with more than 660 fellows. The ASHK has certainly changed and grown a lot, and so had our industry and regulatory environment.

One of the key focuses of ASHK is to ensure the actuarial profession thrive in a changing, and sometimes challenging, environment. We have been doing so in 3 ways:

Firstly, the ASHK will continue its work on the statutory path project, with the aim of ASHK becoming a statutory body. This will help us to raise the profile of the actuarial profession in Hong Kong.

Secondly, we will also continue to strengthen our relationship with the regulators and other professional bodies. This will position us to better influence policies which relates to areas our members are practising in.

Thirdly, we will continue to strengthen our brand regionally through close collaborations with other actuarial bodies in the region, and globally we will get more involved in the International Actuarial Association.

As our members, you are the most important part of the ASHK, I would like to hear from you how we can better support you and our actuarial profession. One of the best ways to tell us your opinion is by joining one of the ASHK committees. Of course, you can email us too.

Lastly, I would like to thank the upcoming council members and committee members for your support. I will work closely with all of you to ensure the actuarial profession will thrive in a changing environment.

Thank you. 🍷

Queenie Hui
ASHK President 2015



Queenie Hui
FIAA
President 2015

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Senior Associate – Rating Agency

Head of Customer Proposition – Life Insurance

Senior Associate – Insurance Consulting

Actuarial Manager – Management Consulting

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Membership Update

New Members

Fellow

David King-Him Chan	Pricewaterhouse Coopers	Fellow [FIAA (2011)]
Victor Chun-Chiu Chen	Manulife	Fellow [FSA (2010)]
Michael Li-Yu Fang	Manulife	Fellow [FSA (2003)]
Foo Soo Meng	RGA Re	Fellow [FSA (2011)]
Christopher Hancorn	PwC	Fellow [FSA(2002)]
He Qilin	AIA	Fellow [FIA (2012)]
Ji Wenyu	RGA Re	Fellow [FIAA (2011)]
Jiang Yinan	RGA Re	Fellow [FSA (2010)]
Benjamin Lovelock	PwC	Fellow [FIAA (2014)]
Sun Lin	Milliman	Fellow [FSA (2009)]
Adit Trivedi	AIA Group	Fellow [FIA (2000)]
William Wa-Kit Wong	AXA	Fellow [FSA (2013)]
Wong Yiu Kay	AIA Group	Fellow [FSA (2010)]

Associate

Fok Ka Yu	Ageas	Associate [ASA (2013)]
Hong Hyun	PwC	Associate [ASA (2013)]
Romeo King-Yeung Lau	Manulife	Associate [ASA (2013)]
Tan Say Yen	PwC	Associate [ASA (2014)]

Student

Chan Kwok Ming	Prudential	Student (SOA Student)
William King-Wai Chiang	Sun Life	Student (SOA Student)
Cheng Ka Lam	Manulife	Student (SOA Student)
Cheng Tsz Nam	Ageas	Student (SOA Student)
Chiu Ting Chun	Manulife	Student (SOA Student)
Kan Tik Yan	Zurich	Student (SOA Student)
Kong Tsz Hin	Manulife	Student (SOA Student)
Heidi Chin-Han Lam	Deloitte	Student (SOA Student)
Lam Man Wai	RGA Re	Student (SOA Student)
Lau Chun Shing	Zurich	Student (SOA Student)
Isaac Yu-Ting Lau	Swiss Re	Student (SOA Student)
Boris Tsz-Hin Lau	Towers Watson	Student (SOA Student)
Geoffrey Tsz-Fung Lee	-	Student (SOA Student)
Lee Yuk Kwai	Ageas	Student (SOA Student)
Stephanie Ho-Long Leung	Prudential Corporation Asia	Student (SOA Student)
Li Che Ngai	Transmeria Life	Student (SOA Student)
Li Daihong	PwC	Student (IoA Student)
Lok Yuen Yan	Manulife	Student (SOA Student)
Mak Kwong Cheong	MassMutual Asia	Student (SOA Student)
Man Wing Kin	Manulife	Student (SOA Student)

New Members

Student

Athittaya Nawacharoen	PwC	Student (SOA Student)
Derek Chun-Hung Pang	Trensamerica Life	Student (SOA Student)
Alexandra Shepherd	PwC	Student (IoA Student)
Siu Chun Piu	Manulife	Student (SOA Student)
Lokaswaram Srirajan	Prudential Corporation Asia	Student (IoA Student)
Sun Lianyi	PwC	Student (SOA Student)
Tai Ka Wing	Sun Life	Student (SOA Student)
Tsang Hoi Ying	Gen Re	Student (SOA Student)
Wang Xin Yue	AIA	Student (SOA Student)
Wei Ran	ACE Life	Student (SOA Student)
Wong Cheuk Long	Deloitte	Student (SOA Student)
Wong Hing Fung	FWD	Student (SOA Student)
Stanley Ka-Chun Wong	Swiss Re	Student (SOA Student)
Yau Cheuk Ming	MassMutual Asia	Student (SOA Student)
Yau Yik Tung	FWD	Student (SOA Student)
Yeung Chun Wing	MassMutual Asia	Student (SOA Student)
Yeung Yuk Man	HSBC	Student (SOA Student)
Zhang Hanxin	Deloitte	Student (SOA Student)
Michelle Wei Zhang	AON Hong Kong Ltd	Student (CAS Student)

Membership Advancement

Fellow

Chan Ka Ki	RGA Re	Fellow [FSA (2014)]
Patrick Chung-Yan Chan	Manulife	Fellow [FSA (2011)]
Chan Wa Fat	Prudential	Fellow [FSA (2013)]
Isabella Wing-Shan Chan	Towers Watson	Fellow [FSA (2014)]
Cheng Chi Wai	Prudential	Fellow [FSA(2013)]
Jack Chin-Hei Choi	Ageas	Fellow [FSA (2014)]
Terry Kwai-Lok Fung	ACE Life	Fellow [FSA (2014)]
Dilys Chung-Sze Ho	Manulife	Fellow [FSA (2013)]
Edith Hawk-Yan Ho	Zurich	Fellow [FSA (2013)]
Mikey Wai-Leong Ho	Manulife	Fellow [FSA (2014)]
Ivan Shu-Lung Hui	Manulife	Fellow [FSA (2013)]
Emily Yujia Jiang	HSBC	Fellow [FSA (2014)]
Issac Kwok-Man Kwan	Ageas	Fellow [FSA(2014)]
Judith Hill-Kay Lam	RGA Re	Fellow [FSA(2014)]
Jacky Wing-Tai Lam	Manulife	Fellow [FSA(2014)]
Gary Ka-Wai Leung	Deloitte	Fellow [FSA (2012)]
Lee Hing Bun	Sun Life	Fellow [FSA (2013)]
Marcus Lee	MassMutual Asia	Fellow [FSA (2014)]
Carrie Hoi-Yi Leung	Prudential	Fellow [FSA (2014)]

Membership Advancement

Fellow

Shing Fan	RGA Re	Fellow [FSA (2013)]
Bernard Ting-Wai Shum	Prudential	Fellow [FSA (2013)]
Suen Tsz Yeung	Prudential	Fellow [FSA (2013)]
Casper Yick-Ho Wong	Manulife	Fellow [FSA (2014)]
Benson Yuk-Cho Yeung	RGA Re	Fellow [FSA (2014)]
Anson Tak-Wai Yu	Manulife	Fellow [FSA (2014)]
Charmaine See-Ming Yung	RGA Re	Fellow [FSA (2014)]
Zhang Yueran	PwC	Fellow [FSA (2014)]

Associate

Chan Wai Man	Towers Watson	Associate [ASA (2012)]
Leo Kwan-Ching Cheung	Ageas	Associate [ASA (2014)]
Chow Yun Kit	RGA Re	Associate [ASA (2013)]
Matthew Wai-Tat Ho	Prudential	Associate [ASA (2013)]
Amanda Man-Chi Kan	Prudential	Associate [ASA (2013)]
Michael Shek-Hang Lee	AIA	Associate [ASA (2013)]
Eddy Hok-Tin Leung	Transamerica Life	Associate [ASA (2013)]
So Chi Hang	Ageas	Associate [ASA (2013)]
Carson Ka-Shun Wong	ACE Life	Associate [ASA (2014)]

Reinstated Member

Fellow

Marvin Man-Chung Chan	AIA Group	Fellow [FSA (2005)]
Esther Yin-Chee Chin	-	Fellow [FIA (2002)]
Edwin Wing-Fai Ho	Zurich	Fellow [FSA (2012)]
Douglas Man-Ho Ng	FWD	Fellow [FSA (2010)]
Maggie Mei-Ni Ng	Cigna	Fellow [FSA (2010)]
Vincent Chun-Ting Or	RGA Re	Fellow [FSA (2011)]
Yanum Venkatrathnam	HSBC Insurance	Fellow [FFA (2010)]
Raymond Wai-Man Tam	Ageas	Fellow [FSA (1991)]
Kevin Siu-Chung Yau	AIA	Fellow [FSA (2014)]

Student

Alvin Chi-Chiu Cho	Manulife	Student (IoA Student)
Lester Siu-Fung Chu	Towers Watson	Student (IoA Student)



Actuaries on the move

Jessie Chan
William Chan
Wilson Chan
Patrick Chow
Edmond Kam
Kelvin Lee
Paul Lee
Gary Mak
Questor Ng

Market Updates

The Mandatory Provident Fund Schemes Authority has recently approved one set of revised Guidelines on Annual Returns to be Delivered by Registered Intermediaries (Guidelines VI.3).

The MPF legislation requires that registered intermediaries must submit to the Authority for every reporting period a return in the specified form. The specified annual return forms (including physical forms and electronic forms) are set out in the annexes to Guidelines VI.3. In the light of the enquiries raised by some principal intermediaries, the annual return forms have been revised to make them clearer. Other amendments have also been made to the Guidelines, including reflecting in the forms updated information (e.g. the release of a new application form for transfer of accrued benefits by the Authority) and specifying the alternative means of using mobile app to access the eService for lodgment of electronic returns by subsidiary intermediaries.

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



Actuarial Specialists

Oliver James Associates specialise in recruiting actuaries to the insurance sector throughout Asia. We work on vacancies from newly qualified up to executive level, working only with the market-leading multinational firms (Life and Non-Life Insurers, Reinsurers, Brokers and Consultancies).

Our team is made up of senior consultants, each with a minimum of five years actuarial recruitment experience, so we understand your profession. We help candidates throughout their career and we help clients develop entire recruitment strategies. Our strength is in building long-term relationships.

Our presence in Asia is already well established, though we aim to expand rapidly in the years ahead. Our strategy is to become Asia's leading actuarial recruitment firm, but we will never lose sight of what's important – to consistently deliver a high quality of service.

Examples of Recent Actuarial Placements

Senior Management Appointments

PartnerRe - Head of Asia
HSBC – Head of Insurance Development
SCOR – Chief Marketing Officer
AXA – Regional Head-Product Innovation
Metlife – Regional Director Pricing
FWD - AVP Product Strategy

Student to Qualified Hires

Sunlife – Assistant Manager, Capital
SCOR – Analyst, Reporting
PWC – Manager
Prudential – Senior Officer FRM
SCOR – Regional Pricing Actuary
HSBC – Assistant Manager Reporting

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Upcoming Events

Date	Event
19-20 Jan	8th Asian Financial Forum, Hong Kong
2-3 Feb	17 th Global Conference of Actuaries, Mumbai
Feb	ASHK Evening Talk Speaker: EY
11 Mar	ASHK Business Skills Workshop
17 Apr	ASHK Healthcare Seminar
Apr	SOA APC, Hong Kong
Apr	SOA APC, Beijing
(tbc)	CAS Course on Professionalism, SEA
13-15 May	IFoA China and SEA Conference, Beijing
23 May	ASHK Mahjong Competition
June (tbc)	SOA ERM Webcast . Asia Pacific
15 . 25 Jul (tbc)	Joint Regional Seminar China, Hong Kong, Taipei, Bangkok and Kuala Lumpur
(tbc)	CAA Annual Meeting, China
3-6 Nov	19 th AAC, Bangkok
Nov	ASHK Annual Dinner
Nov	ASHK Appointed Actuaries Symposium
Nov	SOA APC, Shanghai
Nov	SOA APC, Hong Kong
Dec	ASHK AGM

ASHK Professional Development Committee Workshop, 19 Sep & 26 Sep 2014 "ASHK Actuaries: from Students to Professionals"

Events Highlights



The Chinese University of Hong Kong Session, 19 Sep



The University of Hong Kong Session, 26 Sep



Events Highlights

ASHK General Insurance & Data Analytics Seminar, 8 Oct 2014 "Paving the Way for a General Insurance Future"



Mr. Graham R Cook, Peak Re



Mr. Adrian Cheng, Direct Asia



Mr. Sifang Zhang, Aon Benfield



Mr. David Menezes, Deloitte



Ms. Jenny Lyon, SKL



Mr. David Dou, KPMG



Mr. Frankie Chan, Ageas



Ms. Ada Tong, Asia Miles



Mr. Franz Hahn, Peak Re



ASHK-HKFI Joint Seminar, 21 Oct 2014

"Global Trends in Risk Management, Regulation, Data, and the Competitive Marketplace in Non-Life Insurance from Actuarial Perspective"



Mr. Robert F. Conger



Events Highlights

ASHK Annual Dinner, 5 Nov 2014



There were over 150 members and guests attending the Annual Dinner. We were honoured to have Mr. Richard Yuen, JP as our distinguished guest speaker and also the VIPs joining us. The ASHK would like to extend sincere thanks to the organizing Committee (Wilson Chan, Yen Liu and Lin Zhidong), our Master of Ceremony (Alan Liu) and the following companies which had provided raffle draw sponsorship for the 2014 Annual Dinner (in alphabetical order): AIA Group Limited; Darwin Rhodes; Deloitte Actuarial; Ernst & Young Actuarial Services; Hannover Re; HSBC Insurance; General Reinsurance AG; Manulife (International) Ltd; MetLife Limited RGA Reinsurance; Oliver James Associate; SCOR Reinsurance Co; SKL; Swiss Reinsurance Company Ltd and Towers Watson Hong Kong.

Events Highlights

ASHK Appointed Actuaries Symposium, 6 Nov 2014 "Regulatory Impact on Products"



Ms. Annie Choi, Commissioner of Insurance



Mr. Billy Wong, ASHK President and Mr. David Alexander, HKFI (From left to right)



Mr. David Alexander, HKFI



Mr. Andy Hui, RGA



Mr. Peter Duran, ASHK Professional Matters Committee Chairperson and Mr. Roddy Anderson (From left to right)



Mr. Simon Walpole, ASHK Statutory Path Committee Chairperson



Ms. Penny Fosker, Mr. Foong Sai-Cheong, Mr. Paul Beresford and Mr. Chng Tze Ping (From left to right)



Mr. Peter Duran, Mr. Chng Tze Ping, Ms. Florence Ng, Ms. Jackie Chu and Ms. Mi Namkung (From left to right)



Mr. Jin Peng, PwC



Prize to Give Away!

Let's compare the following 2 photos and circle on the **SIX** spots of difference. **A prize will be presented to the member who submits the first correct answer of this Photo Hunter.**

Join the game and submit your answer to ASHK Office by email: actuaries@biznetvigator.com **NOW !!!**



Corporate Advertisement

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

File Formats:

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

Advertising Rate:

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To advertise, please contact the ASHK Office by
Tel: (852) 2147 9420 or e-mail: actuaries@biznetvigator.com



ACTUARIAL SOCIETY
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HONG KONG
香港精算學會

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

For the above issues, please e-mail your articles or views to Simon Lam by email at slam@munichre.com or ASHK's office by email at actuaries@biznetvigator.com. Publication of contributions will be at editor's discretion.