



ACTUARIAL SOCIETY
of
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Hong Kong Actuaries

Actuarial Society of Hong Kong's Newsletter

WINTER
VOLUME

04

Dec 2015

Blending the Other Comprehensive Income Solution into the Risk-based Capital Regime

From Globalisation to Regulatory Reform - The Future Development of Hong Kong Risk-based Capital

The Risk-based Capital Consultation Paper: What Impact on Participating Business?

A Risk-based Capital Framework for Hong Kong Insurers: Supporting the Industry's Continued Resilience and Success

Feature Articles 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 organisation(s), please feel free to let us know. We will try to reprint the article(s) in our newsletter to share with our members. For the above issues, please e-mail your articles or views to Simon Lam by email at slam@munichre.com or ASHK Office by email at actuaries@biznetvigator.com.

Editor's Note



CONTENTS

* Council Update

Council Update P.3

* Feature Articles

*Blending the Other
Comprehensive Income
Solution into the Risk-based
Capital Regime* P.14

*From Globalisation to
Regulatory Reform -
The Future Development of
Hong Kong Risk-based
Capital* P.17

*The Risk-based Capital
Consultation Paper:
What Impact on Participating
Business?* P.20

*A Risk-based Capital
Framework for Hong Kong
Insurers Supporting the
Industry's Continued
Resilience and Success*
..... P.26

* Others

*Membership Update &
Actuaries on the Move*
..... P.31
Upcoming Events P.36
Market Update P.37
Events Highlights P.38
Prize to Give Away..... P.41

Dear Readers,

Happy to see you all again in our newsletter!

We would like to begin with the pleasure of congratulating the formation of the new ASHK Council with President Ms. Ka-Man Wong and newly elected Council Members, namely, Mr. Billy Wong, Mr. Dicky Lam, Mr. Kenneth Dai, Mr. Peter Duran and Mr. Sam Yeung. We will keep on working closely with our members to facilitate the development of the profession.



Further news of the Council can be found in our Council Update of this issue for your easy reference. We will continue to keep every member informed of the Council's latest happenings as your participation and views in ASHK are what we treasure the most.

For this issue, we are featuring the topic of "Hong Kong Risk-based Capital Framework". We are appreciative of the contribution from Deloitte Consulting, Ernst & Young Actuarial & Insurance Advisory Services, Milliman Limited and PricewaterhouseCoopers (the companies listed in alphabetical order), which offer us a wide scope of insights into the forthcoming development of the industry for our professional update.

Again, may we express our gratitude to everybody involved in the creation of this newsletter. It is your effort and contribution that allow us to keep moving forward in serving ASHK members.

Merry Christmas, happy new year and have a great festive season!

Best regards,
Simon Lam
EDITOR

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Below please find the update from the ASHK Council and its Committees:



ASHK elects new President and Council for the year 2016

The ASHK held its Annual General Meeting (AGM) on 14 December 2015 during which Council members for the ensuing year were duly elected (see ASHK Council list below).

Ms. Ka-Man Wong and Mr. Kevin Lee will be the ASHK President and President-elect respectively in 2016. Ms. Queenie Hui who retired from the presidency will continue to serve on the Council in the capacity of Immediate Past President.

Position/Committee	Council Member
President, IAA Colloquium Organising Committee	Ms. Ka-Man Wong
Immediate Past President, Non-Life Committee	Ms. Queenie Hui
President-elect, Strategy & Projects Committee	Mr. Kevin Lee
International (Asia) Committee, Healthcare Working Group	Mr. Sam Yeung (newly elected)
International (China) Committee	Mr. Stuart Leckie
Experience Committee	Mr. Simon Lam
Life Committee	Mr. Sai-Cheong Foong
Life Committee	Mr. Jeremy Porter
Membership & Publications Committee, Secretary & Treasurer	Mr. Kenneth Dai (newly elected)
Pension & Employee Benefits Committee	Mr. Billy Wong (re-elected)
Professional Development Committee	Dr. Louis Ng
Professional Matters Committee	Mr. Peter Duran (re-elected)
Strategy & Projects Committee	Mr. Dicky Lam (newly elected)

Members are encouraged to take some time to read the President's Report 2015 and Message from New President for an update on the Council's work progress and strategic plans ahead!



Queenie Hui
FIAA
ASHK President 2015

PRESIDENT'S REPORT 2015

(Delivered at the ASHK AGM on 14 December 2015)

My fellow actuaries, it's hard to believe my year as President is almost coming to an end. The past year has gone by quickly, but meaningfully. With this report, I would like to take stock of the past year. I have enjoyed the experience as ASHK President and hope that the Society has met your needs this past year.

In my acceptance speech last year, I had said one of the key strategic directions we have chosen was to ensure the Hong Kong actuarial profession would thrive in a changing, and sometimes challenging, environment. We have been doing so in 3 ways:

Firstly, the ASHK has continued to put effort into its work on the statutory path project, with the aim of ASHK becoming a statutory body. This in turn helps us to raise the profile of the actuarial profession in Hong Kong.

Secondly, we continue to strengthen our relationship with the regulators and other professional bodies in the belief that this would position us to better influence policies which relate to areas our members are practising in.

Thirdly, we have continued to strengthen our brand regionally and further our recognition through close collaborations with other actuarial bodies in the region, and globally we will get more involved in the International Actuarial Association (IAA).

Let me elaborate our achievements and challenges during the year in my report below.

Membership in general

Our society remains strong and is showing steady growth with 1,125 current members versus 1,058 last year. I would like to extend a warm welcome to new members to the Society and also thank everyone who has already paid their 2015-2016 subscriptions.

Membership breakdown

Honorary Members	3
Fellow Members	725
Associate Members	151
Student Members	246

Membership analysis *(by area of work)*

Life Insurance	63.48%
General Insurance	8.40%
Retirement Schemes	8.98%
General Corporate Management	8.40%
Financial/Investment	1.94%
Others (e.g. Education, IT)	6.69%
Undisclosed	2.11%

Major challenges are attracting new members, adding value to ASHK membership, strengthening allied partnerships and exploring new avenues of revenue generation just to name a few.

The Year in Review

International (Asia) Committee

This committee is charged with providing support to our actuaries who have an Asian regional role in Hong Kong and working in an ever-changing environment that is leaning towards convergence/globalisation of insurance regulations. The committee is committed to assist our members in coping with these changes as well as to discuss topics that arise globally that will impact Hong Kong and to enhance the reputation of actuaries in Hong Kong as a well-respected one in the region. Members have reached out to local associations in the region to discuss possible collaboration. I am pleased to say, 2 of our members ended up visiting the local association President in Japan and the Philippines, interviewing them and holding discussions on challenges in product development. Members can look forward to reading about these visits in the ASHK newsletter.

International (China) Committee

The Committee's objectives would be to encourage China Association of Actuaries (CAA) to increase its presence at global events, encourage mutual participation at each other's events, exchange information on calendar of events, and improve the lines of communication and exchange information on different practice areas. Thus it was encouraging to see CAA's presence at the IAA Meetings in Zurich and Vancouver as well as at the 19th Asian Actuarial Conference in Bangkok. Representatives from CAA delivered a presentation on China's Risk Oriented Solvency System (C-ROSS) at the IAA Meetings in Zurich and also at the IAA Fund Meeting in Bangkok.

Life Committee

The Life Insurance Committee proactively engaged in open face-to-face dialogue with regulators and the industry on issues affecting the actuarial profession and the insurance industry. Following the tripartite meeting with Insurance Authority (IA) and Hong Kong Federation of Insurers (HKFI), the Committee formed working groups (DST, IFRS4 and AGN9) which held numerous meetings to review the actuarial issues raised at the meeting. The working groups provided members with updates at the Appointed Actuaries Symposium where the Assistant Commissioner of Insurance, Ms. Carol Hui had also delivered a keynote speech. The Symposium was held back to back with the Annual Dinner where we were fortunate to have had Dr. Ko Wing-man, Secretary for Food and Health address our members with a keynote speech.

In view of the effective date of April 2016 for GN16, the Life Committee developed Exposure drafts for Actuarial Guidance Note 9: Best Estimate Assumptions (AGN9) and Appendix A with inputs from the Pension & Employee Benefits and Non-life Committees. The drafts are currently undergoing membership consultation. We are currently considering to engage independent consultants to produce guidance on best estimate economic assumptions for illustrations. Further, pursuant to the release of RBC first consultation comments by the IA, ASHK is staying on top of the likely developments and looking to work with IA closely on further steps ahead.

The modifications to AGN7 came about after the IA had requested ASHK to review DST in particular on the shock on mortality and solvency margin improvement following the IMF assessment of Hong Kong's financial sectors last year.

Financial reporting in Hong Kong is governed by Hong Kong Financial Reporting Standards, which follow International Financial Reporting Standards (IFRS). Recognizing that the coming changes in financial reporting as a result of the International Association of Standards Board (IASB)'s insurance contracts project would fundamentally change the financial reporting for Hong Kong's insurance companies, the ASHK presented the Society's views on certain aspects of the decisions that the IASB had taken during its deliberations on its insurance contracts project.

For members who have been waiting in anticipation of the publication of the Hong Kong Assured Lives Critical Illness Experience Study, 2005 – 2009 would be glad to know that the study has been completed and would soon be issued after the Life Committee and the Council have had a chance to review it.

The ASHK is also keeping an eye on RBC development following the release of the first consultation results on the RBC framework. The Society has offered to help the IA on the technical aspects of RBC development. The next phase would involve development of detailed rules, conduct of Quantitative Impact Study (QIS), followed by another round of consultation.

Non-life Committee

The Committee has been maintaining open dialogue with the IA especially on the extension of GI actuarial sign-off and revising the AGN4 and GN9.

The Health Section which operates under the Non-life Committee had a busy year building relationship with the Hospital Authority. On the Healthcare Reform, the Committee provided comments on the Voluntary Health Insurance Scheme (VHIS) consultation and held a members' forum to explain the VHIS. Building on the success of previous Healthcare Seminars, the Committee organised another seminar in April this year on the theme of Health Insurance Evolution in New Paradigm. Plans are currently underway to deliver another one on 26 February 2016. The Society can look forward to contributing to health matters at an international level as one of its Health Section members has been nominated by Council to represent the ASHK on the IAA Health Section.

Membership and Publications Committee

The Society is conscious that we must be continuously moving forward to offer our members the best support and services available. The Membership and Publications Committee worked hard to arrange 8 evening talks and issued three newsletters on themes of Medical Reform: Views on VHIS, Global Actuarial Update II and General Insurance. The last newsletter issue of the year on RBC is underway. 2 soft skills workshops on Business Skills and Presentation Skills were sponsored by 2 leading recruitment firms. The feedback received was excellent. A word of thanks to the speakers and contributors for making it possible for ASHK to provide a colourful program to our members.

The Committee has made steady progress towards the revamp exercise of the society's website to give a more comprehensive experience to our members. Our Committee members have been working hard to liaise with the website vendor to incorporate our required functional aspects of the website. The hard work, dedication and contribution over the past year by many of our Committee members are highly appreciated and their continued support is vital. The updated website will be more user-friendly and built to perform tasks such as online payment, membership renewal, online membership database, e-blast to disseminate event information, etc.

Pension and Employee Benefits Committee

The Pension and Employee Benefits Committee continued to maintain its close contact with the Mandatory Provident Fund Schemes Authority (MPFA) and delivered a successful inaugural Pensions Seminar to close to 80 participants. A 20-year MPF market size projection report prepared by the Committee was issued at the Seminar. The amendments to PS2 were officially adopted after receiving consent from the Professional Matters Committee, the Council and the MPFA. The Committee would be reviewing ISAP 2 which relates to social pensions.

Professional Development Committee

The Professional Development Committee conducted 2 career workshops on general industry and career information, latest trends and developments in the industry, experience sharing by recent and experienced actuaries and interview tips from a reinsurer for students at the University of Hong Kong and the City University of Hong Kong. Special thanks must be made to the many volunteers involved in the conduct of the workshops.

In support of the launch of a local Hong Kong examination, the cornerstone of the statutory body project, the Committee has formed an oversight group (consisting of Council members, life and non-life Committee members) and a curriculum task force to prepare for a local examination for future members of the Society.

Professional Matters Committee

The Professional Matters Committee conducted a CPD audit and organised a Professionalism Course on ethical challenges including whistleblowing. IFoA had generously granted ASHK complimentary use of their videos for our case study sessions.

At its meeting of October 19, 2015, the ASHK Council voted to strengthen CPD requirements effective for calendar year 2016. All members were notified of the revised CPD By-Law. In accordance with the Articles of Association, the Council would be conducting an Extraordinary General Meeting on 21 January 2016 to adopt the revised CPD By-Law. An evening CPD information session would be held right before the EGM. The new requirements would bring ASHK requirements more into line with those of other major actuarial professional organisations internationally. They would also reflect the nature of the development of Hong Kong regulatory environment.



Statutory Path Committee

The Statutory Body Committee has been pushing ahead on the 5 key areas proposed by the law firm that the ASHK should be working on over the year in preparation to becoming a statutory body through a Private Member's Bill. The 5 key areas are conduct and guidance, examination, governance, CPD and disciplinary process. A strategy day was held in the middle of the year with an aim to provoke discussion among the Council members on the direction the project should be taking. Going forward, the Committee would discuss with the law firm on how to restructure the statutory body project in light of the new independent status of the Insurance Authority.

IAA Life Section Colloquium, 25-27 April 2016, Hong Kong

The ASHK Organising Committee with the help of a professional conference organizer has been working hard at preparing the IAA Life Section Colloquium scheduled on 25-27 April 2016 in Hong Kong. This is a major actuarial event in Hong Kong. Sponsorship proposals and the call for papers have been issued. With a theme on Insurance Evolution: Change is the only Constant, the Committee wishes to encourage local actuaries to join the Council in putting on an exciting program to welcome about 300 actuaries from Asia and around the world to join the special occasion. For more information about the Colloquium, please visit <http://www.actuaries.org/hongkong2016/>. We look forward to having strong support and participation from members.

To provide better and improved membership services, to support the additional workload expected from the statutory body project and the preparatory work for a local examination and to explore new avenues of revenue generation, the Society has hired a full-time ASHK staff, Sarah Hui as of October. Sarah would work together with the current Joint Office staff to provide secretariat services to the Society.

Conclusion

I am delighted to say that I am privileged to work with a team of dedicated members in the Council and several of them, Mr. Tony Cheng, Mr. Gaston Nossiter, Mr. Nigel Ke and Mr. Simon Walpole who are stepping down. I appreciate their support in all facets of running the activities of the Society. I would also like to offer special appreciation to Mr. Billy Wong, Immediate Past President and Ms. Ka-Man Wong, President-elect for their unflinching support and advice during my term as President.

I also thank you, the members, for your active support and participation in our activities. My best wishes to the incoming President, Ms. Ka-Man Wong for her term as President next year. I believe there is still a lot to be accomplished by the Society going forward so I hope you will continue to give your full support and commitment to the new President. It has been a great term for me as President and I look forward to continuing my work with the Council as the Past President.

Best wishes for a merry festive season ahead!

Queenie Hui
ASHK President 2015



Ka-Man Wong
FSA
ASHK President 2016

MESSAGE FROM NEW PRESIDENT

(Delivered at the ASHK AGM on 14 December 2015)

I am delighted to deliver my first speech to all of you. First of all, I would like to express my gratitude to have the chance to serve as President of the ASHK for 2016. It is my honour and my privilege to take on this challenge.

We have close to 320 actuaries at the AGM, and others not here today. This is a sizable and growing profession, with a good mix of reputable senior actuaries and young actuarial talents. I could not possibly make any changes to this society in the coming year, but we together, as a whole, can do so if we want to make things better and we believe in what we will do and change.

I would like to first thank Ms. Queenie Hui for her leadership as our President in 2015, and to Mr. Billy Wong serving as our Immediate Past President. Thanks also go to all Council members and Committee volunteers, you have devoted your personal time to contribute to the ASHK. And also thanks to our staff Pat, Emily, Tracy, Annie & Bonnie and now also with Sarah, who are always helpful to keep us functioning.

Now, vision for 2016. As an actuary practising in Hong Kong, we are entering important times in the next few years, with a lot of changes to come. The work of the ASHK would hence also be around related ideas. There are three missions to go:

- * First, none of us will deny the recent and upcoming changes in regulations: GN15, GN16, Independent Insurance Authority, risk-based capital regime, and governance of appointed actuaries, and possibly risk officers. ASHK will further strengthen our relationship with the regulators and other professional bodies. We'll take a more proactive and influential approach in shaping these policies that affects our members' work.
- * Second, we are approaching a step nearer to becoming a Statutory Body, and working closely along the Legislative Council timeline. Meanwhile, we need to take a series of steps to make it happen, and many of such would entail uplifting our practicing standards and making what-is-an-actuary in Hong Kong at an international level. We look for your support as it allows ASHK to establish ourselves at a different and better position to raise the profile of the profession.
- * Last one, I would like to see ASHK reach out more to our younger generations of actuaries, to attract them to grow with us and contribute their thoughts so we can evolve and keep up with fresh ideas. ASHK shall provide the ideal platform for these new bloods in the profession to build their knowledge, personal network and share of best practices for the benefit of work areas.

Last but not the least, I would like to thank the upcoming council members and upcoming committee members, for your support. I look forward to working with all of you in the coming year, and I hope my one-year will help the society to bring out our full potential of the ASHK and take a solid step forward for a more sustainable future.

And of course, Merry Christmas to each of you. Thank you.

Ka-Man Wong
ASHK President 2016



THANK YOU AND VOLUNTEER ON

The ASHK Council would like to thank committee volunteers for their contribution over the year.

VOLUNTEERING AT THE ASHK

ASHK has a variety of committee volunteer opportunities for both members and the profession to make progress together.

If interested in volunteering at the ASHK, please contact the ASHK Office by email at actsoff@netvigator.com.

International (Asia) Committee – Ka-Man Wong

Update from the Actuarial Society of the Philippines (ASP) - with special thanks to Mr. Romeo Abada, ASP President

The ASHK International (Asia) Committee is established with the objective to keep our ASHK members informed of significant developments in the actuarial profession in Asia through liaison with other professional actuarial bodies in Asia, in particular regulatory and policy changes, market news and career opportunities.

Starting from this issue, we will bring to you updates about our connections with various Asia actuarial societies as the committee connects to each of them. To start with, in early November, Ms. Ka-Man Wong, as the Chairperson of the ASHK International (Asia) Committee, has met with Mr. Romeo Abada, President of the Actuarial Society of the Philippines (ASP), in Manila.

About ASP:

The ASP was established in 1953, and is perhaps the oldest actuarial society in Asia. Over the past 62 years, the ASP has grown steadily to more than 300 members practicing in the country. To be a member, one must first pass a number of SOA exams and modules to become an Associate member, then two Philippines local integrative exams run by the ASP to earn the title of a Fellow of the ASP – FASP.

The ASP's vision is for actuaries to be recognised as the leading professionals in financial modelling and management of risk and contingent events. It affirms its roles in the continuous upgrading of the expertise of its members, in taking a stand on issues affecting the public good, and in assimilating into the larger global community.



▲ Ms. Ka-Man Wong and Mr. Romeo Abada

Recent changes in the Philippines regulation – Risk-based capital!

The Insurance Commissioner of the Philippines has recently released the regulation on the shift in the valuation methodology from NPV to market-consistent GPV. This paves the way to the Quantitative Impact Study for Risk-Based Capital 2 regime, expected to be finalised and be effective in 2016. With the potential move of the Hong Kong regime towards Risk-based Capital framework in the next several years, we are sure there are plenty of examples and solutions to challenges to share between the two countries.

Philippines' actuaries in four practice areas and a new one – extending to the GI space

The Fellows of the ASP have been officially recognised to practice in four sectors – life insurance, pension, pre-need, and health maintenance organisation. Beginning year-end 2015, general insurance (GI) companies are now required to submit premium and claims/loss liabilities certified by a FASP. The ASP fast-tracked its additional GI education program focused on the industry practices. It is one of the prerequisites to be accredited as a certifying GI actuary.

To accelerate further the supply of available GI actuaries for about 70 GI companies, the Insurance Commission of the Philippines has agreed with ASP to allow ASP Associates, completing the GI program, to certify as well during an interim period of two years.

Actuarial career beyond the Philippines

Many of the young Philippines' actuaries are in the global shared service operations supporting actuarial functions in the US and European countries. These provide an actual and direct training ground on global standards and practices on pension, risk management, asset liability management (ALM), and the IFRS 9 valuations for banks. While some Philippine actuaries have worked or are currently working in Hong Kong and Singapore, there are more adventurous ones helping out insurance companies in Indonesia, Vietnam, and Cambodia!!

International (Asia) Committee – Ka-Man Wong

Update from the Actuarial Society of the Philippines (ASP) - *continued*

With the ASHK.....

The ASP is looking into collaborations with ASHK on NPV-to-GPV transformation and RBC2 adoption, as well as the development of the GI practice.

Since Hong Kong and the Philippines are only a two-hour flight away, it can be a good idea to host each other's strategic planning meetings.

Last but not the least, the Actuarial Society of the Philippines has created a Facebook page. You can also visit their website at www.actuary.org.ph. Feel free to check out their latest news and posts!!

Life Committee – Sai-Cheong Foong and Jeremy Porter

Exposure Drafts for Actuarial Guidance Note 9 and Appendix A to Actuarial Guidance Note 9

To support Guidance Note on Underwriting Long Term Insurance Business (Other than Class C Business) (GN16) issued by the IA, ASHK has prepared Exposure Drafts for Actuarial Guidance Note 9: Best Estimate Assumptions (AGN9) and Appendix A to Actuarial Guidance Note 9: Participating and Universal Life Business Benefit Illustration Assumptions (Appendix A to AGN9) to support actuaries to comply with GN16's requirements.

These Exposure Drafts have already been approved by the ASHK Professional Matters Committee. Pursuant to the ASHK By-Law on the Due Process for the Development of Professional Standards and Guidance Notes, ASHK members are given one-month notice to provide any written comments to the ASHK Council on the Exposure Drafts by 23 December 2015.

After considering members' comments, the ASHK Life Committee will present the final recommendation to the Professional Matters Committee for approval and thereafter to the Council for final decision.

A copy of the Exposure Drafts can be downloaded from the ASHK website at www.actuaries.org.hk (Publications > Industry News & Press Release).

Non-Life Committee (Health Section) – Sam Yeung

ASHK Healthcare Seminar, 26 February 2016 - **SAVE THE DATE!**

Further to the success of the 2015 Healthcare Seminar, the ASHK Healthcare Working Group will organise the 2nd Healthcare Seminar on 26 February 2016 at Hotel ICON. Actuaries and other professionals are more involved in managing healthcare insurance risk and dealing with the complex challenges of sustainable health insurance portfolio management.

With the theme '*Striving for Sustainable Healthcare Financing*', this seminar will feature distinguished speakers from the government officials and practitioners to cover timely updates on the following topics:

- * Update on Healthcare Reform and VHS
- * Alternative provider payment contracts: Trials and Tribulations from the US
- * Medical cost controls and fraud management in Mainland China
- * New & expensive drugs and technologies: How are private health insurers around the world responding?
- * Medical claims analysis for sustainable health portfolio
- * Managing elderly healthcare
- * Primary insurer's perspective on health insurance risk management

Registration will start soon!

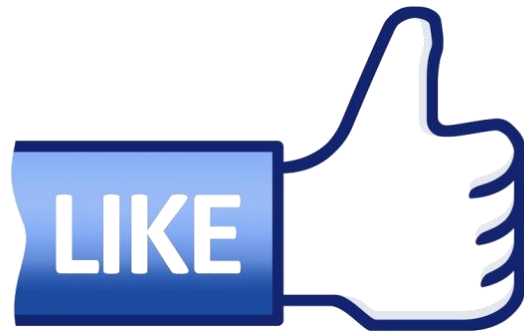


Membership & Publications Committee - Kevin Lee and Simon Lam

In 2015, the ASHK Membership and Publications Committee has made tremendous effort to enhance our membership's value through following perspectives:

- 1) **Extensive coverage from our evening sessions:** We have hosted eight evening sharing sessions with a wide spectrum of topics including Healthcare, Economic Capital, Personal Development, Product Development, Financial Reporting, Experience Studies, Investment and Regulatory Issues.
- 2) **Diverse professional content in publications:** We have revamped our newsletter to extend our coverage into various topics including General Insurance, International Country Update, Healthcare and Regulatory Development.
- 3) **New development for soft skill workshops:** We have developed two soft skills workshops to enhance our member's soft skill like influencing technique and presentation skill.

Moreover, we are actively exploring further initiatives to enhance our membership's value, particularly young actuaries proposition. Your valuable input is much appreciated for our continuous improvement in members' services. Please do not hesitate to send your ideas to Mr Simon Lam by email at: slam@munichre.com.



Professional Matters Committee - Peter Duran

The ASHK Council approved at its meeting of 19 October 2015 to strengthen CPD requirements effective for calendar year 2016 and the revised CPD By-Law with highlights of the amendments was emailed to all members on 30 October 2015.

Pursuant to Article 2 of the ASHK's Articles of Association, an Extraordinary General Meeting (EGM) will be held on 21 January 2016 for the purpose of considering and, if thought fit, passing the following resolutions:

- 1) To consider and approve the amendments to the CPD By-Law in the following manner:
 - a. The new requirements apply to Associate Members as well as Fellow Members.
 - b. The new requirements are different between Fellows with a statutory role in Hong Kong on the one hand and other Fellows and Associates on the other:
 - i. For Fellow Members with a statutory role in Hong Kong (e.g. Appointed Actuary, Pensions Actuary, General Insurance Reserve signing Actuary), the minimum requirement is 30 hours per calendar year. There must be at least 20 hours in the member's main practice area (of which at least 6 hours are directly related to Hong Kong and at least 10 hours are from external events) and two hours of professionalism.
 - ii. For other Fellow Members and Associates, the minimum requirement is 20 hours per calendar year. There must be 15 hours in the member's main practice area and one hour of professionalism.
- 2) To consider and adopt the revised CPD By-Law in substitution for and to the exclusion of the existing one, effective from calendar year 2016.

An information session on the new CPD requirements will be organised for all members before the EGM. The Council encourages all members to vote for the above resolutions as the new requirements will bring ASHK's CPD requirements more into line with those of other major actuarial professional organisations internationally. They also reflect the nature of the development of Hong Kong regulatory environment.

Members should have received hard copies of the EGM Notices and Revised CPD By-Law. Alternatively, soft copies of the relevant documents can be downloaded from the ASHK website at www.actuaries.org.hk (News & Events > Calendar of Events).

IAA Life Section Colloquium 2016

25-27 April 2016

Hong Kong

Insurance Evolution: Change is the only Constant

The International Actuarial Association (IAA) and the Actuarial Society of Hong Kong (ASHK) invite you to attend the IAA Life Section Colloquium 2016 to be held on 25-27 April 2016 in Hong Kong at the Conrad Hotel.



The overall theme of the conference, **Insurance Evolution: Change is the only Constant**, recognises that the life insurance industry is continuing to evolve to meet the needs of its customers, and how the role of the actuary is changing and adapting within this.

Online registration is launched! Please visit our website to register online.

Registration Category	On/Before 15 January 2016 (HK Time)	After 15 January 2016 (HK Time)
IAA Section Member / ASHK Member	HK\$4,650 (US\$600)	HK\$5,600 (US\$720)
Non-member	HK\$5,600 (US\$720)	HK\$6,550 (US\$840)
Academic	HK\$3,200 (US\$410)	

Online registration:

<http://www.actuaries.org/hongkong2016/>



Media Partner:



Platinum sponsor:



Gold sponsor:



Silver sponsors:



For enquiries and sponsorship opportunities, please contact the meeting secretariat at iaa2016@icc.com.hk or +852 2559 9973

Blending the Other Comprehensive Income Solution into the Risk-based Capital Regime



Eric Lu
FIAA
Partner
Deloitte Consulting
erilu@deloitte.com.cn

The Insurance Authority (IA) of Hong Kong conducted a three-month consultation exercise from 16 September to 15 December 2014 to solicit views on the proposed Risk-based Capital (RBC) framework for the insurance industry. 51 written submissions from insurers/organisations were received by the IA. The focus of the Consultant Paper has been on the liability measurement and capital measurement.

In this article, we discuss the issues surrounding the liability valuation basis and a potential solution.

Based on document released by the IA, respondents to the RBC Consultation Paper were roughly split on the opinion whether a market consistent basis or a combination of market consistent and amortised cost basis should be applied when measuring the liability of insurance contracts, although most respondents agree 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 Hong Kong Financial Reporting Standards (HKFRS) which is expected to be equivalent to the International Financial Reporting Standards (IFRS).

Most readers would be familiar with the proposal from the International Association of Standards Board (IASB) which is commonly known as IFRS 4 Phase II. One key element of the insurance liabilities under IFRS 4 Phase II is the best estimate liabilities. There were extensive discussions around how changes to the liability valuation assumptions should be reflected in the financial statements.

The IASB has made preliminary decision that insurers have the options to reflect the effect of change in the best estimate liability discount rate directly through profit and loss (P&L) or through a balance sheet item called Other Comprehensive Income (OCI) for non-participating contracts. When deciding on which approach to use, companies also need to consider the asset valuation standards which will be governed the new IFRS 9 standards.

If the impact of the change in discount rate flows directly to the P&L, then the asset value would need to be marked to market in order to minimize accounting mismatch. For life insurers, the long-term nature of the liabilities would mean that there could be substantial volatility in both the P&L and the balance sheet.



There are merits for companies to choose the OCI solution as its earnings could be reported in P&C in a more stable manner. Should an OCI approach be elected, a market consistent valuation approach would be adopted for liability reporting on balance sheet but an amortised cost valuation approach would be adopted for earnings reporting purposes. In the case of life insurers, a lot of their assets would be fixed-income securities. They are likely to be accounted for on an amortised cost basis under IFRS 9. Then such arrangements of assets and liabilities reporting would give better matching from a P&L perspective. There could then lead to inconsistency in the valuation bases between assets and liabilities as one is based on market consistent basis and one is based on amortised cost basis.

Most respondents to the RBC Consultation Paper agreed that the valuation basis for assets and liabilities should be on an internally consistent basis. It is probably fair to say achieving all desired objectives without conflicts is nearly impossible. In that case, perhaps we should probably aim for the second best option, the one that has fewest defects.

This is a summary of the different scenarios for a non-participating long duration life insurance contract when a different pair of asset liability measurement approaches are chosen.

	Liabilities on market consistent basis	Liabilities on amortised cost basis
Assets are fixed-income, on amortised cost basis	<ul style="list-style-type: none"> Accounting mismatch between assets and liabilities Volatility on capital resources 	<ul style="list-style-type: none"> Assets and Liabilities are consistent The economic mismatch between assets and liabilities is not captured
Assets are fixed-income, on market consistent basis	<ul style="list-style-type: none"> Accounting mismatch is avoided Economic mismatch is captured Volatility on capital resources 	<ul style="list-style-type: none"> Accounting mismatch between assets and liabilities Volatility on capital resources

It appears that alignment of accounting approach for assets and liability is most desirable to avoid mismatch from an accounting perspectives as well as economic perspectives. Theoretically, measuring both assets and liabilities on market consistent basis would lead to the most desirable outcome.

However, the asset liability duration mismatch for life insurers means that there will be volatility on the balance sheet. The volatility in amount of capital resources could be disruptive to the management of the life insurance business and reduce the capital efficiency.

Having both assets and liabilities on amortised cost basis also avoids accounting mismatch. Conceptually, a "lock-in" style approach could eliminate the impact of short-term economic fluctuation on the financial statements but this cannot sufficiently capture the economic substance. For example, the amortised cost approach failed to capture the risks associated with a sustainable period of low interest rates in the financial statements and failed to provide early warning signals to the management of insurance companies and regulators.

Applying different valuation basis to assets and liabilities can cause even more volatility as there is no offset between assets and liabilities when the interest rate moves. Hence if the industry is concerned about volatility, this could be the least desirable solution.

In the Consultation Paper, a tiered capital approach is proposed, which is similar to Basel-II and Solvency-II. Under a "tiered" approach, the composition of capital resources is based on the categorisation of elements of capital according to quality criteria set by the supervisor.

For example, under a three-tier system in other jurisdiction:

- * Highest quality capital – permanent capital that is fully available to cover losses of the insurer at all times on a going-concern and a wind-up basis (i.e. equity and retained earnings).
- * Medium quality capital – capital that lacks some of the characteristics of highest quality capital, but which provides a degree of loss absorbency during ongoing operations and is subordinated to the rights and reasonable expectation of policyholders (e.g. some forms of subordinated debt).
- * Lowest quality capital – capital that provides loss absorbency in insolvency or wind-up only.

We would like to explore the idea of having two sets of retained earnings such that consistent valuation approach can be applied as much as possible and yet the disruption to the business caused by short-term volatility can be reduced as much as possible.

Let's assume the valuation of assets simply follows the IFRS 9. Insurers can apply fair value through P&L or amortised costs depending on the assets. On the liability side, we follow the OCI solution proposed IASB. That is, the change in discount rate goes into OCI.


We think that the Tier 1 capital should reflect the impact to the retained earnings without introducing the OCI associated with the change in discount rate. The reason is that Tier 1 capital is expected to support the obligation to policyholders on a going-concern basis and a wind-up basis.



This part of OCI can be added back to Tier 2 or Tier 3 capital, as Tier 3 capital corresponds to resources available in a wind-up situation. In such a situation, all assets and liabilities should be marked to market.

Such a design has the advantage of having proper regard of current market conditions but allow insurers to present the financial condition on a long-term going-concern basis. The second advantage of this approach is that it makes full use of the IFRS Insurance Contract Standards and achieve better alignment with IFRS.

An alternative but similar approach is to use both the market consistent and amortised cost bases for the tiered supervisory approach. In such a way, the market consistent valuation results could provide sufficiently early warning to the management as well as regulators and yet do not necessarily lead to immediate management action. It is recognised that it would lead to heavier operational resource requirements and other data and system challenges.

Finally, we have to point out that the accounting mismatch between assets and liabilities may not be fully eliminated when both IFRS 9 and IFRS 4 phase II becomes effective. Hence the asset liability management practice may have to place proper regard to the accounting treatment of the assets and liabilities in order to facilitate robust capital management. 

Disclaimer: This article reflects the views of the author but not the views of Deloitte.

From Globalisation to Regulatory Reform - The Future Development of Hong Kong Risk-based Capital



Jackie Chu

FSA

Associate Director & Consulting Actuary
Ernst & Young Actuarial & Insurance Advisory Services

wai.chu@hk.ey.com

Trade and financial services liberalisation and close partnership initiatives in Asia such as the Chinese “one belt one road” initiative and the America-led Trans-Pacific Partnership paint a picture of an integrated Asia with increasing levels of globalisation. As a financial hub that links China and Asia with the rest of the world, Hong Kong’s insurance industry faces new opportunities and challenges. A regulatory capital framework in line with other jurisdictions, combined with regulatory reforms, will help insurers manage their downside risks while capitalizing on future growth. This article explores how the Hong Kong’s RBC should evolve in view of global economic and regulatory trends.

Cross border/sector coordination

There are and will continue to be cross border and cross sector activities in the Asian insurance market. Chinese insurers and investors are advancing into the global market at a time of liberalisation and reform of insurance markets in China and South East Asia. “Going out” is the common theme for many Chinese investors in recent years. As of end of 2014, 12 Chinese insurers have established 32 overseas operations¹. In 2015, investors like Fuson or JD capital continued their expansion into the European Union (EU), US and Hong Kong. We anticipate that more Chinese and overseas investors will participate in the Hong Kong insurance market in the near future. In ASEAN, rapid economic growth and a large population have long attracted insurers from Japan and all over the world. In addition, the ASEAN Economic Community is also exploring the possibility of liberalizing the insurance industry among the ASEAN countries, adding to the attractiveness of this market.



The increasing number of cross border trade activities, the diversity of investors’ backgrounds and the lessons learnt from the global financial crisis highlight the need for regulatory coordination and harmonisation across different jurisdictions and different sectors to ensure a level playing field and to avoid cross sector arbitrage.

The proposed HKRBC framework attempts to balance different objectives, of which arriving at harmonisation with other jurisdictions and promoting growth of the Hong Kong insurance industry are key. References to the International Association of Insurance Supervisors (IAIS)’s Insurance Core Principals (ICPs) and the experiences in Australia, Singapore and the EU have been made throughout the HKRBC proposal. Although the detailed rules have yet been crystallised, we expect the Hong Kong’s RBC to be similar to the regulations in Australia or Singapore.

There is, however, limited discussion given to cross sector harmonisation in the proposed regulation, as well as the potentially different behavior incentivised by the different regulations across financial institutions. For example, Basel III stipulates explicit liquidity risk standards while HKRBC proposes that liquidity risk be dealt with through enhanced supervisory oversight of asset liability management (ALM). Although it is widely recognised that the business models and thereby the priority of the inherent risks differ significantly among financial institutions, the line between financial products and insurance products is blurred due to innovation in wealth management products by insurers and the bancassurance distribution model. More analysis around the behaviors induced by different regulations, especially when subject to the same systematic events should be carried out and closely monitored.

Note:

¹ “Future directions for foreign insurance companies in China 2015” by EY.



Group wide supervision

The global financial crisis that started as a subprime loan crisis in the US market 7 years ago brings to light the importance of group wide regulation and supervision. IAIS's ICP23 details the standards and guidance on the supervision of insurance groups. Australia introduced group wide supervision for its general insurers in 2009 and is in the process of establishing supervision standards for conglomerate groups. Singapore is also developing an insurance group supervision framework. The proposed HKRBC framework touches on this topic, although there were many unanswered questions during the consultation period as to the definition of insurance group/subgroup.

Australia's experience of group wide supervision for general insurers in 2009 was illuminating. Issues like debt-funded parent companies or complicated legal structures with different corporate objectives were discovered and eventually led to corporate restructuring. Similarly issue of complicated corporate structures in Hong Kong are anticipated, especially since some investors view insurance as an investment to provide a stable supply of long term funding.

Hong Kong's RBC proposes to define an insurance subgroup as an insurance group member which has significant operation in Hong Kong either subject or not subjected to home supervision, or a holding company of a financial or non-financial conglomerate. Due to the complexity of some insurers' holding structure, it is not entirely clear if the proposal will capture all the insurance groups / subgroups which might pose contagion risks to the financial system. Corporate structures of existing insurers and new insurers to be incorporated in Hong Kong should be assessed in the next phase before finalizing the insurance group/subgroup definition.

Proportionality in regards to group wide supervision was proposed in the Hong Kong's RBC consultation and was welcomed by the majority of the respondents. While the principal of proportionality can avoid significant compliance cost for small insurance entities, the contagion risk may not be easily inferred through the company's premium volume or asset size. Some start-up insurance companies may be small at the beginning but will engage in rapid expansion thereby exposing the company and the financial system to unforeseeable risks. We recommend thorough investigation irrespective of company size in the next phase.

In terms of capital and risk management requirements at group level, is the draft regulations propose that entity level requirements will be applied at insurance group/subgroup level. There are additional risk management requirements and potentially additional funding at the group level. Hong Kong's RBC recommended to adopt a consolidation approach with group level focus but details like how to cater for capital fungibility will only be established in the next phase. A similar approach is adopted by the Monetary Authority of Singapore's proposal on group-wide supervision. China's Risk Oriented Solvency System (C-ROSS), however, adopts a different approach. According to C-ROSS, Section 17, unless otherwise requested by the China Insurance Regulatory Commission (CIRC), overseas insurance members of a China insurance group can report CROSS capital according to the host country rules. The inconsistencies between C-ROSS and the proposed Hong Kong's RBC, together with the growing number of China based insurance groups in Hong Kong highlights the need of close communications between the regulators regarding the financial stability of these companies and appropriated level of disclosure is expected.

Cross border policyholder protection

According to EY's "Future directions for foreign insurance companies in China 2015", foreign insurance companies are closely monitoring the development of Free Trade Zones (FTZ) established in China and the possibility of rolling out business from one FTZ to another. Hong Kong currently has trade agreement with the Guangdong province to carry out RMB insurance and under the Closer Economic Partnership Arrangement (CEPA) framework, Hong Kong's insurers are allowed to enter the mainland Chinese market subject to certain ownership and experience requirements. The potential elimination of insurance services barrier in the FTZ's will further expand the RMB insurance business in Hong Kong. According to the IA's statistics, as of Sep 2015, around 40% of the new premium written in Hong Kong was attributed to offshore business. Cross border insurance activities will continue to increase, leaving the establishment of effective cross-border consumer protection desirable.

Effective cross-border consumer protection has far reaching implications, from cross-border business conduct to policyholder compensation in the case of an insurer winding up. From a capital adequacy perspective, Hong Kong's RBC proposes to set up two independent funds for on-shore and off-shore business separately. There were differing views on this proposal in Phase 1's consultation mainly because respondents had concerns about the effectiveness of achieving the stated purposes through setting up individual funds, and about the extra operational burden it puts on insurers. As to other countries' experience, insurers in both Australia and Singapore are required to have separated funds for local and overseas policyholders and the solvency coverage ratios of all the funds have to be above the regulatory minimum. It is not immediately clear as to the connection between setting up individual funds and equal consumer protection. However, the IA explained in the subsequent consultation response, the benefits of getting additional visibility about sources of business. In view of the ever growing reliance on off-shore business, instead of setting up segregated funds, which increases administrative cost for small insurers, the IA may consider requesting companies only to keep track of the business separately.

In conclusion, globalisation and liberalisation of the financial system increase its vulnerability to risks which may previously be perceived as isolated cases. The financial market will continue evolve. It is in the public's best interest to establish a forward-looking and principal based regulatory framework to increase the resilience of our economy. ☺



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Actuary & Investment Lead	Heidi Lee	2281-0042	heidi_lee@kellyservices.com.hk
Claims & Underwriting Lead (GI)	Stephen Hui	2281-0041	stephen_hui@kellyservices.com.hk
Claims & Underwriting Lead (Life)	Wincy Tang	2281-0005	wincy_tang@kellyservices.com.hk
Legal & Compliance Lead	Joanne Lee	2281-0039	joanne_lee@kellyservices.com.hk
Sales & Marketing Lead	Alice Leung	1181-0040	alice_leung@kellyservices.com.hk
Information Technology Lead	Cody Szeto	2281-0008	cody_szeto@kellyservices.com.hk

The Risk-based Capital Consultation Paper: What Impact on Participating Business?



Sam Morgan
FIAA
Principal and Consulting Actuary
Milliman Limited
sam.morgan@milliman.com



Sing-Yee Yeoh
FSA
Consulting Actuary
Milliman Limited
singyee.yeoh@milliman.com

The IA recently published the RBC Consultation Paper outlining a proposed new capital framework. In this article, we assess the potential impact of the proposed framework on participating business, a key product line in Hong Kong.

Introduction

Participating business has become one of the key product lines of many insurers in the Hong Kong market, representing a significant proportion of new business premiums across the industry.

Participating business in Hong Kong takes one of two main forms:

1. 'Old style' participating business, offering relatively high annual bonus and low terminal bonus products typically backed by a significant proportion of lower-rated corporate bonds.
2. 'New style' participating business offering relatively low annual bonuses but significant terminal bonuses, often backed by a high proportion of equity and other asset classes with higher risk.

This article focuses on three areas of the proposed new RBC framework that are in our view vital considerations for the future of participating business in Hong Kong:

1. Discount rate
2. Time value of financial options and guarantees (TVOG)
3. Loss-absorbing capacity

As a comparison, we look at the treatment of these areas across three solvency regimes:

- * Solvency II in the EU
- * China Risk Oriented Solvency System (C-ROSS)
- * Singapore phase 2 RBC (RBC 2), latest draft

In addition, we provide our observations on some key points we feel should be considered when formulating the final regulations.



Discount rate

One of the most critical elements when defining a market-based RBC approach is the selection of the discount rate. In the Consultation Paper, the IA proposed to set the discount rate to be a market-referenced rate, defined with reference to both current yields and historical yields. In addition, the IA would retain the ability to apply alternative valuation techniques during 'anomalous' market conditions. The approaches used to determine the discount rate under Solvency II, C-ROSS, and the proposed Singapore RBC 2 rules are very different, but all meet the general requirements laid out by the IA.

Solvency II

The discount rate is based on the risk-free discount rate with either a volatility adjustment or a matching adjustment, depending on the type of business being considered.

The risk-free discount rate for the euro is based on the swap curve less a 10 basis point Credit Risk Adjustment up to the 20-year point, the long-term rate (currently equal to 4.2%) beyond 60 years, and interpolated between these points.

The volatility adjustment is periodically set by the European insurance regulator, European Insurance and Occupational Pensions Authority (EIOPA), and aims to mitigate the effect of exaggerated bond spreads (both corporate and government) to prevent pro-cyclical investment behaviour and illiquidity. It is based on weighted spreads of the bonds held by the entire EU insurance sector. The volatility adjustment applies for all business where the matching adjustment does not apply.

The matching adjustment is a constant addition to the risk-free yield curve, which is only applied for specific, 'predictable' liabilities. The following specific criteria must be met to be considered predictable liabilities:

- * Life insurance obligations should only comprise longevity, expense, revision, and (limited) mortality risks, as well as not containing options for policyholders and future premium payments.
- * The assigned portfolio of assets must be maintained over the lifetime of the matched insurance obligations (except for the purpose of the replication). Cash flows of the assigned portfolio of assets must be fixed and cannot be changed by the issuers or any third parties. Bonds with credit rating of BBB will be limited to 33% maximum exposure.
- * The present value of the cash flow shortfall, i.e., the excess of liability cash flows over asset cash flows, must be below 15%.

The predictable nature of the liabilities implies that a company will be able to hold its risky assets until maturity. The goal of the matching adjustment is, therefore, to offset the short-term asset value fluctuations caused by risks other than default and downgrade risk by adjusting the best estimate value of the liabilities. It is calibrated in such a way that the market value of the liability mirrors the market changes in the asset values not related to default or downgrade.

C-ROSS

The discount rate is based on the following:

- * 750-day moving average of the China government bond yield curve up to the 20-year point;
- * Ultimate rate beyond 40 years, taking into account the 'long-term economic natural growth rate and the long-term inflation rate in China; and
- * Interpolated between these points.

Over and above the base yield curve, a margin for risk of 45 basis points for participating business is incorporated to reflect tax effects, liquidity premium, and countercyclical adjustments.

Singapore RBC 2 (latest draft)

The discount rate is based on the risk-free discount rate with a matching adjustment. The risk-free discount rate is defined as the market yield of Singapore Government Securities (SGS) of matching durations as at the valuation date.

The matching adjustment requires ring-fencing a portfolio of predictable liabilities and a matching portfolio of high-quality bonds. The matching adjustment equals the spread movement of the ring-fenced assets that are not related to default or downgrade. The Monetary Authority of Singapore (MAS) will publish the spreads deemed to be in respect of default and downgrade.

Similar to Solvency II, the matching adjustment can only be applied under specific criteria, namely:

- * Products have to be denominated in Singapore dollars (SGD) or U.S. dollars (USD). Life insurance products should have immaterial risk exposure to mortality, lapse, disability, dread disease, and other insured events (based on MAS prescribed tests).
- * Eligible assets should only have fixed cash flows and no issuer options. SGD and USD fixed income bonds should have at least investment-grade quality, including government securities. Bonds with crediting ratings of BBB- to BBB+ will be limited to 30% of total eligible assets.
- * The present value of the cash flow shortfall, i.e., the excess of liability cash flows over asset cash flows, must be below 15%

Impact of discount rate on Hong Kong participating business

The approaches to the setting of the yield curve across the different solvency regimes can be summarised in Figure 1 below. On the far left-hand side of the chart is the most 'pure' market-consistent approach. On the far right-hand side is the 'least' market-consistent approach.

Both 'old' and 'new' participating products typically have significant corporate bond holdings in the backing asset portfolio. The use of a 'pure' market-consistent approach, without any uplift to the yield curve, could potentially be detrimental to overall company solvency as the expected returns from corporate bonds are reduced to be, on average, aligned with the risk-free returns.

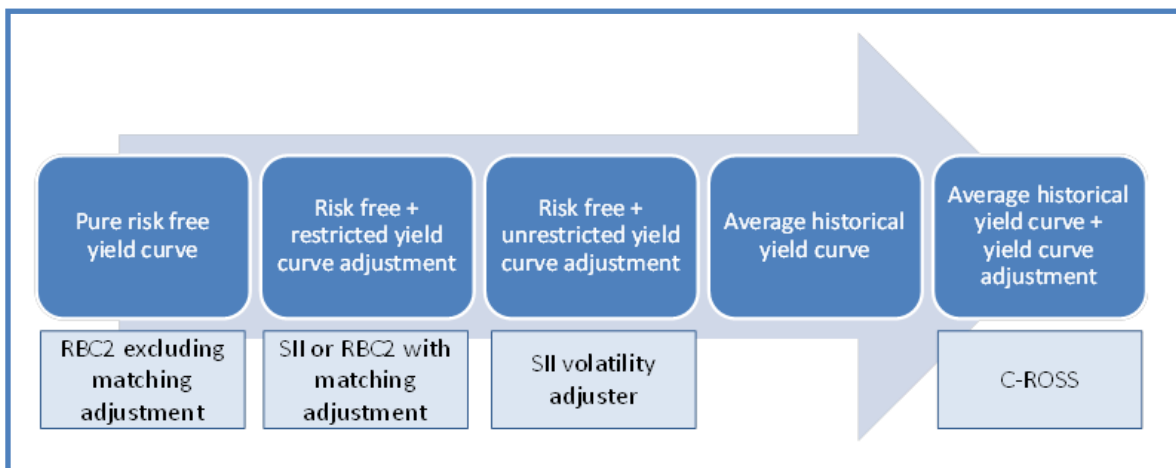


Figure 1: Yield curve option spectrum

To avoid the market-consistent volatility of the returns, this seems to suggest an approach whereby the yield curve is as far from market-consistent as possible, possibly in line with the C-ROSS approach.

However, the C-ROSS approach to setting the yield curve for discounting purposes has some significant drawbacks. Although the changes in the discount yield curve are smoother and will generally be at a higher level, there is a greater potential disconnect between the change in asset values (in particular where assets are on a mark-to-market basis) and the best estimate liability values. This disconnect can make it significantly more difficult to implement effective ALM policy, as yield curve changes impact the asset and liability values at different rates and can lead to significant volatility of the overall solvency position.

Time value of options and guarantees (TVOG)

In the Consultation Paper, the IA proposes to include an explicit treatment of TVOGs, which is widely accepted by the industry. However, there are several possible approaches to the integration of TVOGs, as reflected in the diversity of approaches taken in other regulatory regimes (see Figure 2).

Solvency II Pillar 1 (Standard formula)	Explicitly calculated using stochastic evaluation. The modelling of management actions (bonus rates, investment strategy etc.) and policyholder behaviour (lapse rate, take-up rates etc.) within the best estimate valuation is required.
C-ROSS Pillar 1	Explicitly calculated using a factor-based approach. TVOG factor is based on adjusted residual duration and the guaranteed interest rate, which depend on the nature of the business.
Singapore RBC 2	Not explicitly included.

Figure 2: Comparison of approaches to inclusion of TVOG in RBC methodology

Impact of TVOG on Hong Kong participating business

The approach used for the allowance for TVOG in the Hong Kong RBC framework could significantly affect both the results and the operational impact of the new regulations.

A requirement to carry out stochastic calculations similar to Solvency II, although inherently more 'accurate' than other approaches, may impose significant implementation costs. Those companies that are not currently undertaking regular stochastic calculations may need to invest significantly in both human capital and computational capacity to meet the new requirements.

However, the alternatives can create their own areas of concern:

- * Ignoring allowance for TVOG completely, as is the case for Singapore RBC 2, can result in the true cost of the business that is sold not being reflected in the capital charges. In particular, for the 'old' style Hong Kong participating products, where TVOGs are typically quite high because of rich guaranteed benefits, ignoring TVOGs completely will underestimate the capital required for them.
- * The use of the factor-based approach, as in C-ROSS, has two major disadvantages: 1) the level of TVOG changes significantly as the economic conditions to which the company is subjected vary; and 2) the level of TVOG is highly dependent on the product design, the underlying asset allocation, and the amount of surplus or terminal bonus accumulation. This is particularly true for the 'new' style Hong Kong participating products, which have very high terminal bonuses, and so should not have significant TVOGs. To minimise these impacts, regulations would need highly granular factors, and these factors would require regular updating by the regulator. This may not be practical. Ultimately, it would seem probable that this approach could lead to significant deviation between the actual level of TVOGs and the TVOGs determined by the regulations.

An alternative to the two methods above is a 'multi-deterministic' approach whereby a limited number of scenarios are run and the overall TVOG is the weighted average of these scenarios. This approach could be an attractive solution for participating business as it is a hybrid between the full stochastic approach and the factor-based approach, taking into consideration the current economic conditions and product specifics but avoiding the operational complexity of the full stochastic approach.

Loss-absorbing capacity

Loss-absorbing capacity is the ability to transfer a proportion of the capital charges to the policyholder when the policy conditions permit, as is the case for much participating business.

A comparison of the different approaches used for loss-absorbing capacity in other solvency regimes is given in Figure 3.

Solvency II Pillar 1 (Standard formula)	Solvency II fully recognises all of the loss-absorbing capacity of the liabilities, with an adjustment to avoid any double counting between shocks. This is reflected through the implementation of management actions within the models, and hence is implicitly included in the change in Net Asset Values for each of the individual capital shocks.
C-ROSS Pillar 1	<p>The loss-absorbing adjustment is the difference between the minimum capital requirement before and after loss-absorbing impact considerations.</p> <p>The loss-absorbing adjustment is capped by a regulatory limit, which is defined as the difference between the best estimate of reserves under the base scenario and the best estimate of reserves under the adverse scenario.</p>
Singapore RBC 2	<p>The loss-absorbing capacity is reflected in the interest risk charge calculation in the RBC 2 framework.</p> <p>For participating business, although the base capital charge is fully supported by the insurer, the insurer has the possibility to reduce the total capital charge by up to 50% of the surplus in the fund.</p>

Figure 3: Comparison of loss-absorbing methodologies

Impact of loss-absorbing capacity on Hong Kong participating business

The loss-absorbing capacity is key when considering participating business.

Although the Solvency II approach is the approach that best reflects the 'true' loss-absorbing capacity, it requires the implementation of management actions within the actuarial calculations, which can give rise to subjectivity in the capital requirements. However, the implementation of the requirement in the Guidance Note on Underwriting Long Term Insurance Business (Other than Class C business), also known as GN16, reflects the need to improve communication with policyholders and make management action more explicit and transparent.

Conversely, the Singapore RBC 2 approach has merits in the simplicity in which it absorbs up to 50% of the available capital. However, for the participating business in Hong Kong, and in particular the 'new style' participating products, the typical level of loss absorption is in excess of 80%. The inability to absorb the totality of the equity shock for the high terminal bonus products would lead to prohibitively high capital requirements.

The C-ROSS approach uses predefined minimum levels of bonus that are then used to define the loss-absorbing capacity. The minimum levels of bonus are assumed to trend down to zero over the first three years of the projection. If this approach is used, and the minimum level of bonus is calibrated at too high a level, the loss-absorbing capacity would be less than for the Solvency II approach.

Conclusion


The implementation of the new RBC framework in Hong Kong is an important step forward in regulatory oversight, and is welcomed. However, in crafting the final regulations, it will be important to strike a balance between promoting sound risk management whilst at the same time avoiding stifling industry growth and product innovation.

Participating business remains a core product line for many life insurers in Hong Kong, and the nature of the final RBC rules, including the discount rate, treatment of TVOGs, and the allowance for loss-absorbing capacity, could have a profound impact on the future landscape for participating products and how companies manage this important product line going forward.

The setting of the yield curve requires a trade-off between a pure market-consistent approach, in which asset and liabilities can be more closely matched and hence minimise balance sheet volatility, and an average yield curve approach with possible uplifts, in which expected returns on all asset classes will be higher, resulting in more favourable capital positions.

Imposing stochastic approaches to the calculation of TVOGs may result in some insurers requiring significant investment in both human capital and computational capacity to meet the new requirements. The imposition of this approach should be carefully considered to ensure the costs are not prohibitive for the market as a whole, in particular where the trend is currently away from those products with high TVOGs.

The ability to take into account the full amount of loss-absorbing capacity is essential for ensuring that participating business can remain a core part of the Hong Kong product landscape, in particular as the market moves towards products with higher equity proportions and terminal bonuses.

Participating business, in its ability to provide smoothed investments over the long term, is one of the key products that differentiates insurers from other asset managers. Ensuring the new regulations do not kill off this differentiator is vital to the future of the industry. 

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A Risk-based Capital Framework for Hong Kong Insurers Supporting the Industry's Continued Resilience and Success



Chris Hancorn
FFA
Partner
PricewaterhouseCoopers Hong Kong
chris.a.hancorn@hk.pwc.com

As we approach 2016, insurers and their regulators in Europe and China are finalising the implementation of some of the most far-reaching changes to solvency rules ever seen – Solvency II in Europe and C-ROSS in China. Within these markets, insurers' regulatory solvency assessments will move towards a risk-based solvency requirement, supported by enhanced risk management and disclosure requirements.

Here in Hong Kong, we are at the beginning of this journey to a risk-based approach to solvency regulation. Hong Kong's existing insurance solvency rules¹ provide a factor-based solvency calculation that, by design, cannot accurately reflect the insurance and economic risk factors specific to each insurer. The IA has recognised that there is now a strong case for modernising this regime, and to move towards the standards for RBC required by the ICPs set out by the IAIS.

The commencement in 2016 of Phase II of the IA's RBC project – the development of detailed rules, including an industry-wide Quantitative Impact Study (QIS) – is a golden opportunity for the Hong Kong insurance industry to work with the IA to shape an RBC regime that ensures the continued resilience and success of the industry.

As we do so, we should learn from the journeys taken by insurers and regulators in Europe, China and elsewhere, as well as the IAIS global developments, and we should prepare to address the challenges and maximise the opportunities that will be created.

In this article, we focus on a number of key priorities for the industry in the years ahead as it works with the IA to develop the RBC regime:

- * Ensuring that the RBC regime is fit for purpose and proportionate.
- * The benefits of starting with pillar 2, investing in enhanced risk management as a means of informing the development of pillar 1.
- * Recognising that there are alternatives to the internal model approval approach that can achieve similar outcomes at potentially lower cost.
- * Using the QIS to assess the options for the base balance sheet, as well as the definition of the risk-based capital requirements themselves.
- * Understanding and preparing for the strategic implications of the new regime.



Note:

¹ Insurance Companies Ordinance (Chapter 41) and its Regulations, together with the Guidance Notes issued by the IA

Continued resilience and continued success through a fit-for-purpose RBC regime

The Hong Kong insurance industry has a reputation for resilience and for providing for the needs of its customers. This industry was resilient through the financial crisis, and continues to thrive and provide innovative savings and protection for its customers, even in the continued low interest rate environment. However in an increasingly scrutinised and competitive financial services market, the continued success of the industry is vitally dependent on continuing to retain the trust of consumers and to maintain a reputation for financial resilience.

Hong Kong's new RBC regime must address the objective of continued resilience, but must also do so without impairing the industry's ability to continue to thrive and meet the needs of current and future consumers. No matter how difficult the technical challenges we face in the months ahead, we must as an industry have this core objective of continued resilience and success front of mind, and accept that there are costs as well as benefits in the many options available.

This is all about consumer protection through a pragmatic and fit-for-purpose solvency regime, but not at any cost. A fit-for-purpose RBC regime will require a different mind-set from current regulations. This does not necessarily mean aiming for a higher level of capital requirements, or for increasingly sophisticated modelling approaches – doing so risks unnecessarily higher costs for consumers and investors, damaging the industry's prospects. The key aim of new regime will be a level of capital which is appropriate to the level of risk. We believe that this objective can be obtained without either excessive capital requirements, disproportionately complex modelling or excessive implementation costs.

Invest in enhanced risk management as a means of informing the development of pillar 1

It is clear from the IA's published conclusions of the 2014 consultation that there has been broad industry support for its proposal to implement aspects of 'pillar 2' ahead of the 'pillar 1' capital requirements themselves. This is also the approach that has been seen in Europe and the US, where the forward-looking ORSA requirements, and requirements around the system of governance, have been rolled out and tested by supervisors ahead of changes in the pillar 1 solvency rules themselves.

We support this approach. Strong risk management systems and processes, supported by effective governance, are fundamental to ensuring that a risk-based solvency requirement is adequate and appropriate, and so it's the right place to start.

Indeed we believe that developing the own-risk and solvency assessment (ORSA) process, right at the heart of the framework, is an area where companies can and should invest now. This coherent framework starts with an assessment of the company's entire risk profile, defining the insurer's risk management processes in detail (including those that require capital as well as those which do not), and assessing the insurer's view of its capital needs on a forward-looking basis (taking into account the company's risk appetite and including allowance for adverse stresses and scenarios).

Getting this framework and set of processes right at an early stage of planning will enable management and the Board to become familiar and comfortable with new metrics, including stress and scenario testing that will become a routine part of internal management reporting, well in advance of those metrics being subjected to greater scrutiny.

A good ORSA will also place an insurer in a strong position to assess and quantify the appropriateness of the IA's proposals for technical provisions and capital requirements in the forthcoming QIS, and as those rules are further developed.



One size does not fit all

The Hong Kong insurance industry is one of the most diverse in the world with a wide range of business written, distribution channels, types of customers with varying needs, diversity of products and business models, and a variety of group structures. Therefore the risk profiles of insurers in this market vary widely – even between institutions that write similar types of business.

The standard formula approach to capital requirements that will be developed through the QIS cannot, by definition, reflect every company's individual risk profile. It will naturally become a yardstick, that will receive a lot of attention, but in developing a risk-based capital requirement, one size does not fit all.

So is internal model approval the answer?

In Europe, a great deal of attention has been given to the option that is available in Solvency II to enable companies to make use of an internal model to determine capital requirements, as a means of capturing within the capital assessment a company's individual risk profile and specific economic risks. Several companies, including a number of multi-national groups, have followed this route.

The Hong Kong IA has proposed that internal models should not initially be required for the purpose of determining regulatory capital, and rather the standard formula approach will be used, together with the provision for regulatory capital add-ons if the standard formula is assessed to be insufficient to meet a company's specific risk profile. However, there will also be additional flexibility for internal models (or partial internal models) to be used, subject to approval by the IA.

This is a pragmatic approach to this option that recognises that the internal model approval route should not be undertaken lightly. Internal model approval is the ultimate test for an insurer's own solvency assessment, requiring a very high standard of independent validation of the model and the statistical quality of its assumptions and calibration, high standards of documentation, and the use test, all of which would be subject to significant regulatory scrutiny before any approval could be granted.

As those companies and regulators in Europe who have been through the Solvency II internal model approval process can testify, this option requires significant investment, and needs serious consideration of costs against benefits. In the UK alone, the Association of British Insurers, the industry's main representative body, reported in December 2015² that its members had invested over £3 billion (US\$4.5 billion) on Solvency II compliance. That is around double the European Commission's estimate for the whole of the European industry in its 2007 Solvency II impact assessment³ of between €2 billion-3 billion (US\$2 billion-3 billion), and a large part of the reason for this is likely to have been because of the wide range of applications for internal model approval – so far, 19 UK insurers have been confirmed to have been successful in gaining approval to use internal models in their pillar 1 capital calculations.

In a risk-based approach, every company should understand the results from the standard formula, and carefully compare them with the capital requirements that arise from the company's specific risk profile. But given the potential cost of an internal model approval process, this is a key area where we must remind ourselves of the key objective of enhancing policyholder way impairing the competitiveness of the industry, and ask ourselves whether the same objective can be achieved by other means.

Using the ORSA to reflect risk profile

The ORSA, at the heart of the risk-based capital framework, is a requirement to explain the insurer's own solvency assessment and reconcile it, in terms of an assessment of the company's risk profile and the dependencies between risks, to the pillar 1 capital requirement. Where a standard formula capital requirement is being used for pillar 1, this will be a key analysis for management and the Board to be able to explain to the regulator and in particular to demonstrate whether the pillar 1 assessment is sufficient to meet the minimum required level of confidence of solvency prescribed in the RBC rules. If the capital required, indicated by the ORSA, is greater than the amount under the pillar 1 assessment, a capital add-on may be recommended by the regulator. But more generally, companies may wish to have flexibility in the pillar 1 assessment, particularly when a company's own assessment may be lower. An internal model approval process is one way of achieving this, but we've seen that this can be a costly and onerous process. In Solvency II there is a simpler and often-overlooked alternative of applying to the regulator for the use of an 'undertaking-specific' parameterisation of the standard formula. This is, essentially, an application to use a modified standard formula, while avoiding the complexity and cost of internal model approval. Such an approach may be less sophisticated than the approaches taken by some insurers to internal model development, but may, for others, be an appropriate and pragmatic approach to achieving a similar level of benefit at potentially lower cost.

Notes:

² <https://www.abi.org.uk/News/News-releases/2015/12/Two-weeks-to-go-UK-insurers-ready-for-new-Solvency-II-capital-rules>

³ http://ec.europa.eu/finance/insurance/solvency/solvency2/impact/index_en.htm

Bringing the industry's understanding of its risk profile to the QIS

Those companies that have already developed an understanding of their own solvency assessment will be in a strong position to understand the reconciliation of a standard formula capital requirement to their own risk profile – and the forthcoming QIS will be a key opportunity to do this. Underlying the QIS specification will be research to explain the calibration of the prescribed capital requirement in terms of risks and the structure and nature of dependency and correlation between risks. The best QIS submissions, and the ones which will be of most use to (and have most potential to influence) the IA will be those which give specific feedback on how the research underlying the company's own assessment compares with the wider body of research underlying the QIS.

The QIS should be as much about understanding the base balance sheet as understanding capital requirements



The focus on capital requirements, and in particular the cost and attention given to capital calculations, can sometimes detract attention from the most fundamental calculation in the whole balance sheet – the calculation of technical provisions. The industry's responses to the IA consultation identified a range of issues that are of critical importance in getting the right solution for the industry – one that ensures resilience without unnecessary complexity or excessive prudence. For example:

- * The market-consistent and amortised cost approaches to the valuation of liabilities, and the potential implications of read-across from the elements of the market-consistent requirements of the forthcoming IFRS insurance contracts standard
- * Explicit allowance for embedded options and guarantees and the treatment of cash surrender values
- * Discount rates, including the allowance for illiquid features of cash flows and the mitigation through macro-supervision, of pro-cyclicality
- * Contract boundaries
- * The definition of capital resources and tiers of capital quality
- * The approach and assumptions for the margin over current estimate

The most critical choice here is over the approach to the valuation of liabilities. The IA proposed in its 2014 consultation that insurers will be required to use either a market-consistent approach for all classes of business except for Class G, together with a minimum cash surrender, or a combination of both market consistent and amortised cost valuation approaches, depending on the class of business.

The views expressed by the industry in the consultation were split on this issue, with around half supporting the market-consistent approach, noting consistency with the IASB's insurance contracts project ('IFRS 4 phase 2'), and half supporting a combined approach incorporating amortised cost methods for some business because of concerns with volatility in market-consistent approaches. There was also concern expressed by a number of insurers to a cash value floor in the valuation of liabilities for long-term business, arguing that it is inconsistent with the principle of economic valuation.

All of these options will be tested as part of the QIS, and it is vital that the range of views across the industry are represented by wide participation. Some insurers already report, at least internally, on a market basis and manage their capital, hedging and pricing taking this valuation, as well as other valuations, into consideration. Some have also had the opportunity to compare their approaches with the market-adjusted approach being used initially in the development of the risk-based Global Insurance Capital Standard, which the IAIS is targeting for agreement by end of 2016. Few companies would subscribe to a view that there's only one valid approach – it's important that insurance liability valuations are considered through a range of different bases. It will be important for all insurers to bring their experience to the development of the RBC rules through participation in the QIS, and for a range of views to be heard.

Understanding and preparing for a soft landing

What is clear today is that companies need to build a greater understanding of all of the potential approaches for valuation, under Hong Kong RBC, other regulatory developments around Asia, and, for internationally-active groups, the Global Insurance Capital Standard, as well as the likely direction of the IASB's insurance contracts project. The financial impacts could be far-reaching and so insurers need to prepare, understand and plan for the range of potential strategic impacts.


Beginning preparations early, by understanding the various approaches to the valuation of assets and technical provisions (including, on an ongoing basis, in a range of stressed conditions and a range of scenarios) will allow insurers to take advantage of strategic opportunities that may not be available later. In Europe and China, we have seen significant strategic activity well in advance of new solvency regulations becoming law, as companies understood the financial impacts and sought to develop more effective capital management approaches including hedging programmes, revising reinsurance coverage and looking at acquisitions, mergers and divestments.

In conclusion – speed and pragmatism preferred over prolonged complexity

While insurers and regulators in China and Europe can look forward to seeing the rewards of their very significant effort paying off from 2016 onwards, and then to living within the new regime, insurers and the IA in Hong Kong are looking forward to taking the next steps towards building a robust RBC regime that will be respected around the world.

Through the IA consultation conclusions, the experience in China and Europe and all of our discussions around the industry, it's clear that while there is broad support for the development of RBC regimes, two messages come through strongly: (1) there is a concern about the uncertainty that could arise in the industry and amongst its investors if the development period is prolonged, and (2) there is little appetite for 'gold-plating', and a preference for pragmatism and proportionality over complexity.

These lessons have been learned elsewhere already. For example, in China, we've seen what can be achieved in a relatively short period of time with real focus from the industry and the regulator, and elsewhere in Asia and Australia we've seen pragmatic approaches being quite effective in raising the bar in a pragmatic way. In Europe, we see continued harmonisation across EU supervision of insurers, building on the considerable work that has gone into developing the very comprehensive Solvency II regime.

It's clear that the Hong Kong insurance industry is willing, and able, to support the IA in this important initiative. And there's a strong desire to get moving now, working together to develop a framework that is practical, fit for purpose and above all meets the overarching objective of protecting consumers while enabling the Hong Kong industry to continue to thrive and meet the needs of current and future consumers. 

We are the largest Actuarial search firm globally with over 40 consultants partnering with an international network of Insurers, Consultancies and Investment Management organisations. We have successfully guided the careers of board level directors and partners through to analysts. Our expertise encompasses contingency, retained and executive search solutions for both permanent and interim positions.

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NETWORK

77,000

CANDIDATES

24,000

PLACEMENTS

1700

CONSULTANTS

41

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Up to HKD2.5 million

Unique opportunity to join the leading firm in HK where you will be spearheading a senior strategy team. You must be a qualified actuary with min. 15 years of experience, ideally from a reporting background where you are able to dissect the numbers and develop strategies that would be presented to the executive board.

Philip Chau

Portfolio Management - Life

Up to HKD1.2 million

One of the leading insurance in Asia is looking for a qualified actuary to join their newly established portfolio management team. You must have at least 8 years' life actuarial reporting / valuation experience with excellent communication in English and key stakeholder management skills.

Rhoda Rivera

Head of Client Strategy - Life

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Hamza Mush

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A top-tier insurance business is seeking a highly solutions-driven actuary with in-depth understanding of life and health insurance products and pricing methodologies along with strong influencing and communication skills. You will join a high caliber team of individuals that provide strategic oversight and quality control for APAC portfolio.

Hamza Mush

P&C Actuarial Manager - General Insurance

Up to HKD800K

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Toby Weston

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Craig Lodge

Get in touch with one of our team



Gary Rushton

Director

+852 5804 9223
gary.rushton@ojassociates.com



Philip Chau

Managing Consultant

+852 5804 9287
philip.chau@ojassociates.com



Hamza Mush

Managing Consultant

+852 5804 9048
hamza.mush@ojassociates.com



Toby Weston

Manager

+852 5804 9042
toby.weston@ojassociates.com



Rhoda Rivera

Managing Consultant

+852 5804 9225
rhoda.rivera@ojassociates.com



Craig Lodge

Consultant

+852 5804 9110
craig.lodge@ojassociates.com



Charmaine Wong

Consultant

+852 5804 9041
charmaine.wong@ojassociates.com



Wynlim Wong

Consultant

+852 5804 9090
wynlim.wong@ojassociates.com

Membership Update

New Members

Fellow

Martyn Byott	Standard Life	Fellow [FFA (2009)]
Clarie Sin Chan	HSBC	Fellow [FSA (2011)]
Fiona Oi-Suen Chau	KPMG	Fellow [FIAA (2010)]
Edward Kai-Pong Cheung	AIA	Fellow [FSA (2015)]
Mehul Dave	Deloitte	Fellow [FIA (2009)]
Sean Deehan	Standard Life	Fellow [FFA (2002)]
Vince Xiaohan Han	Prudential Hong Kong	Fellow [FSA (2014)]
Jonathon Ko	KPMG	Fellow [FIAA (2010)]
Arthur Hap-Yan Lee	Mercer (Hong Kong)	Fellow [FSA (2000)]
Li Chun Wing	Ageas	Fellow [FCAS(2014), FSA (2014)]
Ma Ho Yin	AIA	Fellow [FSA (2015)]
George Chun-Ming Ma	The University of Hong Kong	Fellow [FSA (1984), FCIA (1984)]
Ryan Jun-Ryong Oh	Swiss Reinsurance	Fellow [FSA (2011)]
Poh Chong Leong	FWD Group	Fellow [FIA (2008)]
Pavel Sergejev	AXA Asia	Fellow [FSA (2013)]
Shum Mei Yee	AIA	Fellow [FFA (1998)]
Tang Jing Li	Deloitte Consulting (Hong Kong)	Fellow [FCAS (2014)]
Wan Kai	RGA Reinsurance	Fellow [FSA (2012)]
Kitty Yuen-Ling Wang	Hannover Re	Fellow [FSA (2014)]
Wong Man On	Hong Kong Actuarial Insurance Consultants Company	Fellow [FIA (2014), FSA (2015)]
Wilson Kai-Chi Wu	KPMG	Fellow [FSA (2013)]

Associate

Chan Ho Fai	AIA Group	Associate [ASA (2013)]
Fung Tak Hin	Prudential	Associate [ASA (2015)]
Elvis Kwok-Hei Ho	AIA	Associate [AIAA (2010)]
Fion Hiu-Yu Kei	China Life	Associate [ASA (2011)]
Sahara Ka-Wai Lai	AIA	Associate [ASA (2009)]
Leo To-Yu Lai	AIA	Associate [ASA (2015)]
Jackie Lam	AIA	Associate [ASA (2013)]
Cathy Jie Li	AIA	Associate [ASA (2015)]
Ma Ka Kuen	AIA	Associate [ASA (2014)]
Aya Way-Leng Seng	Transamerica Life (Bermuda)	Associate [AIAA (2008)]
Andy Yue-Sun Tang	AXA Asia	Associate [AIAA (2009)]
Wong Ka Chun	MetLife	Associate [ASA (2010), CERA (2014)]
Charles Ho-Chun Wong	AIA	Associate [ASA (2015)]
Daisy Ko-Suet Wu	AIA	Associate [ASA (2013)]
Zachary Xuanshen Zhang	AXA China Region Insurance	Associate [ASA (2015)]

Membership Update

New Members

Student

Muhammad Alber Aqil	-	Student (SOA Student)
Patrick Ka-Ho Au	Manulife	Student (SOA Student)
Chan Wai Shan	Cigna Worldwide Life Insurance	Student (SOA Student)
Chan Ka Tsun	Munich Re	Student (CAS Student)
Stewart Shun-Ping Chan	Towers Watson	Student (SOA Student)
Chan Wai Lung	Transamerica Life (Bermuda)	Student (SOA Student)
John Yau-Chong Chan	China Life Insurance (Overseas)	Student (SOA Student)
Ann Po-Yi Cheung	Deloitte	Student (SOA Student)
Andy Yuen-Hsing Chiang	KPMG Advisory (China)	Student (SOA Student)
Gary Ho-Lun Chiu	FWD Life Insurance	Student (SOA Student)
Emily Pui-Wan Chung	Dah Sing Life Insurance	Student (SOA Student)
Jason Shicong Fu	Deloitte Consulting (Hong Kong)	Student (IFoA Student)
Ricky Yik-Ki Ho	Manulife Financial Asia	Student (SOA Student)
Henry Ting-Pong Hon	Manulife (International)	Student (SOA Student)
Hsu Yin Man	Deloitte	Student (SOA Student)
Winson Zexu Huang	Towers Watson	Student (SOA Student)
Chalie Xiao-Hang Hu	China Life Insurance	Student (SOA Student)
Herman Hoi-Ming Hung	Manulife (International)	Student (SOA Student)
Carlos Ka-Lok Kei	Swiss Reinsurance	Student (SOA Student)
Gavin Ka-Wing Kiang	FWD Life Insurance	Student (SOA Student)
Andrew Man-Kin Kwok	Transamerica Life (Bermuda)	Student (SOA Student)
Arthur Chun-Hin Lam	Cigna Worldwide Life Insurance	Student (SOA Student)
Lam Yip Ming	AIA Group	Student (SOA Student)
Mike Siu-Fung Lee	Deloitte	Student (SOA Student)
Kerwin Ho-Yin Lee	Manulife (International)	Student (SOA Student)
Leung Chi Kit	FWD Life Insurance	Student (IFoA Student)
Simmy Sin-Men Leung	Manulife (International)	Student (SOA Student)
Florence Hiu-Ying Li	KPMG	Student (SOA Student)
Li Chi Yu	Manulife (International)	Student (SOA Student)
Edwin Yan-Wing Ma	Cigna Worldwide Life Insurance	Student (IFoA Student)
Vicky Wing-Ki Ma	Manulife (International)	Student (SOA Student)
Peter Yiu-Kong Ma	Milliman	Student (Actuaries Institute Australia Student)
Anna Shuk-Wan Sin	Manulife (International)	Student (SOA Student)
Tam Kin Wai	Manulife (International)	Student (SOA Student)
Harris Tam	Swiss Reinsurance Company	Student (SOA Student)
Tang Dong Tao	ACE Life Insurance	Student (SOA Student)
Kelly To	Dah Sing Life Insurance	Student (SOA Student)
Jerry Chun-Yuen To	Manulife (International)	Student (SOA Student)
Darren Chi-Chung Wan	Transamerica Life (Bermuda)	Student (SOA Student)
Wong Kin Hang	Manulife (International)	Student (SOA Student)

Membership Update

New Members

Student

Maggie Nga-Lai Wong	Sun Life Hong Kong	Student (SOA Student)
Trinity Chiu-Ting Wong	Sun Life Hong Kong	Student (SOA Student)
Jeffrey Siu-Tung Wong	Zurich Life Insurance (Hong Kong)	Student (SOA Student)
Hilda Hiu-Wai Wu	Manulife (International)	Student (SOA Student)
Clifford Chi-Kong Wu	Milliman	Student (SOA Student)
Frankie Chong-Fung Yeung	ACE Life Insurance	Student (SOA Student)
Christina You Tianqi	AIA	Student (SOA Student)
Yu Hang Chun	Peak Reinsurance	Student (CAS Student)
Wendy Wen Zhu	KPMG	Student (SOA Student)

Membership Advancement

Fellow

Cathy Ching-Yee Chan	HSBC	Fellow [FSA (2015)]
Erica Lai-Shan Chan	Milliman	Fellow [FSA (2015)]
Ivan Lok-Chun Cheung	BOC Group Life Assurance	Fellow [FSA (2015), CERA (2015)]
Leo Wai-Ho Cheung	FWD Life Insurance	Fellow [FSA (2013), CERA (2013)]
Fung Chun Yeung	Milliman	Fellow [FIA (2014)]
Catherine Tsz-Kwan Hui	BOC Group Life Assurance	Fellow [FSA (2015)]
Anthony Wing-Kit Lam	Manulife (International)	Fellow [FSA (2013)]
Iris Hiu-Yi Lam	Sun Life Hong Kong	Fellow [FSA(2014)]
Cindy Sin-Lok Lau	Ageas	Fellow [FSA (2015)]
Jacky Wai Lau	Manulife (International)	Fellow [FSA (2013)]
Jessica Tsz-Ying Law	FWD Life Insurance	Fellow [FSA (2015)]
Kelvin Ka-Ming Lee	MetLife	Fellow [FSA (2014), CERA (2013)]
Lo Pui Yan	HSBC	Fellow [FSA (2015)]
Allen Tong Shao	ACE Life Insurance Company	Fellow [FSA (2015)]
Lucy Hue-Shia Tsay	Manulife (International)	Fellow [FSA (2014)]
Morris Ka-Yau Tse	Manulife Financial	Fellow [FSA (2014)]
Stephanie Hoi-Ki Tse	Prudential	Fellow [FSA (2015), CERA (2015)]
Johnny Cheuk-Yin Wong	KPMG	Fellow [FSA (2015), CERA (2013)]
Johnson Chung-Shun Wong	BOC Group Life Insurance	Fellow [FSA (2015)]
Sharon Hoi-Shan Wu	Manulife (International)	Fellow [FSA (2014)]
Jason Chit-Sum Yeung	FWD Life Insurance	Fellow [FSA (2015)]
Sam Shun Yeung	Munich Re	Fellow [FSA (2015)]
Yeung Wing Ho	Towers Watson	Fellow [FSA (2014), CERA (2014)]
Rick Sheng-Yi Yuan	AIA	Fellow [FSA (2014)]
Athena Xiaozhun Zhang	Manulife (International)	Fellow [FSA (2014)]

Membership Update

Membership Advancement

Associate

Cao Zhiyu	KPMG	Associate [ASA (2015)]
Chan Hing Kit	KPMG	Associate [ASA (2015)]
Wilson Chi-Toeh Chan	Taiping Reinsurance	Associate [ASA (2015)]
Michael Yik-Him Cheuk	Zurich Life Insurance	Associate [ASA (2015)]
William King-Wai Chiang	Sun Life Hong Kong	Associate [ASA (2014)]
Kelvin Kin-Cheung Choi	Ace Life Insurance	Associate [ASA (2014)]
Scott Long-Hin Chow	Prudential Hong Kong	Associate [ASA (2015), CERA (2015)]
Teresa Tak-Hay Ho	Manulife (International)	Associate [ASA (2015)]
Lam Chi Hung	RGA Reinsurance	Associate [ASA (2014)]
Kean Kin-Hang Lee	FWD Life	Associate [ASA (2013)]
Steven Wai-Ming Leung	ACE Life Insurance	Associate [ASA (2015)]
Sebastian Leung	Munich Re	Associate [ASA (2015)]
Gordon Ka-Shing Liu	Swiss Reinsurance	Associate [ASA (2015)]
Calvin Yan-Chit Lo	KPMG	Associate [ASA (2015)]
Ng Ka Ki	Deloitte	Associate [ASA (2015), CERA (2015)]
Sin Shek Keung	Ace Life Insurance	Associate [ASA (2013)]
Emily Fong-Yee Sze	Deloitte	Associate [ASA (2015)]
Hercules Tsun-Hang Tang	Deloitte	Associate [ASA (2014), CERA (2015)]
Miguel Wong	Deloitte	Associate [ASA (2015)]
Simon Hing-Fung Wong	FWD Insurance Company	Associate [ASA (2015)]
Hilary Yann-Lin Yang	Cigna Worldwide Life Insurance	Associate [ASA (2015)]
Gary Cheuk-Ming Yau	MassMutual Asia	Associate [ASA (2015)]
Anthony Wing-Bong Yeung	Sun Life Hong Kong	Associate [ASA (2014), CERA (2015)]
Yu Ka Yan	Deloitte	Associate [ASA (2015), CERA (2015)]

Membership Update

Reinstated Members

Fellow

Patrick Chi-Lai Au	ACE Life	Fellow [FSA (2005)]
Ryan Ho-Fung Cheng	HSBC	Fellow [FSA (2012)]
Jack Chun-Wing Lee	AIA	Fellow [FSA (2010)]
Lim Khang Yee	AIA	Fellow [FSA (2010)]
Eric Liu	Deloitte	Fellow [FIAA (2003)]
Lui Sze King	MetLife	Fellow [FIAA (2008)]
Arthur Tsz-Yiu Mak	AIA	Fellow [FSA (2013)]
Ronald Ting-Ho Tse	Prudential Corporation Asia	Fellow [FSA (2013)]
Tse Shing Man	Prudential Hong Kong	Fellow [FSA (2013)]
Andy Ka-Wing Tsui	Dah Sing Life Insurance	Fellow [FSA (2011)]
Richard Hing Wu	AIA	Fellow [FSA (2010)]
Terry King-Shing Yung	Hang Seng Insurance	Fellow [FSA (2003)]
Yung Chui Man	Prudential Hong Kong	Fellow [FSA (2013), CERA (2011)]

Associate

Benjamin Hau-Chung Chan	Manulife (International)	Associate [ASA (2008)]
Winnie Wing-Lam Lai	AIA	Associate [ASA (2011)]
Tsam Wing Yan	China Life	Associate [ASA (2013)]
Gilbert Kiu-Cheung Tse	AIA	Associate [ASA (2011), CERA (2012)]



Lindsay Smartt
Ken Cheung
Lawrence Cheung
Alison Ho
Edith Ho
Ronald Kwok

Jenny Lai
Tse Kai Lee
Tracy Leung
Brian Mak
Jack Mak
Minnie Yu
Amy Zhou
Jamie Zuo

*Actuaries
on the move*

Upcoming Events

Date	Event
21 Jan 2016	ASHK CPD Information Session and EGM
26 Feb 2016	ASHK Healthcare Seminar
Feb 2016	ASHK Actuarial Circle
3-4 Mar 2016	IFoA Asia Conference, Kuala Lumpur
15 Mar 2016	IAAust/SOA GI Seminar, Hong Kong
25-27 Apr 2016	IAA Life Section Colloquium, Hong Kong
Apr 2016	SOA APC, Hong Kong and Beijing
May 2016	IAAust exam supervision
25 Jul – 3 Aug 2016 (TBC)	Joint Regional Seminar in Asia
TBA	CAA Annual Meeting, China
TBA	20th AAC, Delhi
Nov 2016	ASHK Annual Dinner
Nov 2016	ASHK Appointed Actuaries Symposium
Nov 2016	SOA APC, Hong Kong and Shanghai
Dec 2016	ASHK AGM

Market Update

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

Sections IIC and IID of the electronic form annual return at Annex B to Guidelines VI.3 contain pull-down menus showing a list of MPF schemes (the List) for principal intermediaries to elect for the purposes of return submission. As a result of the change of the name of three MPF schemes and the cancellation of registration of three other MPF schemes, the List has been amended to reflect those changes. Paragraph 8 of Guidelines VI.3 has also been amended to reflect the effective date of the revised Guidelines VI.3 (i.e. 4 December 2015). Details of the changes to the List are set out in the tables below:

(i) Change of name of three MPF schemes

Previous name	New name
Allianz Global Investors MPF Plan 德盛安聯強積金計劃	Allianz Global Investors MPF Plan 安聯強積金計劃
AXA MPF - Simple Plan AXA 強積金 - 易富之選	Principal MPF - Simple Plan 信安強積金 - 易富之選
AXA MPF - Smart Plan AXA 強積金 - 明智之選	Principal MPF - Smart Plan 信安強積金 - 明智之選

(ii) Cancellation of registration of three MPF schemes

MPF scheme
Ageas Master Trust MPF Scheme 富通保險集成信託強積金
Manu-Lifestyle (MPF) Scheme 宏利寫意生活 (強積金) 計劃
Principal MPF Scheme Series 500 信安強積金計劃500系列

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

To: All ASHK Members and Readers

**Wish you all
a Merry Christmas and
Healthy & Prosperous 2016!**

From: The ASHK Council



Events Highlights

ASHK Annual Dinner, 12 November 2015



There were over 140 members and guests attending the Annual Dinner. We were honoured to have Dr. KO Wing-man, BBS, JP as our distinguished guest speaker and also the VIPs joining us. The ASHK would like to extend sincere thanks to the Organising Committee (Mr. Frank Zhang and Mr. Kelvin Lee), Master of Ceremony (Mr. Alan Liu) and the following companies which had provided raffle draw sponsorship for the 2015 Annual Dinner (in alphabetical order): AIA Group Limited; Darwin Rhodes; Deloitte Advisory (Hong Kong) Limited; Ernst & Young Actuarial Services; General Reinsurance AG; Hannover Re; Hotel ICON; HSBC; KPMG; Manulife (International) Ltd; RGA Reinsurance Company; SCOR Global Life; SKL Executive Pty Ltd and Swiss Reinsurance Company Ltd.

Events Highlights

ASHK Appointed Actuaries Symposium, 13 November 2015



Ms. Ka-Man Wong,
AXA and ASHK President-Elect

Ms. Carol Hui,
Assistant Commissioner of
Insurance

Mr. Arjan van Veen, Credit Suisse



Mr. Jeremy Porter,
HSBC and ASHK Life Committee Co-Chair
and Mr. Roddy Anderson

Mr. Ken Tang, HSBC
and ASHK Life Committee Member

Mr. Simon Pang, RGA



Mr. Simon Lam, MunichRe and ASHK Council Member;
Mr. Fabien Jeudy, SunLife; Ms. Sim Ng, Prudential;
and Mr. Kin-Chung Chan, HealthMutual Group and Actuarial Insourcing Services



Mr. Jonathan Hughes,
Prudential Hong Kong

Mr. David Alexander, Swiss Re
and HKFI Governing Committee
Member

Mr. Billy Wong, Mercer and
ASHK Immediate Past President

Events Highlights

ASHK Presentation Skills Workshop, 18 November & 9 December 2015

- with special thanks to Kelly Services Hong Kong, event sponsor



Mr. Brian Hodgson, Founder of publicspeaking.hk and Mr. Simon Lam, ASHK Membership & Publications Committee Co-Chair



Mr. Daniel Li, Kelly Services and Mr. Simon Lam, ASHK Membership & Publications Committee Co-Chair



Mr. Brian Hodgson, Founder of publicspeaking.hk

ASHK Evening Talk - "Current life actuarial issues in the UK and the challenges of GN16 in Hong Kong", 2 December 2015



Mr. Simon Lam, ASHK Membership & Publications Committee Co-Chair and Mr. John Jenkins, Partner, KPMG



Mr. John Jenkins, Partner, KPMG



Ms. Fiona Chau, KPMG and Mr. Simon Lam, ASHK Membership & Publications Committee Co-Chair

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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.](#)

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香港精算學會

CONTRIBUTIONS TO

Hong Kong Actuaries ACTUARIAL SOCIETY OF HONG KONG'S Newsletter

Editor

Simon Lam E-mail: slam@muniche.com

Assistant Editors

Wilson Chan E-mail: wilsonchan18@gmail.com
Erik Cheung E-mail: erik.lh.cheung@prudential.com.hk
Steve Hui E-mail: stevemui33@gmail.com
Mary Kwan E-mail: mary.kwan@ageas.com.hk
Iris Lun E-mail: iris.hy.lun@prudential.com.hk
Trinity Pong E-mail: trinity@peak-re.com
Sing-Yee Yeoh E-mail: singyee.yeoh@milliman.com
Frank Zhang E-mail: frank.zhang@towerswatson.com

Coordinators (ASHK Staff)

Tracy Chan Tel: (852) 2147 9419
E-mail: actsoff@netvigator.com
Sarah Hui Tel: (852) 2147 9168
E-mail: sarahhui@actuaries.org.hk
Patricia Kum Tel: (852) 2147 9418
E-mail: patkum@netvigator.com
Emily Lye Tel: (852) 2147 9420
E-mail: actuaries@biznetvigator.com

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

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