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## Highlights of the International Seminar on Risk and Solvency Management

By Xueyun Huang



**R**ecent global financial crisis has brought risk management into sharp focus for financial services organizations around the world. Both regulators and companies in China are increasing efforts to look at their risk management practices, and more importantly the implementation and continued execution of their risk management policies.

To address solvency issues arising from the rapid growth of China's insurance market and its increasingly complex risk environment, the China Insurance Regulatory Commission (CIRC) has introduced a new regulatory regime aimed at enhancing its supervision over the solvency of Chinese insurers. Unlike the 2003 rules, which focus on solvency margins calculated as the ratios of assets to liabilities, the New Provisions require the assessment of solvency on the basis of risks to which the insurer is exposed.

In order to help the professionals working at insurance companies in China to exchange ideas and learn international practices on corporate governance and risk management of the insurance sector, the China Association of Actuaries (CAA) initiated the International Seminar on Risk and Solvency Management. SOA, CAS and IAAust were invited to be the co-sponsors by contributing ideas and sending representatives to give presentations at the seminar. The event was successfully held in Beijing on March 27, 2009 with over 150 participants. For me, as the MC for the morning sessions, and most other attendees, the seminar was a rewarding investment of time. It gathered together a diverse range of professionals from direct insurers, reinsurers, consulting firms and academics, in an interactive forum for one day of highly engaging sessions. From the analysis of internal & external risks faced by local insurers to using actuarial ideas to strengthen global financial risk management, the seminar covered a wide range of topics.

The day began with a welcome address by Chengfang Shen, director of the External Communication Committee of CAA. Chengfang is the chief actuary of Ping An Life Insurance Company (one of the top life insurers in China) and also a key member of the organizing committee of the seminar.

The first presentation in the morning was given by Shi-hao Zhuo, vice president and CFO at Sino U.S. MetLife Insurance Company. Shi-hao worked at the MetLife head office in New York for 10 years before returning back to China in 2004 to help establish MetLife's first joint venture company in Beijing. Shi-hao first analyzed the composition of insurance company's assets and liabilities. He further explained the invest-



ment risk, product pricing risk and management risk that life insurance companies face in their daily operations and shared his experiences on how to mitigate these risks.

The next presenter, Trevor Thompson, represented IAAust and spoke about how to use actuarial ideas to strengthen global financial risk management. Trevor is now the president of IAAust. He retired in 2002, following a brilliant career with AMP both in Australia and the United Kingdom. Trevor also has served on a wide variety of committees and task forces including the Corporate Governance Task Force, the Penrose/Morris Task Force, the Independent Peer Review Implementation Task Force, IAA Supranational Relations Committee, IAA International Education Program Committee, etc. With his vast experience and expertise, he could easily fill a half day with insightful analysis on such an important subject. However, he was only allocated 45 minutes, so he had to go through the slides very quickly. What he stressed during the presentation were the additional measures that actuaries believe to be needed to prevent future financial crisis in addition to the G20's common principles for reform.

These measures are:

- Introduction of more counter cyclical regulatory arrangement
- Creation of Country Chief Risk Supervisor role
- Wider use of comprehensive risk management concepts in banks and non regulated sector
- Improved use of ERM & risk governance

The last session before we broke for lunch was an analysis of external and internal causes of insurer's risks in China market. Dr. Zhi-gang Xie is the director of the Research Center for

Insurance and Actuarial Science, Shanghai University of Finance and Economics. He has done many research projects on risk management and solvency regulation for insurance companies. He introduced the common methods used to identify risks, such as comparative study method, case study method, brainstorming method, etc. and shared the examples for each method. The main conclusions before the end of his presentation were:

- Key external risk factors for insurers in China
  - Social and politics
  - Regulations
  - Macro economy and investment
- Key internal risk factors for insurers in China:
  - Corporate governance
  - Senior management's decisions ( risk preference )
  - Company's organization structure
  - Management's competence
  - Company culture
  - Human resource
  - Allocation of rights and responsibilities

The afternoon sessions led off with a presentation by Jonathan Zhao. Jonathan is the practice leader for the E&Y Far East Asia Actuarial Service Group. He transferred from the E&Y Insurance and Actuarial Advisory Services Group in Chicago to Hong Kong in 2005 to provide leadership and enhance coordination and knowledge transfer between E&Y Global and the Far East Asia Actuarial Services. Jonathan is a frequent speaker at various actuarial seminars and conferences. However, this time was special because he was the representative authorized by the SOA to attend the seminar and

CONTINUED ON PAGE 40

## Highlights of the International Seminar ... | from Page 41

gave a presentation on ALM. Jonathan analyzed the current risk environment faced by insurance companies and the drivers for ALM model in China. He further described a typical ALM structure, the key steps to build an ALM model, the use of replicating portfolio techniques and the applications of ALM model.

Next on the agenda were two speakers from Towers Perrin—Jenny Lai and Adrian Liu. Jenny is a consultant with the Tillinghast business of Towers Perrin in the firm's Hong Kong office. She is also currently the chair of the Asian Regional Committee of the Casualty Actuarial Society. Adrian is the general manager in charge of Tillinghast insurance consulting business in China. During the presentation, Jenny and Adrian shared with us the key findings of their 2008 Global Insurance ERM Survey. For the first time, the survey included a number of Chinese insurance companies. They further explored the challenges for Chinese insurance companies and how ERM can help in this aspect.

The last two speakers of the day were Michael Owen, representative from CAS and Tak Lee from Munich Re Hong Kong. Michael is a senior vice president of Guy Carpenter & Company and heads their analytical team supporting Greater China and Japan. His topic was about capital allocation. Michael compared various risk measures and explained how to select risk measures. He used several examples to demonstrate how to use Co measures, like co TVaR, co XTVaR or co Semivariance to allocate capital. Tak Lee is the General Manager of Munich Re Hong Kong Life Reinsurance. He is also presently chair of the Actuarial Society of Hong Kong Actuarial Guidance Note 7 (Dynamic Solvency Testing) Working Group and a member of the ASHK Life Committee. Tak reviewed the background information about the AGN7, introduced its latest development in Hong Kong and explained its implications for mainland China.

**BEHIND THE SCENES AT THE SEMINAR**

The participants are able to experience the exciting presentations and the guest speakers. What they may not be aware of is all the hard work in preparing for the conference. Planning for the International Seminar on Risk and Solvency Management took about six months. It is a very short period of time considering that organizing such kind of event is no small effort due to the breadth of topics, recruitment of speakers and coordination with SOA/CAS/IAAust.

It is my first time getting involved in organizing such kind of international actuarial conferences. What impressed me most is not only the local actuarial association's high efficiency by accomplishing all the work from finding the venue, sending out invitation and collecting registration information to printing out all the handouts within less than two months with only three staff, but also the role that SOA's China Region Committee (CRC) could play in promoting the profession together with the local actuarial organization. During a teleconference of CRC in December 2008, we discussed what we could do for the seminar. We then contacted CAA to suggest a topic on ALM and then recruit the speaker from Hong Kong as the representative of SOA to give the presentation at the seminar. When we were told by Chengfang Shen, key member of the organizing committee at CAA, that they would like to have an experienced senior actuary who has rich working experience both overseas and in local insurance company to be the first guest speaker, we helped talk to several potential candidates to check their schedules and finally invited Shihao Zhuo from Sino U.S. MetLife. This work is just the starting point for us. As our cooperation with the local actuarial organization is further strengthened, I'm sure we will continue to help build the image and the awareness of the profession in the China Region. □