



SOCIETY OF ACTUARIES

Article from:

# International Section News

February 2004 – Issue 32

With the unexpected Asian financial crisis in 1997, the viability of the pre-need plans came under heavy fire. The increases in tuition fees significantly exceeded expectations/assumptions and market values of real estate. Stock portfolio also deteriorated and earnings of other investments plummeted to single-digit rate (a lot lower than the 12 to 15 percent used in the pricing model).

To counter the adverse financial situation, contract price increases were filed and adopted. The industry players adjusted their prices using a more conservative (and achievable) interest assumption and generally stopped offering traditional education plans. Contract change to fix the amount of tuition fees payable at maturity was introduced in the new plans.

The financial issue centered on fully-paid plans that provided for increasing liabilities beyond the actuarial assumptions used while the assets that have been accumulated were earning much less than the interest used in the pricing model. How does one strike a viable balance between these items?

An immediate need was the actual measurement of such mismatch with the use of realistic assumptions. The identified variance

must be addressed by a number of initiatives that the company concerned should immediately undertake.

An infusion of additional capital was the initial option considered. Allocating more corporate assets or capital infusion by stockholders should help bridge the gap. Unfortunately, there is a short supply of surplus funds.

While other solutions are still being explored, time may not be on the side of the industry given that the related liquidity requirements arising from the payment of benefits may not be covered by installments paid and short-term investments. In addition, 2003 sales have been modest while 2002 registered a decline over 2001.

Actuaries of these pre-need companies face formidable challenges not only in the proper measurement of the liabilities but also in the formulation of action plans to address the asset/liability mismatch.

It is expected that a clearer financial picture will emerge by the end of this year.

Will this industry, which recorded strong and sustained growth up to year 2001, survive?

Hopefully, I will be able to submit a rosier picture in early 2004.

---

*Mabini L. Juan, FSA, MAAA, is director of Actuarial Advisors, Inc. in Makati City, Philippines. He can be reached at aai@pacific.net.ph.*

## The 4th China Congress of Actuaries

by August C. Chow

This article was reprinted with the kind permission of the Canadian Institute of Actuaries. It originally appeared in the November Bulletin.

**T**his 4th Congress was attended by over 200 actuaries, insurance professional and industry representatives from China and overseas. Invited guests representing overseas and international actuarial bodies included Yves Guerard (International Actuarial Association), David Lewis (United Kingdom Institute of Actuaries), Shu-yen Liu (Society of Actuaries), Alex Zu (Casualty Actuarial Society), Won How Lo (Actuarial Institute of Taiwan), Peter Luk (Actuarial Society of Hong Kong) and August Chow (Canadian Institute of Actuaries). The meeting was held in a resort hotel in Chengdu, a major inner city in China with a population of 10 million.

The main theme of the conference was "Actuarial Professionalism—Mission and Responsibility." Mr. Yves Guerard, the secretary general of the International Actuarial Association, gave an opening address, which was followed by a welcome address by Ms. Yao Hezhen, vice president of China Reinsurance

Company, the sponsor of the Congress. Mr. Wei Yingning, the vice chairman of the China Insurance Regulatory Commission (CIRC), delivered the keynote speech.

The two-and-a-half day meeting covered a variety of topics on the roles and responsibilities of actuaries from the regulatory, industry and professional point of view; the challenges to actuaries; the life, pension and casualty insurance in China; the proposed IAS international accounting standard; and the insurance agency and the supervision of market conduct.

During the meeting, the CIRC released three draft regulations on the interim measure of (1) the administration of practicing actuaries in China, (2) the professional code of conduct of actuaries in China and (3) the continuing professional development of actuaries in China.

At the end of the conference, a number of delegates joined the scenic tour that was organized by the conference committee. □

---

*August C. Chow, FSA, MAAA, is assistant insurance commissioner at the Office of the Commissioner of Insurance in Hong Kong. He can be reached at august.chow@oci.gov.hk.*