

Malaysian Actuary

October 2007 Issue



Raymond Lai & Dr. Jeyaraj (Speaker of ASM Talk – “Developing a consulting practice and profit center by partnering academia with a professional actuarial organization” held on 23 May 2007).

President's address

© Raymond Lai

First of all, I would like to thank all of you most sincerely for electing me to be the President of ASM. I think it is time for me to take this opportunity to share with all of you our aspirations for ASM going forward.

There is a crying need for branding ASM, as a truly professional body and branding actuarial profession on the education front. Past EXCO members' aspirations over the years, to embark on the journey to transform ASM to a truly professional body has been a challenging one. While the rate of transformation may be gradual, the direction towards professionalism would be timely as a result of the constantly changing financial landscape of insurance industry in the world.

I am particularly impressed by the enthusiasm of the past and current EXCO members in making these aspirations a reality. Of course, we are making

promising progress and planning to come out with the Actuarial Profession Masterplan for the next 5 years.

This Masterplan will chart the future direction for ASM and outline the strategies and recommendations to achieve a truly professional body. In moving forward, a meaningful change in the future direction of ASM cannot be achieved overnight. Therefore it requires a unified effort of all ASM members both qualified and non-qualified actuaries, regulators especially Bank Negara Malaysia and the government to take necessary steps towards meeting the objectives of the Actuarial Profession Masterplan. The professional subcommittee is in the process of drafting the Masterplan and I will reveal more about the plans subsequently.

As you may aware, the Faculty and Institute of Actuaries have made CPD

requirement mandatory for all working actuaries to ensure that they are competent to carry out their jobs and to give actuarial advice and for the public and other professions to have confidence in what an actuary says or does. And I believe most professional bodies will follow suit and come out with their own CPD requirement and this augurs well for the future of actuarial profession. In October 2006, during the Society of Actuaries General Meeting in Chicago, the senior actuaries were in discussion of the American Academy of Actuaries' Paper on a "Critical Review of the US Actuarial Profession". Some of the topics discussed include:

- The expansion of actuarial horizons and its impact on actuarial education.
- Strengthening of their CPD requirement.
- For education of actuaries, the public notification of explicit facts relating to discipline violations.
- Branding of the profession or the greater awareness of actuaries by the public.

And I think these same topics are being discussed in many international actuarial meetings that I attended before as well as within our EXCO committees. I believe and expect more new development of those areas in the next few years.

ASM will continue to produce more practice notes or standards in assisting actuaries in giving actuarial advice. It is good for the branding of the profession. It is good for the protection of the actuaries and publics.

With regards to Professional Code of Conduct, all actuaries of ASM are aware of the importance of compliance in order to maintain and observe the highest standards of Conduct. Even BNM has recently issued Circular JPI:8/2006 to address the issue of potential conflict of interest between the different roles performed by actuaries. In accordance with Circular JPI:8/2006, Appointed

Actuaries must be satisfied that there is no conflict of interest if he/she were to act in another capacity such as Chief Executive Officer, Chief Financial Officer, Marketing Heads within the Company.

For actuaries who are not holding Appointed Actuary's role, compliance of Paragraph 5: Conflict of Interest of ASM Professional Code of Conduct (<http://www.actuaries.org.my/about/codeofconduct.asp>) is required if there is a potential conflict of interest involving an actuary's firm and the client especially when offering non actuarial services. ASM has an important role to play in enhancing level of professionalism as well as to help our members to gain the knowledge and competencies in offering actuarial advice.



Participants for one of the ASM Talks

The number of student members as well as Fellows and Associates has grown tremendously and I dare to estimate that it will double in the next five years. Our past efforts in promoting actuarial profession are showing promising and noticeable results. This is all to the credit of our volunteers both involving either directly or indirectly in promoting actuarial profession in education and career fairs.

Before I sign off, let me take the opportunity to thank my EXCO members, subcommittee members, editorial team and all members who have contributed in this issue. I hope all members to come forward and lend your helping hands and to continue participating in the activities organized by ASM going forward. ✍



The Zigzag Walk & The Thick White Rope

© Lee See Seen & Loke Chang Yueh

Too tired... Take a break!

Sixteen of us have recently embarked on the longest journey we have ever been on foot. Mount Kinabalu may not be the highest in the world but if our legs could talk, they will definitely tell you otherwise.

We started our climb at Timpohon Gate, 1,800m above sea level – well, we sort of cheated if you consider that we only need to climb another 2,300m but I must say that no one complained!

So off we went at 8.15 am, armed with a RM3 wooden walking stick, identification tags, and the stuffed bag full of food, water, and clothings to face what the elements have in store for us. There are even porters for hire if you cannot carry all your belongings all the way up!

We had three guides to take us through the whole trail - all 8.4 km of it. The first 6 km brought us to Laban Rata where we stayed overnight before the final ascent to the summit. There are a few rest places along the trail to Laban Rata - of course, we took a breather at every single one of them!

As we struggled up the mountain, we saw porters laden with gas cylinder tanks

happily walking away. Some of them just wore slippers and have harnesses made of rice sacks for support. These porters scale the 6 km distance between Timpohon Gate and Laban Rata several times a day on supply runs and they easily outpaced us.

The weather was very kind to us on that day. After hearing about the heavy downpour on previous days, we were really lucky that the sun was shining brightly above our heads. The thin air caused altitude sickness and it was best to climb slowly and surely instead of rushing up and finding yourself exhausted.



Trees along the way up to the top of Mount Kinabalu

The trail became steeper and more demanding as we got closer to the 3,000m

mark. Our lungs were struggling for oxygen, the legs felt heavier with each torturous step but the spirit was high. After four-and-a-half hours, the first group finally reached our resting place for the night. One of the guides motioned for us to go into the rest house and check-in, but we only had one thing in mind - FOOD!

The food was understandably expensive as the ingredients were carried up by the porters. A plate of fried rice costs RM14 but it was a big serving and we gobbled it



At the start of the journey to conquer Mount Kinabalu

down all the same. It was about 9°C at Laban Rata and we were lucky enough to stay in a resthouse with heating facilities, so after lunch, we went straight into a hot shower - ahhh ... bliss....

We were advised not to sleep so that we can go to bed around 7 pm (!) as we needed to wake up again at two the next morning. After what seemed like ages, alarms started to ring and we can hear people's footsteps outside the door. We got dressed quickly and headed down to the meeting point, all raring to go.

At two in the morning, thanks to the full moon shining down on us, it was somewhat bright. We brought our torchlights along but we hardly needed them. All we needed to do was to follow a

thick white rope laid down by park rangers. It was mostly rock surface in this last leg of the climb and it felt like walking on another planet. It was totally barren, apart from the eager climbers that dotted the rock surface.

Due to the steep terrain, climbing up was quite taxing to the legs. At certain parts, we actually needed to heave ourselves using the thick white rope just to make one step! The experienced guides literally skipped and hopped up the mountain, but only those who are related to mountain goats should try this! We were advised to walk in zigzag instead of blindly up the steep terrain – and it helped. As we moved closer to the top of the mountain, the trees gradually thinned out and gave way to scrubs, stones and fabulous views.

A small group of us arrived at the summit at 5 am - too early for the sunrise and too cold! The temperature was less than 5°C and the sunrise was 45 minutes away, so we decided to use ASM flag to get some warmth! We took photographs on

Low's Peak under the glorious sunrise, and then began our descent. As the sun began to appear, we started to see the full majestic view. We were literally walking above the clouds. Although it was cold, the sun was there to warm us up just that



The top of Mount Kinabalu

little bit, while our eyes feasted on the beauty around us.

We stopped over at Laban Rata rest house again to check out, had a quick breakfast, before starting to descend the remaining 6 km. Some of us practically “ran” down in 2 hours. By 3 pm, everyone safely negotiated their way back to the Timpohon Gate.

Looking back ,we were not thinking of reaching the top during the climb, just thinking about the next step – if you try to conquer the mountain, you will fail but if you try to conquer yourself, you will succeed.✍



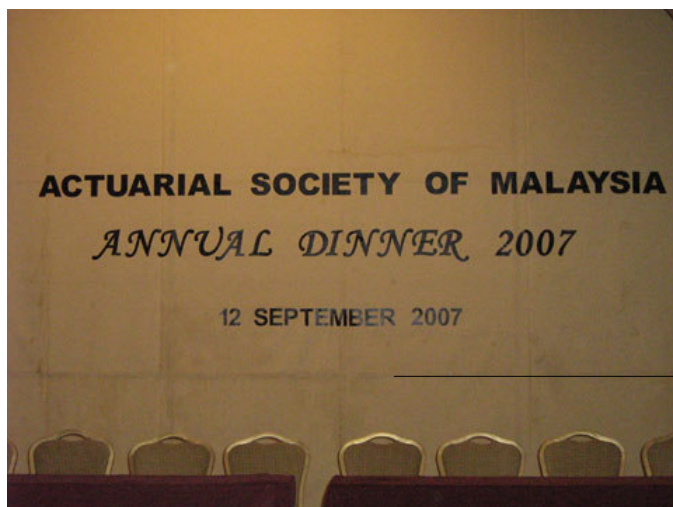
The ASM-Mount Kinabalu warriors!

ASM EXCO 2007

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Vice President	: Loke Chang Yueh
Immediate Past President	: Lee Jiau Jiunn
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The 2007 ASM Annual Dinner

© Pong Chiew Ping

Many would agree with me that the Annual Dinner is one of the grandest events of the year that every employee longingly awaits. The same can be said of the 2007 ASM Annual Dinner, a day I am sure many members of the ASM were eagerly anticipating. This year it fell on September 12th, held in the Crown Plaza Mutiara Hotel.

You probably would have started noticing the excitement during the middle of the year, with discussions such as “When would the annual dinner be this year?” and “Which hotel are we heading to?” going around. It was this time that the Events Sub-committee had to begin cracking their heads again to find an ideal venue as well as to match the VIPs’ schedules (mainly for the ASM EXCO members as well as presenters at the Annual Dinner).

The real challenge actually kicked-in after we had selected the “perfect” date for the event, only to find that we were unable to secure a hotel to accommodate all of us. We were transferred from Dorsett to KLCC Impiana, and finally ended up in Crown Plaza Mutiara.

Looking back, the Events Sub-committee is delighted to have held our event in this

hotel; the services provided were excellent, the hall for the presentations and dinner were spacious. We had a turn up of 160 members in total. Special mention and thanks to all our committee members who contributed to its success: Johan, Diana, Melissa, Mei Lih, Charlene, Eng Siang, Siang Yee, How Yoon, Eng Soon and myself. Most important of all, thank you for attending the event, we hope you thoroughly enjoyed it!



The 2007 ASM Annual Dinner started with welcome drinks at 5pm, which was the best time for ASM members to mingle with friends, and to provide updates to one another.



Charlene Lee: Master of ceremony!

Ms Charlene Lee, our master of ceremony for the evening greeted everyone with her beautiful voice and charming smile at 5:45pm.

Second in the program was the welcome speech by our ASM President – Mr Raymond Lai.

The first presentation started at 6pm. It was an honor to have Mr Teh Loo Hai, one of ASM's Past Presidents, presenting on "Pricing in the RBC World".

The second and final presentation for the evening was on the "UK Insurance Industry" presented by Mr Peter Ford. We truly would like to show our appreciation for Mr. Ford's commitment to deliver the presentation, even though this was Peter's very first introduction to the ASM.

We recognized 3 new Fellow actuaries this year; they are Leem Why Chong, Hew Ee Lu, and Chong Yoon Hin. A congratulatory letter was handed by Mr Raymond Lai to each of them.

The event then proceeded with a buffet dinner at 7:30pm. I believe the main reason for the positive feedback on the good food provided was because everyone was starving by the time we started dinner! Many went for second and third rounds; I myself had to ensure that there was enough room in my stomach for dessert.

We had four table-games this year, all numbers-related. You could see even the actuaries scratching their heads for the correct answers. I was in-charge of preparing these games and also to host the

session – I hope everyone had fun! The top 3 tables that were able to solve all the games the fastest (only with all correct answers of course) won RM100 Starbucks vouchers per table. Congratulations to Tu's team, Simply the Best's team and Mercer's team.

While most members began bidding their goodbyes to each other and heading home with a full stomach at 9:30pm, a small number stayed back for the highlight of the night, the annual quiz competition. There were 6 teams who participated in the event. Special thanks to the quizmaster for coming up with the questions and hosting the quiz. Congratulations again to



Raymond Lai: ASM President



Teh Loo Hai: Pricing in RBC World



Peter Ford: UK Insurance Industry

the 3 consecutive years' Champion titleholders – the "Mercernaries", and also

to the 1st Runner-up – team “A” from Prudential.

The 2007 ASM Annual Dinner ended at 11:30pm; we appreciate everyone who stayed on for the entire event. Indeed, every time we begin planning for an event like this, we try our best to cover all areas to ensure that everything is in order. When the task is completed, we always look forward excitedly to the next event – our key motivation being to gather as many ASM members together as possible. We look forward to seeing you in our upcoming events! ✍



“What are you looking at?” – Quiz competition



1st Runner-up: Prudential’s “A” Team



Champions: The Mercenaries Team



ASM Study and Exam Technique Talk

© Pong Chiew Ping



ASM organized a Study and Exam Technique Talk at ING's Training Room in the afternoon of 27 August 2007. The talk received an overwhelming response with more than 100 students (including 22 from University Kebangsaan Malaysia) attending the talk.

3 speakers presented at the talk, where we first had Mr Chai Tze Siang, who qualified as a Fellow of the Institute of Actuaries of Australia in 2003, to share his study preparation and exam techniques with the students. Tze Siang said the important thing in exam preparation is the mind-set to pass each paper; the desire will soon translate into action.

The second presenter was Mr Poh Ban Wah who passed his final examination in the Society of Actuaries in July 2007. He shared that consistency is the key to success. Ban Wah allocated the total amount of material to study into a well-structured schedule and diligently stuck to it.

Last but not least, Mr Loke Chang Yueh who qualified as a Fellow of the Institute of Actuaries (UK) in 2005, and who is now involved in marking some of this body's examination papers, shared his

experience in marking these papers and the importance of legible handwriting.

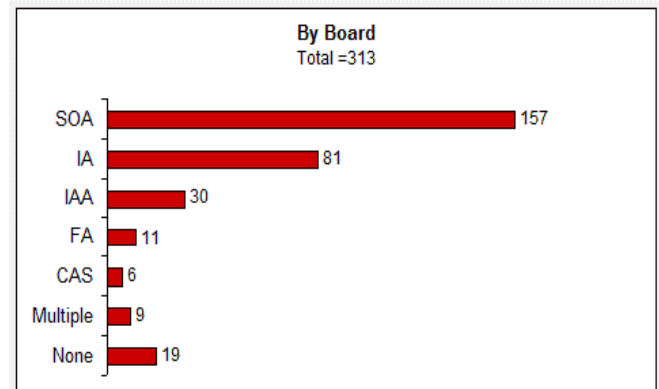
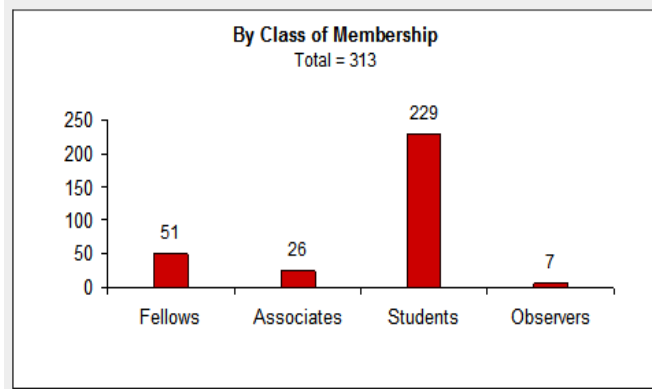
The ASM Events Sub-committee offered their assistance in organizing the talk, managing the registration, setting up the AV systems and ensuring everything was in order. Special thanks to ING for providing the training room and to MLRe for sponsoring the refreshment.

We wish all students the very best in your examinations; may the techniques that have been shared benefit everyone who attended the talk. ✍



Membership Statistics

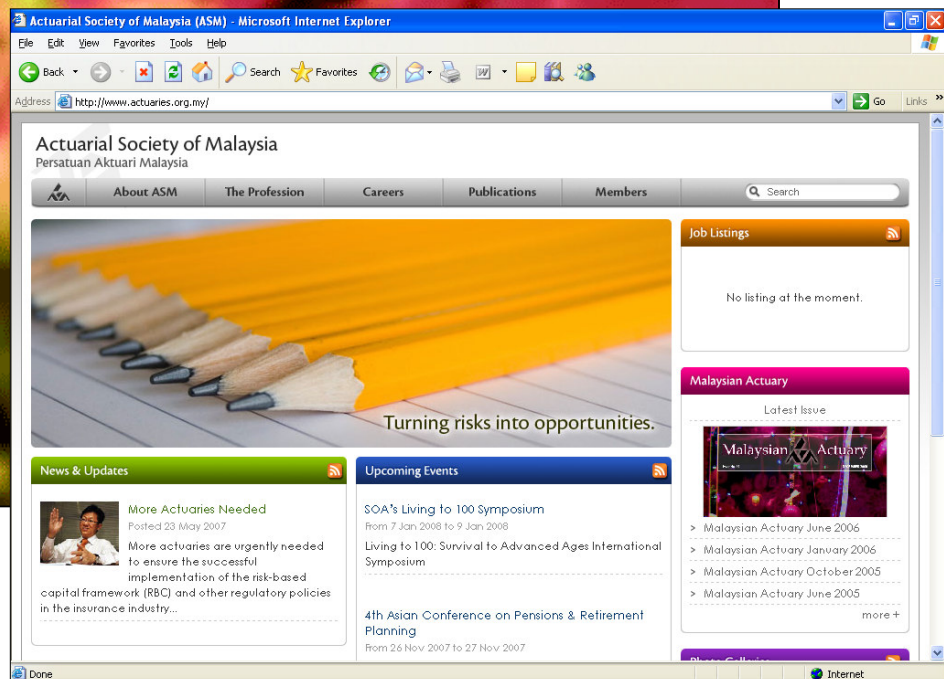
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The above statistics are the ASM membership profile as at 31 May 2007. Please visit <http://www.actuaries.org.my/default.asp?p=6> for further information.

Log on to <http://www.actuaries.org.my>

The ASM Website with a Brand New Look!



Tri-cycles in Hong Kong

© Chye Pang-Hsiang, FIA, MAAA

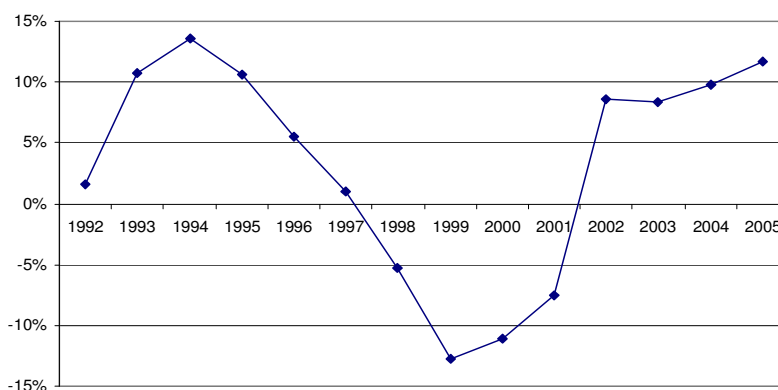


Exhibit 1: Underwriting margins of Hong Kong direct business (underwriting profits before investment income, % of net earned premiums)

The Underwriting Cycle

The underwriting cycle is a phenomenon well known to general insurance practitioners around the world. Being no exception, Hong Kong has been through one complete cycle of underwriting profit-loss-profit in the last ten years or so, and now appears to be on the cusp of a new cycle. The cycle is relatively short, but is perhaps consistent with the speed at which business moves in Hong Kong and the fact there are over 120 general insurers serving a population of around seven million people.

The Economic Cycle

In part, the underwriting cycle illustrated in Exhibit 1

was related to the economic cycle. Growth in insurance premiums is strongly correlated to the general economy (Exhibit 2).

The second impact of the economic slowdown was on expenses (Exhibit 3). Like other industries in Hong Kong, insurance companies hired

staff, gave double digit salary increases, and paid relatively high rents during the good times leading up to 1997. In the following years, while premium volumes quickly fell away, it took companies a few more years before they were able to bring expenses under control and renegotiate rental agreements. As part of the move to improve profit margins, direct commissions were also put under pressure.

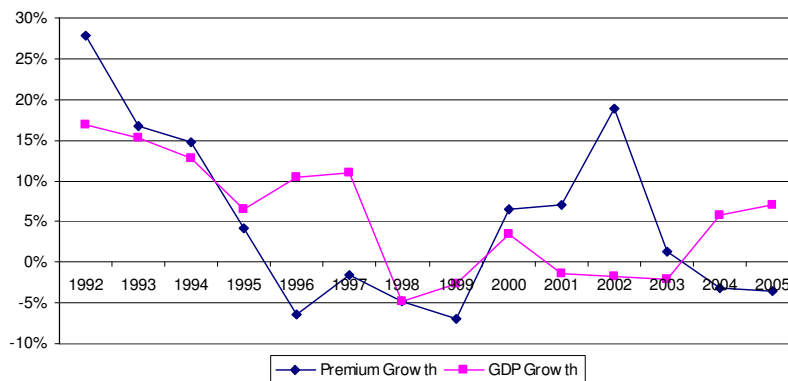


Exhibit 2: Comparison of growth in direct gross written premiums* and GDP
* The direct GWP exclude aircraft and pecuniary loss insurance.

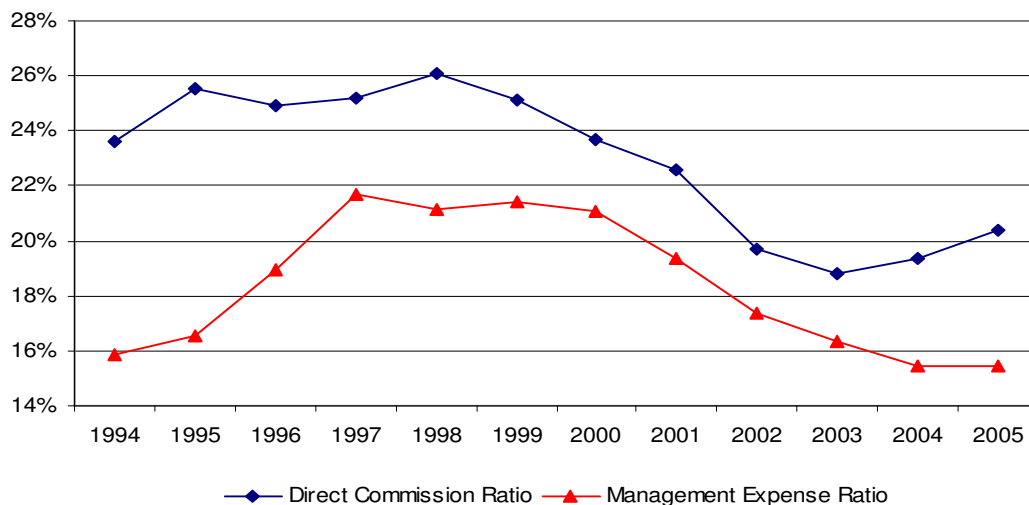


Exhibit 3: Trends in management expense and direct commission ratios

More recently, with the much-improved economy, commission rates have started to trend up again. Salaries increases have lagged a bit, but picked up in 2006. We would also expect to see rental expenses increase significantly; rents in prime office locations have increased by more than 100% since 2003 and this will flow into the administration expenses of companies as they renew their leases.

The Classic Underwriting Cycle

However, while the economic cycle influenced the demand for insurance, it was perhaps the supply of insurance and reinsurance capacity that had a larger impact. This is particularly obvious with Employees' Compensation Insurance (known as Workers' Compensation in some countries).

The ECI underwriting cycle in Hong Kong can be mostly attributed to construction risks, although certain other risk groups (such as restaurants and hotels) and large accounts have also seen dramatic swings in premium rates. Also, the ECI market is mature and after 1995, the movements in

premium volumes in Exhibit 4 broadly reflect movements in premium rates.

In 1993, a few key players made the decision to refrain from a very competitive ECI market. Premiums rates rose in 1993 and 1994, resulting in better underwriting results reported in 1994 and 1995.

However, direct premium rates quickly

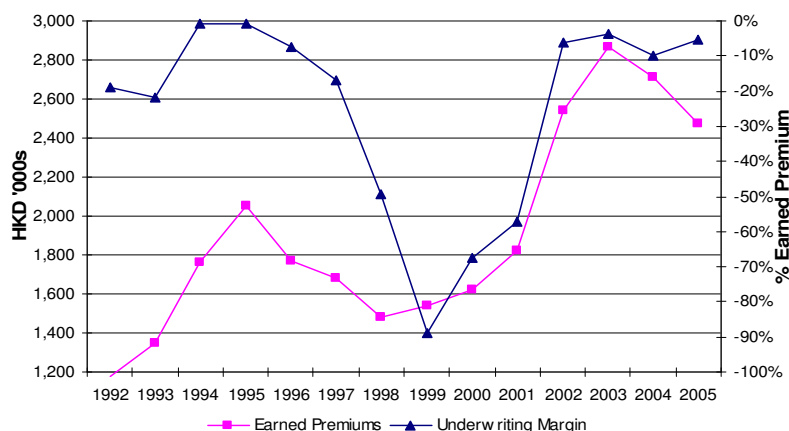


Exhibit 4: ECI earned premiums and underwriting margins

came down again in 1996 and 1997, following the improved results and ample reinsurance capacity in the market. Gross underwriting results were worse than indicated in Exhibit 4 as a disproportionate share of losses was absorbed by reinsurers.

The years following 1999 were eventful due to a confluence of events contributing towards a continuous hardening of direct

and reinsurance premium rates and better underwriting results until 2003:

- The extent of losses from aggressive underwriting decisions made in prior years was now obvious.
- The failure or closure of an ECI underwriter in almost every year from 1999, the most spectacular being HIH in 2001.
- Underwriting restraint exercised by a small circle of influential ECI underwriters.
- Increases in reinsurance rates and tightening of terms beginning in 1999, precipitated by the events of September 11, in 2001.
- Better risk management and improvements in safety at construction sites

Premiums rates have come under downward pressure again since 2004, although the reported underwriting margins do not reflect this. One possible explanation is that claim reserves were “built-up” in the preceding years and have been gradually released in the last few years.

The Under-Reserving Cycle

The underwriting cycle in Exhibit 4 was exacerbated by an under-reserving cycle. ECI outstanding claim reserves were largely inadequate prior to the introduction of mandatory actuarial reserve reviews at the end of 2001. Also, there were long delays in court hearings making reserving for ECI liabilities more challenging. Effective steps to speed up proceedings were taken in 1999.


During the “boom” years, continually increasing premiums exceeded claims. The underestimation of claim liabilities led to the underestimation of premium rates, perhaps unbeknown to senior management. However, claims continued to grow even when premium volumes started to decline in 1996. In other words, the poor underwriting results in 1999, for example, do not necessarily reflect the profitability

of policies issued in that year, but also reflect adverse developments in claim reserves for business written in prior years. Eventually, the combination of these “exaggerated” losses, hardening reinsurance rates, and the financial impact of actuarial reserve reviews led to dramatic increases in premium rates.

One could say under-reserving and perhaps a poor understanding of true underwriting profitability led to a delayed reaction, and consequently drastic corrective measures.

Completing the Cycle

While actuarial claims reserving has been instituted at a company-level, in the majority of cases, this does not explicitly feed back into everyday underwriting decisions. For this to happen, the profitability of a particular line of business based on the estimated reserves would need to be filtered back into the book rates of the company. Also, underwriters would need to develop the basic actuarial skills necessary to assess the profitability of specific large accounts.

Perhaps what Hong Kong needs is one more cycle: the actuarial control cycle! 

The insurance statistics in this article are from the Office of the Commissioner of Insurance, Hong Kong.


The author would like to thank the general insurance practitioners who gave generously of their time and shared their knowledge of the underwriting cycle in Hong Kong with the author.


Pang Chye, FIA, MAAA, is the Chairman of the General Insurance Committee of the Actuarial Society of Hong Kong. For more information, he can be contacted at pang.chye@milliman.com.



Actuarial Jokes!


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An actuary is a person, who passes as an expert on the basis of a prolific ability to produce an infinite variety of incomprehensible figures calculated with micrometric precision from the vaguest of assumptions based on debatable evidence from inconclusive data derived by persons of questionable reliability for the sole purpose of confusing an already hopelessly befuddled group of persons who never read the statistics anyway! 

One actuary to another: "Come on, man, live on the edge; test at 0% level of significance." 

Question: How many actuaries does it take to change a light bulb? Answer: a) How many did it take last year? b) How many do you want it to take? c) None, after credibility weighting, we have indications that the bulb is still lit. d) None, the insurance department is not allowing any modifications to the bulb at this time. e) Have any of our competitors changed bulbs yet? f) None, they prefer to leave us in the dark. g) Five: one to screw it in, and four more to estimate the length of its life before being screwed in. h) The same number that it took last year, adjusted for trending. i) Two- The Senior Actuary presents the proposal to Management and the Junior actuary does the work. j) One- But he/she has to do battle first with Sales and Marketing over the issue. k) One- But first, it takes ten years to pass the exams.

Did you hear the one about the actuary who walked into a bar? He sat down and told the continuous story of his whole life.

Question: What is the difference between an actuary and an actuary for the mob? Answer: a) The actuary knows how many people will die each year, while the actuary for the mob knows their names. b) The actuary for the mob knows the date, time, place and means of death. c) Only the actuary for the mob is asked to compute \ddot{A}_x . 

Why it's better to work with an imperfect actuary:

Of course we know: A perfect actuary draws perfect conclusions from perfect datasets.

Then of course: A perfect actuary certainly draws "wrong conclusions" from imperfect data.

Now we know that the data are always imperfect.

So that we can conclude that there is at least a small chance that an imperfect actuary may draw the right conclusion.

That's why it's better to work with an imperfect actuary. 