



SOCIETY OF ACTUARIES

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The Actuarial Profession in Hong Kong

by C. F. Yam

On June 30, 1997, the sovereignty of Hong Kong reverted from the United Kingdom back to the People's Republic of China.

Hong Kong is now a Special Administrative Region of the People's Republic of China and has started its new chapter.

In the late 1950s and early 1960s, Hong Kong experienced an influx of immigrants from its motherland as well as a post-war baby boom. These have led to a swollen group of population at ages 30 to 40 in the 1990s. This demographic profile, undoubtedly, has had an impact on housing, life insurance protection and later on retirement savings in Hong Kong.

Hong Kong has been changing from a manufacturing place into a servicing port and now as a financial center. These structural changes have naturally created inflationary pressure. The CPI index surged more than 150% over the last ten years. On the other hand, Hong Kong has benefited from these changes. The Hang Seng Index soared by more than 30 times over the last 20 years. Per capita income now exceeds US\$25,000 per annum.

As of the end of 1996, there were 46 authorized long-term insurers and 19 composite insurers in Hong Kong. Over the last seven years, the number of individual life policies in force increased from less than 1 million to more than 3 million. These can be compared against the total population in Hong Kong of 6.3 million. The individual office premiums in force totaled HK\$20 billion, representing some 1.5% of Hong Kong's Gross Domestic Product. Most of the policies sold have been non-linked in nature. However, linked business has seen an increasing trend and now accounts for more than 10% of new individual business.

With regards to occupational retirement schemes, there were more than 300,000 companies in Hong Kong last year. Out of these, less than 2,000 were of size of 100 employees or more which would have the financial strength to provide defined benefit-type retirement scheme benefits. According to the Registrar's Annual Report 1996, a total of 1,418 defined-benefit schemes and 15,364 defined-contribution schemes were in force last year. A total of 860 defined-benefit schemes were exempted schemes which were mainly overseas schemes

covering expatriate secondees in Hong Kong. The balance of 558 registered defined-benefit schemes covered a total workforce of 297,658 employees. In total, about 850,000 employees in the private sector are now covered by occupational retirement schemes, with estimated assets of approximately HK\$250 billion (US\$30 billion).

Turning to the actuarial profession, the Actuarial Society of Hong Kong was incorporated in January 1994 as the local actuarial professional body. It was evolved from the Actuarial Association of Hong Kong which was formed in 1968.

Hong Kong has adopted an Appointed Actuary system. Life insurance companies and occupational retirement schemes are required to appoint qualified actuaries to look after and certify their solvency.

There are currently 127 qualified actuaries in Hong Kong plus some 180 associates and students. These qualified actuaries are also fellow members of at least one of the following world professional bodies:

- Society of Actuaries, U.S.
- Institute of Actuaries, England
- Faculty of Actuaries, Scotland
- Institute of Actuaries of Australia

At present, 70% of the actuaries in Hong Kong are employed by insurance or reinsurance companies. More than 20% are engaged in consulting business. The remainder, constituting less than 10%, are involved in other areas including investment firms and the government.

As can be seen, actuaries have not been visible in other financial businesses in Hong Kong. The current situation is due to the prior shortage of supply of actuaries and actuarial students in the territory. All available actuarial resources were readily absorbed by the strong demand in these two areas. With the University of Hong Kong and possibly next year the Hong Kong University of Science and Technology offering degree courses in actuarial science, the shortage situation is likely to be turned around.

Hong Kong will be introducing its Mandatory Provident Fund Schemes sys-

tem in the next two years, which will require all employers, including the self-employed, to set up provident-fund-type defined-contribution schemes for their employees. Contributions will be at 5% each by the employer and the employee. Benefits are to be fully vested, portable and preserved to age 65.

The MPF would likely hinder the growth of defined-benefit schemes in the territory. In addition, according to the Australian experiences it could accelerate the blur of the local banking, unit trust and life insurance industries. All these would have an impact on the demand for traditional actuarial services in Hong Kong.

It appears that now is the time for the profession in Hong Kong to prepare and develop its expertise further into other nontraditional practice areas; for example,

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investment and derivative management, risk management in banking or general insurance industries. In addition, the increase in supply of actuarial practitioners from the actuarial programs offered or to be offered by the two universities in Hong Kong would likely speed up the pace of fellow actuaries permeating into the wider financial risk management field.

In order to make actuaries more prominent in other financial management areas, it is important for the profession as well as academic institutions in Hong Kong to change the public image of actuaries from experts who calculate insurance premiums (that is the definition you may find in English dictionaries if you know nothing about actuaries) to professionals in the practical application of financial modelling and assessment

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of financial risks as well as experts in financial risk management.

In general, the challenges that actuaries in Hong Kong would be facing in the coming years would not be dissimilar from what has happened in other western countries. The profession in Hong Kong, however, has the advantage to borrow the overseas experiences and make appropriate changes and update of skills earlier so that the prosperity of the profession not only will be maintained, but also will flourish further.

In addition, the in-depth experiences and multinational skills that Hong Kong has accumulated in the traditional actuarial areas will no doubt be a very valuable asset to its motherland, Mainland China. Transfer of skills and knowledge amongst professional and academic actuarial institutes between the two places is expected.

C F Yam, FSA, is Finance Director of CMG Asia Life Assurance Ltd, in Wanchai, Hong Kong



Book Commemorates SOA-Nankai 10th Anniversary

A limited number of copies of the SOA-Nankai University Actuarial Program 10th anniversary commemorative book, *The Emergence of the Actuarial Study and Profession in China*, are now available. This collection contains congratulatory messages from past presidents of the SOA involved in the program along with insightful recollections from prior faculty members and others. For a copy, contact Paulette Haberstroh at the SOA office at (847) 706-3584, or e-mail at phaberstroh@soa.org.

Underwriting and Risk Classification

by Chris Cook and Vera Dolan

In justifying why any insurer would want to do business in Eastern Europe, Dr. Ostaszewski said, "Why not? The world will be very different twenty years from now. These countries offer opportunities for growth. Many of these countries are close to major business and metropolitan centers in western Europe, which should get your attention. I recommend that you strongly consider starting with joint ventures, which will mix knowledge of the local culture with bringing in your goals. If you hire local people and let them do what they do, they will do what they have done until now. If you bring in a foreign team, the team will be lost. Former immigrants seem to succeed very well."

Underwriting and Risk Classification

The contrast and comparison of underwriting practices in different countries were discussed by an panel which included David Van Der Beek, assistant vice president and regional chief underwriter of Cologne Re; Iris Stolle, medical director at Agrippina Rückversicherung; and John Krinik, editor of *Underwriter Alert*.

Underwriting practices in the U.S. were reviewed by Mr. Van Der Beek. "The total amount of ordinary life policies in force in the U.S. in 1985 was \$3.2 trillion; in 1995 it was \$7.5 trillion. In 1995, the face amount of new life insurance purchased was \$1.1 trillion. In 1995, the average size of newly purchased insurance policies was \$79,700 and 73% of these policies were some combination of whole life plans. In 1985 there were 2,261 insurers in the U.S., but the still ongoing trend in mergers and acquisitions reduced this number to 1,715 in 1995," said Mr. Van Der Beek.

"In addition to the typical application and examination forms, the underwriter has access to the MIB (which is a database of coded information on those who have applied for life insurance), inspection reports, home office urine specimens and blood chemistry profiles (provided by laboratories that specialize in insurance reporting), personal and

business financial statement (which we have greater access to compared with other countries), tax returns, and detailed attending physician statements. Today, 96% of the Americans who apply for life insurance are able to obtain coverage, 91% at standard rates," Mr. Van Der Beek stated.

"In the U.S., there is no one national or local agency that governs our industry. Each state has its own insurance commissioner who regulates activities in that state, including market conduct guidelines, procedures, and regulations regarding different types of testing, and approval of the various forms required to obtain life insurance. Many of the states adopt similar practices and use similar forms. But there are, however, almost 30 different jurisdictional regulations relative to HIV testing, with protocols and laws differing from state to state. Most states agree on a doctor-to-doctor notification of a positive HIV result," explained Mr. Van Der Beek.

"With more competition in the life business, from different insurance companies, banks, financial institutions, and the Internet, underwriter training is becoming more important. The successful companies are, and will, invest significantly more in employee training than they have in the past. Several organizations that provide additional advanced training and education include the Academy of Life Underwriting and the Life Office Management Association. Designations which indicate further accomplishment in the life insurance field also include the Chartered Life Underwriter (CLU) and Chartered Financial Consultant (ChFC)," said Mr. Van Der Beek.

Dr. Stolle discussed the practice of life underwriting in Germany, U.K., France, Italy, and eastern Europe. "As of July 1, 1994, the Third Life Directive enabled insurers to do business in the whole of Europe with the filing of a single license in the home country. The focus of regulation is on solvency control, with the insurer's home country responsible for supervision. There are

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