



SOCIETY OF ACTUARIES

Article from:

International Section News

February 1998 – Issue No. 15

The Actuarial Profession

continued from page 13

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 a 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

continued on page 15, column 1

Underwriting and Risk Classification

continued from page 14

Appointed Actuaries who oversee the conduct of insurance business in each country. The approval of maximum interest rates and mortality tables is done at the discretion of the home country supervisory authority."

"There are still remaining problems in achieving a single insurance market within the European Union. Different legal environments in each country require different policy wording, exclusions, and contestability criteria. There are different tax regulations, with a 2.5% premium tax in Italy, a 4.4% premium tax in Belgium, but no premium tax in most of the other countries." With regard to requirements, Dr. Stolle indicated that, in general, medical questionnaires and medical examiners reports are used, mostly with a free choice of doctors. In the U.K., paramedical exams are available.

Financial underwriting requirements in general include: a financial questionnaire; an independent financial questionnaire which is approved by an independent third party; an earning statement that includes annual accounts and a salary specification; bank statements; copies of loan documents, and investigative reports. In the U.K., a moral risk report known as Fact Finders is obtained, in which the applicant is interviewed. Also in the U.K., underwriters use Press Cuts, a service that provides press information about prominent and important people.

"In 1994, there were 120 life insurance companies in Germany. The type of products sold include individual term life (10%), endowment policies (75%), and group life (10%). Disability insurance is available as a stand-alone policy or as a rider. The applicant's own occupation is always insured. In the U.K., 130 life insurers were doing business in 1994. Over 50% of the U.K. market involves single-premium policies, and dread disease products are very common. Disability insurance is for own or any occupation, with an exclusion clause for AIDS and AIDS-related claims," Dr. Stolle observed.

"In France, in 1994, there were 140 life insurance companies. About 40% of the market is group life, and 25% is capitalization insurance (which are single-premium, tax-deferred savings products). Disability insurance is usually a rider to life insurance, with daily

payment in case of temporary total disability and monthly annuities in case of permanent total disability. Policies that are medically underwritten have a duration of five years, requiring the applicant to be underwritten every five years. In Italy, over 65% of the products are linked to economic indexes. Marketshare is 70% endowment, 20% pension, and 10% term life. Single premium policies compose 15% of the market," said Dr. Stolle.

The total premium of all lines of insurance written in eastern Europe is 0.8% of the premium written in the European Union. The market is underdeveloped and undercapitalized, but Dr. Stolle believes the outlook is good if more support through education, training, and technical systems is made available. Special underwriting problems in eastern Europe include money laundering, threat, and violence among the higher income groups, and high homicide rates in Russia.

Training for underwriters in Germany includes on-the-job training with their own companies and reinsurers. The designation of Peripert (Personen-Risiko-Experte) is given after a 1-½ year training program by the *Verein für Berufsfachbildung*, with a final exam offered in several cities in Germany. There is a medical insurance journal published every two months, the *Zeitschrift für Versicherungsmedizin*, and a general insurance journal that occasionally has underwriting-associated journals, the *Zeitschrift für Versicher-ungswirtschaft*.

Training for underwriters in the U.K. includes on-the-job training and a 1½ year degree program offered by the Chartered Insurance Institute. Publications serving the life industry in the U.K. include the Insurance Medical Society reports, which is a monthly health and claims letter, and circulars from the Association of British Insurers. "In all countries, publications of the 'big' reinsurers on the latest important topics are available," remarked Dr. Stolle.

Emerging critical issues facing all life underwriters worldwide were discussed by Mr. Krinik. "Underwriting using generic test information is in jeopardy, and underwriters must take action to preserve their access to all medical records, and to test for nonspecific gene product or expression (like cholesterol,

glucose, etc.). Insurers need to establish a code of conduct that will guide them and, at the same time, assure the public that insurers will maintain and utilize genetic information confidentially, fairly, and with informed judgment. They need to base their classifications solely on sound actuarial principles and reasonably anticipated experience, which should be no different than any previous underwriting decisions made on the basis of the information "available," Mr. Krinik pointed out.

"The new wave in geriatric insurance sales brings up issues in the suitability of financial product purchases for this group and their vulnerability to sales pressure. Underwriters need to become more educated and aware of the different types of risks seen among the older ages so they will not be averse to them. More approvals of applications 'as applied for' are needed, with underwriters giving more positive factor credit to the performance of activities of daily living and participation in physical and social activities. Elderly people who are 'making plans' are better mortality and morbidity risks. Insurers also need to be sure that their basic pricing of products for this group is adequate," advised Mr. Krinik.

"Distribution systems are undergoing tremendous change, with trends away from agents toward direct response and third party sales. The Internet, direct mail, telemarketing, and banks increase the likelihood of fraud because of the absence of an agent. Countermeasures include the use of photo identification and fingerprinting. Warnings about fraud should be marked on all applications," Mr. Krinik stated.

"Teleunderwriting, wherein agents no longer ask any risk-related questions in favor of direct telephone interviews of applicants by underwriters, is in its infancy. The technology facilitating this includes software application interview scripts, with reflexive question structures specific to the answers given. The underwriter-interviewer also verifies customer understanding of sales concepts and products purchased, along with other compliance topics. What this will mean for the underwriter of the future is

continued on page 16, column 1

Underwriting and Risk Classification *continued from page 15*

greater emphasis on communication skills and much broader insurance law and marketing knowledge," predicted Mr. Krinik.

"The issue of market conduct requires underwriters to learn that risk classification is viewed as simply a trade practice, and that practices perceived as unfair can be prohibited. Consumerism is growing worldwide because of the influence of global media, and buyer attitudes that used to be peculiar to North America are spreading. Most likely, the regulation of insurers will become more standardized as the International Association of Insurance Supervisors works more closely with the U.S. National Association of Insurance Commissioners (NAIC). It may surprise some to learn that regulators do not view underwriting as a 'solvency' issue—they view it as a 'market conduct' issue," observed Mr. Krinik.

Vera Dolan, is President of VFD Consulting in Ukiah, California. Chris Cook, is Regional Director of Underwriting at Aetna in Hartford, Connecticut.

Hong Kong Insurance Ordinance Amendment

by Peter Luk

The small island in South East Asia called "Hong Kong" has recently acquired international fame owing to its "handover" from the British to China on June 30. For those actuaries who take an interest in this place, a small change in the insurance regulations that took place last year might be worth mentioning.

On May 2, 1997, the Insurance Companies Ordinance (the only ordinance that exclusively regulates the conduct of insurance business) was amended as follows:

Captive Insurance Business

In order to encourage the establishment of captive insurance companies in Hong Kong, the regulation reduces the required capital from 20% of net premium to 5% (with a minimum of HK\$2 million). While a licensed non-life insurer is required to maintain assets in Hong Kong, a captive insurer is now exempted. Moreover, a captive insurer is also exempted from valuing its assets in accordance with the valuation regulations of the Ordinance.

Juvenile Insurable Interest

SOA members may find this puzzling. In North America, a parent is always considered to have an insurable interest

in his or her children. As the development of the life insurance industry in Hong Kong over the past 50 years has been following the North American practice, hundreds of thousands of juvenile policies were sold in the past until someone pointed out that such an insurable interest does not exist under the British legal system, which Hong Kong has been subject to over the last 150 years. This means that the hundreds of thousands of juvenile policies sold in the past are legally invalid and unenforceable. The latest amendment, which introduces into Hong Kong's legal system the recognition of such an insurable interest, is an attempt to rectify this unsatisfactory situation.

Professional Standards for Appointed Actuaries

There has been an ongoing discussion to bring U.K.'s actuarial bodies' Guidance Notes to Hong Kong. This amendment now empowers the Insurance Authority to make regulations specifying the professional standards to be complied with by the appointed actuary of an insurer.

Peter Luk, FSA, is Executive Director of Top Glory Insurance Company (Bermuda) Ltd. in Hong Kong and a member of the International Section Council.

International Insurance Society, Inc.

34th Annual Seminar, July 12-15, 1998
Creating Success in a Global Marketplace

The Regent Sydney
Sydney, Australia

Please join us at the Annual Seminar of the International Insurance Society, Inc., Sydney, Australia. Each year, the Society creates a timely and provocative program that addresses issues of current interest to executives and academics around the world. Our 1998 Sydney Seminary, *Creating Success in a Global Marketplace*, will give you an opportunity to exchange ideas with other insurance leaders and executives, learn of key innovations and trends, and share experiences with the worldwide insurance industry. The Sydney Seminar promises to be among our very best, and we look forward with pleasure to welcoming you to beautiful Australia.