

## Expectations surpassed at 18th EAAC



The number of delegates attending this year's EAAC had surpassed original expectations, according to **Ms Ruth Chu** (left), Chairperson of the 18th EAAC Organising Committee, as she kicked off the annual event yesterday. While she had pegged expected delegate registrations at 600 during the planning stage, the event turnout on the first day hit 760 attendees.

Delegate numbers were not the only expectation that was surpassed. Ms Chu announced that the organising committee had received an overwhelming submission of 65 papers – almost double of the expected 36, and “all of which were of high calibre and very interesting”. As a result, the committee extended the number of planned parallel sessions from 36 to 48.

Total costs to hold the three-day conference have also been fully met, thanks to the unwavering support from the regulator, kind sponsors, as well as the good delegate turnout, she said.

Ending her welcome address on a jovial note, Ms Chu said: “Finally, my fourth KPI is to ensure that everyone has a good time in Taipei. This will be hard to quantify but we will do our best.”



## Actuaries indispensable; contribute to a better society

Actuaries play an indispensable role in the response to the trends and challenges that the society and insurance industry are facing today, said **Dr Jennifer Li Ling Wang** (right), Vice Chairperson of Financial Supervisory Commission, Taiwan. She noted that the conference theme – “Risk, Challenges and Opportunity” – “perfectly describes the current environment”.

The examples she listed include the ongoing low interest rate environment in the global economy, which makes it difficult for insurers to design products or devise investment strategies and asset allocation; and changing population demographics.

Demographic ageing and declining birth rate is a global trend and the question of how to plan for the needs of an ageing society is a very real concern for the government and also the insurance industry, said Dr Wang.

“Your expertise is needed to adopt an appropriate strategy in investment and asset allocation, enterprise risk management and product design. All these mean that insurers cannot be profitable or even survive without your expertise,” she said.

### Increasingly important

The role of an actuary is also becoming increasingly important. Due to the demands of a globalised insurance market, insurance supervisory authorities increasingly rely on actuaries on matters, including ERM, solvency assessments and internal models.

In addition, the greater emphasis on international accounting

standards is also triggering a convergence between the actuarial and accounting professions. Hence, actuaries are expected to play a bigger and more important role in the regulatory reporting field moving forward.

### Public good

Aside from making a huge impact on insurers' operations, actuaries are contributing to public good as well, said Dr Wang. By strengthening insurers' solvency and risk management, actuaries contribute to the financial soundness of the insurance companies. This also helps to fulfil the CSR role of insurers in supporting products such as microinsurance, long-term care, annuities, and catastrophe insurance.

“In all these aspects, actuaries have made a great contribution in building a better society and providing better benefits to all through their professional expertise. I believe the actuary is a much respected profession because all of us can have a better chance to make a difference in the world,” she said.



# Hybrid pension plan to achieve retirement security

When considering options for pension plans, governments, companies and employees should not be polarised by the DB-versus-DC debate. Instead, all parties should consider a hybrid option that incorporates the elements of both types of pension schemes to improve pension coverage and better manage risk for pensioners, while providing cost predictability for employers, said **Dr Robert Brown** (below), President of the International Actuarial Association (IAA), at the second keynote address yesterday.

“Arguing pure traditional DB or pure traditional DC hinders the debate – there are infinite options in between. We need to start talking about a mix between the classic DB and DC,” he said.

Pension risks encompass several areas. If annuities are purchased, these include investment risk, cost volatility risk, inflation risk, and if no annuities are purchased – longevity risk. The burden of these risks may rest unfairly on either employers or employees if pure DB or pure DC pension plans were adopted.



## Classic DB vs classic DC

While DB plans were affordable in the past, this is no longer the case. DB plans have now become more onerous for employers with global developments and an increasing marketplace volatility, new global accounting standards – particularly mark-to-market valuation, as well as a general ageing workforce and the rising ratio of retirees to contributors, he said.

Conversely, DC plans in effect places all the pension risks on the employee. Not only do the plan sponsor's responsibilities end with its contribution, the level of retirement income that the plan would generate remains unknown as it depends highly on investment returns. Further, the cost of risk mitigation – for investment and longevity risks – can be very high. “The average worker is not an investment expert. Just saving does not result in retirement income security. DC/CAP (Capital Accumulation Plans) only looks at the first half of the story – accumulating savings; the second half is the tough part – estimating the retirement drawdown,” added Dr Brown.

## Pooled target benefit pension plans (PTBPPs)

Using Canada as an example, he advocated that pension reform should address principles of “appropriate risk sharing”, “size matters” and “mitigating risks through large numbers”, and as such, proposed the hybrid model of a “Pooled Target Benefit Pension Plan” (PTBPP).

This concept would involve pooling assets for a lower management expense ratio (MER) and to maximise scale efficiencies in investment and actuarial risk. It could also accept new plans or existing assets, allow for self-employed individuals to participate, and does not require participant plans to be identical.

However, the minimum pool size would have to be at least CAD10 billion (US\$8.93 billion) for cost optimisation. “Achieving retirement income security is expensive. And every time longevity goes up, the cost goes up,” said Dr Brown. He suggested that through regulation or legislation, management fees could be capped at 40 basis points once critical mass is achieved.

To lock in contribution and mitigate selection bias, he said that there could be a mandatory employer contribution, and employees could be auto-enrolled, albeit they have the choice to opt out. “Thus for the plan sponsor, the plan is DC. And employees can be allowed to make extra contributions,” he said.

While employees' retirement benefits are not guaranteed, they can still expect benefits within a target range, he added.

Finally, in terms of risk and investment management and governance of funds, Dr Brown said that the plan should be managed by independent pension professionals so as to “lower the probability of constituency self-interest”.



# The multiple hats of the actuary

An actuary is the value manager, product designer, innovator, risk management expert, among other roles, for the insurance industry, said **Dr Dong Sheng Chen** (right), President of the China Association of Actuaries (CAA).

The industry is experiencing a revolution in product, distribution channel, and structure. During this transition, actuaries will play a major role in both the traditional market, and also new areas such as internet insurance, he said.

Education, training, examinations, and credentials will be important for the profession in fulfilling the role, said Dr Chen. Specifically for CAA, which was only founded in 2007, it will work in partnership with other actuarial organisations to promote the profession. For the profession in China, there is still a lot of room for growth as membership currently stands at 419 fellows and 1931 associates only.

## Competition from new players

Earlier in his presentation, Dr Chen spoke about the increasing challenge faced by insurers from new players, such as other financial companies and internet giants.

He gave the example of internet finance, which is currently the “hottest topic” in China, and led by tech giants – Baidu, Alibaba, and Tencent.

The growth of internet finance is inevitable with the rapid development of the internet, said Dr Chen. China has 632 million netizens and 527 million mobile netizens, double and triple the numbers in the US, respectively. WeChat, a messaging and social networking mobile application, has over 600 million subscribers, and Alipay (third-party online payment services) has over 300 million authenticated users.

The insurance industry is also susceptible to competition from these tech companies. However, the good news is that insurers, banks, securities firms, and even internet companies are leaving the starting point at the same time. Anyone who can seize the opportunities will win, said Dr Chen.

And clearly, actuaries will have a major role to play in adapting to this changing environment.



# Taipei attractions

## ◀ Taipei 101

Taking its place as the most iconic skyscraper in the city, the Taipei 101 was also at one point – between 2004 and 2010 – the tallest building in the world. With a ground-to-highest-architectural-structure height of 508 metres, it was the first building in the world to surpass the half-kilometre mark. For a 360-degree view of the city, go up to the indoor and outdoor observatory located on the 89th and 91st floor respectively.



## ◀ Beitou Hot Springs

For some R&R, head over the hot springs in Beitou for a good soak to unwind after a hard day's work. Apart from being well-known for its natural resources and wonderful scenery since the Qing Dynasty, the site was also best-known for the extraction of sulphur – a main component of the hot springs. The hot spring facilities were largely developed while the island was under Japanese imperial rule as hot springs were regarded as a healing method. Till today, it is local belief that soaking in the hot springs is a good remedy for physical pain like arthritis and muscle soreness among others, and has also grown in popularity amongst locals and tourists alike.

## ▶ Shilin Night Market

Arguably the most well-known night market in Taipei, Shilin is a must-see, and its food a must-try for all who visit the city and wish to have a sense of the local food culture. Even among the locals, it is a popular spot to experience Taipei's night life, with cinemas, video arcades and karaoke bars prevalent in the area. Apart from a food court that holds 539 stalls, side streets and alleys are also lined with storefronts and roadside stands selling local snacks like fried chicken cutlet and meat buns among others.



## ▼ National Palace Museum

Opened in 1965, Taipei's National Palace Museum – one of the largest in the world – is home to a permanent collection of almost 700,000 pieces of Chinese artefacts and artwork, most of which were brought here from Beijing by the Nationalist

Government during the Sino-Japanese wars. The collection spans over 8,000 years of Chinese history, from the Neolithic Age to the Qing Dynasty; and because of its sheer size, only 1% of the entire collection is on exhibit at any given time.



# What do CEOs expect from actuaries?

As Asia's industry landscape evolves with increasing regulatory changes and requirements, expectations from an actuary are also constantly being fine-tuned to ensure that their deliveries are in line with market development.

From my point of view, actuaries need to be more involved in forward-looking company initiatives such as strategic planning, as well as being engaged in other areas like technology and operations.

Furthermore, as companies are also measuring their business performances against a variety of metrics that require complex analysis to facilitate them in strategy planning and management, actuaries' professional skills in assessing and evaluating financial impact of risk and uncertainty would be very valuable in supporting the management team in making strategic decisions.



**Mr James Tan,**  
Managing Director, Asia,  
**Friends Provident International**

The role of the actuary in most countries in Asia has been dictated by regulations, mostly around reserving. However, if a CEO hires an actuary, the expectation is more than reserving. Actuaries are, at the very least, expected to get involved in pricing and some actuaries even transition to become underwriters. Usually, the expectations grow to include measuring and monitoring risks within the company, be it in terms of optimising reinsurance, looking at risk-reward and using capital efficiently, and perhaps even broader risks, including operational risks.

The ultimate challenge for the actuary is to demonstrate value as part of the senior management team. There are not many experienced general insurance actuaries in the region, but there are many who are learning the ropes. Perhaps one day we may even see an actuary become the CEO of a general insurance company.

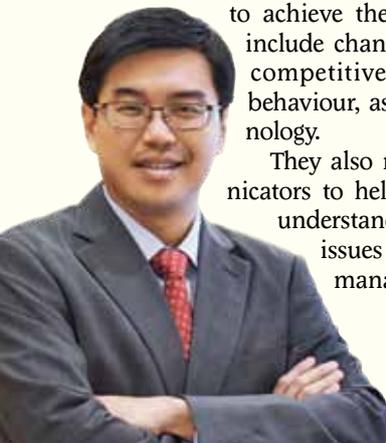


**Mr Pang-Hsiang Chye,**  
Principal and Consulting Actuary,  
Non-life Practice Leader Asia,  
**Milliman**

Actuaries are integral to our business strategy team. In today's fast-changing world, they need to have a broad perspective and good understanding of the underlying business and not just be number crunchers. They need to have their pulse on key functions of the insurance value chain.

A good analytical mind and the ability to think strategically are important. They need to identify emerging trends and appreciate and embrace changes in order to leverage these insights to plan and strategise to achieve the company's goals. These include changes to the regulatory and competitive landscapes, consumer behaviour, as well as changes in technology.

They also need to be good communicators to help the management team understand and appreciate actuarial issues that are relevant to the management of the business.



**Dr Khoo Kah Siang,**  
CEO (Singapore),  
**Great Eastern**

Actuaries are expected to expand their traditional role of acting as "first line of defense" – evaluating the financial and capital stability of the organisation, into a much more strategic role covering areas such as enterprise risk management, which they need to proactively identify risks and assess with greater accuracy possible impact on the companies' balance sheets.

We also see actuaries being appointed in roles that require greater integration with business functions. This has already started in deregulated and "about to be" deregulated markets such as Singapore, South Korea, India, China and Malaysia. In these markets, it is not unusual for actuaries to be responsible for product development, rate setting; and distribution, sales & corporate strategies. These activities are paramount to any business, and actuaries leveraging their statistical knowledge and analytical rigour are instrumental in formulating data-driven strategies to ultimately improve customer offerings.

On such a basis, many Asian CEOs start realising – as they did in Europe and the US a while ago – that bringing actuaries to the forefront, help them to drive business and meet the ever demanding shareholders' expectations with greater success.



**Mr Roberto Malattia,**  
Director, General Insurance Consulting,  
South East Asia,  
**Towers Watson**



Published by:

[www.asiainsurancereview.com](http://www.asiainsurancereview.com)

Sponsor:

[www.swissre.com](http://www.swissre.com)

Media Partner:

[www.meinsurancereview.com](http://www.meinsurancereview.com)

Sivam Subramaniam, Sheela Suppliah-Raj, Benjamin Ang, Ridwan Abbas, Dawn Sit