MALAYSIAN ACTUARY

ACTUARIAL SOCIETY OF MALAYSIA NEWSLETTER DECEMBER 2010 ISSUE

President's Address

Patrick Cheah

My dear members of ASM,

Time had really flown by us and we are now in November approaching the year-end. I am wondering if any of you manage to achieve in the things you have set to achieve at the beginning of the year.

As for ASM, it is a time to ponder on what ASM had wanted to achieve and what had actually been achieved. We started the year knowing that ASM will be the next host of the East Asian Actuarial Conference. It has been more than 30 years since we last hosted such a prestigious event. We started the year also knowing that ASM has to change with the times. Our peers in Singapore had established an official Fellow designation, bringing in more details on professionalism and working areas where actuaries practice their wares. What are things did we want to achieve – the list was as follows when I presented the next steps for ASM:

- Official fellow designation
- Working groups in relevant practice areas and issuance of practice and guidance notes
- Mentoring system to aspiring actuaries
- Organize more conferences and seminars to help our actuaries achieve CPD

This newsletter is published by the Communication Committee of the Actuarial Society of Malaysia. If you would like to make any contributions or provide suggestions, please do not hesitate to contact us at editor@actuaries.org.my.

requirements

- Work together with other bodies, LIAM, PIAM, MTA, BNM to help improve insurance penetration in the industry

So did we manage to achieve what we set out to achieve? We now have an official fellow designation (including nice certificates presented in our ASM Annual Dinner 2010). Officially, fellows can now call themselves FASM.

Working groups had been set up in 7 practice areas and 2 professional bodies: Life Insurance, General Insurance, Takaful, ERM, Finance and investment and Pensions. The 2 professional bodies are the professional standards committee and disciplinary panel. However except for a few meetings held by some of the working groups, the response from the members to participate in each of the working groups had been primarily poor and something that ASM will strive to improve next year.

Our Education Sub-committee chairperson, Yoon Yew Khuen has send out request asking for volunteers to be mentors to aspiring actuaries, especially to those who are very junior in the profession as well as those still in university.

ASM is also proud to organize the Life Insurance and Family Takaful Conference, 13-14th December 2010 in Royale Chulan titled "New Life New Decade". I am proud to say that the International Actuarial Association (IAA) has officially endorsed our conference and we have a honored guest in Mr Yves Guerard, Secretary General of the IAA to attend our conference. We also have fellow Presidents from actuarial societies in Asia attending this conference, and I hope that our members will take their time off to attend such a prestigious event.

Finally I was lucky to be involved in the National Key Economic Agenda (NKEA) where the government unveiled the Economic Transformation Program, focusing on transforming Malaysia to be a high income society. ASM do have its role to play in helping the nation achieve such an ambitious targets and I welcome any constructive feedback by you in helping our nation achieve this.

One of the initiatives commented was the establishment of private pension fund. It is hoped that a private pension fund will allow each person to save for his/her own retirement. High income nations in developed nations realize the importance on pension savings and the financial impact and strain that is placed on the State should there be no retirement provision. I do hope you can provide good feedback and support this initiative by volunteering to join the Pensions working group and help establish the proper guidance in regards to pensions practice.

So looking back over the course of the year, ASM has achieved a lot. Guidance Notes have been issued out for setting Surrender and Paid Up Values. Feedback was also given by ASM to BNM in regards to the valuation of liabilities for Takaful under the RBC framework. There is still much work that ASM needs to do to achieve next year and I hope the President-Elect, Mr Liew Pek Hin can continue on the good work done by ASM by bringing it to even greater heights.

With that I wish my dear fellow members, happy holidays and a wonderful Christmas and New Year's ahead and may wishes come true. ❖

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UPCOMING EVENTS

Life Insurance & Family Takaful

13 – 14 December 2010

Royale Chulan Hotel, Kuala Lumpur

ASM AGM 2011

24th February 2011

Royal Lake Club, Kuala Lumpur

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32nd ASM Annual Dinner & Presentation 2010

Lee Poh Kheng

The long awaited or perhaps the grandest ever ASM event has finally arrived. The 32nd ASM Annual Dinner & Presentation for the year 2010 was held at the Prince Hotel on 3rd August 2010. The calm weather during the evening (no heavy rains or thunderstorms whatsoever unlike previous year) has brought together a total of 230 people to this special event of the year.

The evening kicked off with welcome drinks at 6pm, the best time where fellow members of ASM get to mingle around, chatting happily and to provide updates to one another. By 6.45pm, everyone was led into the ballroom and was greeted by Izad from Mercer, our master of ceremony for the evening.

Next in line was a very enlightening opening address by Madam Julia Leong, Deputy Director of Insurance & Takaful Supervision Department, Bank Negara Malaysia. Madam Julia Leong congratulated ASM on the launch of the “Fellow of ASM” (FASM) designation, in which she feels is an important step towards ASM’s ongoing efforts to become a full-fledged professional actuarial body. She has also mentioned on the recently implemented Continuous Professional Development (CPD) requirement for

ASM's Fellow members, and how this is significant towards ensuring competencies in the industry. Finally, she talked about the current position of our

insurance and takaful industry in Malaysia and how the regulators and actuaries function together to ensure the financial strength and ongoing viability of insurance and takaful business.

The President of ASM, Patrick Cheah also gave an informative presentation (worth 0.5 CPD hours!) on the structure in ASM, the importance of each committee and sub-committee and the future plans to establish the society's standing internationally. He concluded his speech for the evening with a video of the 15th East Asian Actuarial Conference (EAAC) held in Seoul in 2009, giving everyone an insight on what to expect for the 16th edition of the

event in Kuala Lumpur next year.

The evening continued with the certificate presentation ceremony for FASM by Madam Julia Leong. A total of 70 members were awarded this designation, which is highly based on their experience and contribution in the industry over the years.

Dinner was generally a joyous time get-together time with colleagues and friends, along with the delicious 10-course Chinese Dinner. But that's not all! Everyone has an action-packed night with a few on-going competitions for the night.

First to be announced (way before the ASM Annual dinner) was the Theme Competition for the 16th EAAC, where a CATCHY and APPROPRIATE theme is needed. The rules were pretty simple: it must reflect the current market trends within the Asian region. This year's Annual Dinner has two table games – the Survival Simulation Game and Compound Sudoku. So, in between munches and bites, everyone were cracking their brains, trying their best to analyze and cooperate in order to win the games.

Finally, the event was at its climax when winners for the competitions, games and lucky draws were announced. Lim Kuan Hong from Bank Negara Malaysia won the Theme Competition with his catchy theme "Venture Uncertainty, Capture Opportunity". The first prize of the Survival Simulation Game was won by Great Eastern while Charlene Lee from AmAssurance Life walked away with gift vouchers as the first prize winner of the Compound Sudoku. Congratulations!

Everyone had a great and enjoyable moment during the night. Congratulations again to the winners of the night! And not forgetting a big thank you to the kind sponsors of the night; Munich Re Retakaful, JPWALL Consulting, TAS Search and NMG Consulting for their lucrative prizes and gifts! Last but not least, a special thanks to the ASM Committee Members who have worked hard to make the event a night to remember!

Looking forward to the next year's event, hopefully with higher turnouts from the members and more prizes to be won! ❖

Special thanks to Ozairi, the photographer for the night.

Fellows of Actuarial Society of Malaysia (FASM)

Congratulations to the following ASM members on receiving the Fellow of Actuarial Society of Malaysia (FASM) designation!

- Adit Triverdi
- Aiza Yasmin Benyamin
- Alex Foong Soo Hah
- Anusha Thavarajah
- Azim Khursheid Ahmed Mithani
- Chai Tze Siang
- Charlene Lee shen-Yi
- Chi Cheng Hock
- Chin Tze How
- Ching Ing Chian
- Gary Hoo Chun Hua
- George Kau Kong Hoi
- Gho Han Jaa
- Hassan Scott Odierno
- Heng Zee Wang
- Henry Tan Han Wee
- Hew Ee Lu
- Ho Lai Ying
- Jeremy Wall
- Johan Grundlingh
- Kang Yu Fen
- Kenneth Wong
- Khoo Han Chuan
- Khoo Poh Beng
- Lee Jiau Jiunn
- Lee Kok San
- Leem Why Chong
- Leo Ng
- Leong Su Yern
- Liew Pek Hin
- Lim Chin Har
- Lim Pei Bin
- Lok Hoe San
- Loke chang Yueh

- Mark Birch
- Matthew John Maguire
- Mohamed Hassan Bin Md Kamil
- Muhd Jamalul Alam B Mohd Isa @ Jefferey Zain
- Ng Hui In
- Ng Hui Ming
- Ng Lian Lu
- Ng Wai Leong
- Nicholas Yeo Chee Iek
- Nikolaos Stampoulis
- Nurul Syuhada Nurazmi
- Ong Kheng Heng
- Patrick Cheah
- Pearley Tan Lee Chin
- Raymond Lai You Kim
- Richard Holloway
- Seow Fan Chong
- Serena Thio Hui Ming
- Shafnieda Mohd. Iqbar
- Simon Lam Yat Tung
- Sophia Ch'ng Sok Heang
- Sreedhar Menon
- Steven Visvalingam
- Tah Pei Mei
- Tan Chin Szu
- Tan Chue Chau
- Teh Loo Hai
- Tony Cheong
- Tung Hsiao Ley
- Wan Saifulrizal Wan Ismail
- Wong Kang Yuan
- Yahya Adnan Ahmad
- Yap Chee Keong
- Yip Wai Kuan
- Yoon Yew Khuen
- Zainal Abidin Mohd Kassim


PERSATUAN AKTUARI MALAYSIA
ACTUARIAL SOCIETY OF MALAYSIA
Established 1975


Nicholas Yeo Chee Lek
Nikolaos Stampoulis
Nurul Syuhada Nurazmi
Ong Kheng Heng
PERSATUAN AKTUARI MALAYSIA
ACTUARIAL SOCIETY OF MALAYSIA
Established 1978
Full Member Association of the International Actuarial Association
This is to certify that having satisfied such requirements as are prescribed in the
Constitution of the Persatuan Aktuari Malaysia (Actuarial Society of Malaysia)
Patrick Cheah
was admitted as the
Fellow of the Actuarial Society of Malaysia (FASM)
on the Twentieth day of July
and Ten two thousand
By order of
President of the

Annual Dinner Opening Address by Julia Leong

Deputy Director of Insurance & Takaful Supervision Department

Bank Negara Malaysia

Mr. Patrick Cheah

President of Actuarial Society of Malaysia

Past Presidents of ASM

Members of ASM, ladies and gentlemen

1. Firstly, my director, Miss Yap Lai Kuen sends her sincere apologies that she is not able to attend this function and she has asked me to say a few words on her behalf. I am honoured to be here tonight to attend this year's Annual Dinner and to commemorate the launch of the "Fellow of ASM" designation.

2. I would like to congratulate ASM on the launch of the "FASM" designation tonight. This move by ASM is an important step towards raising the profile of the Society and its members, whilst recognising the responsibility that comes with being a Fellow member of the ASM. It is very much in line with ASM's ongoing effort towards becoming a fully fledged professional actuarial body – a journey that started with your entry into the International Actuarial Association as a full member since 2004. Without a doubt, this journey will be faced with many challenges, as is often the case for any voluntary organisation that relies on the dedication of its members to sacrifice time and effort. For this I would like to commend the current and past Councils of ASM for their dedicated service to the members and to the profession. The fruits of your labour are evident in your growing membership, which currently stands at 475 of whom 72 are Fellows.

3. I understand that ASM has also recently implemented a Continuous Professional Developmen requirement for all its Fellow members, with more stringent requirements for those in statutory roles. This is a requirement that should be taken seriously and be part and parcel of your professional lives as actuaries. Undoubtedly, this continuous professional development is the only route to ensure that your skills remain relevant to the current needs of your clients, and indeed of all stakeholders in the insurance & takaful industry. Therefore, I urge all of you to actively seek out opportunities to improve and update your competencies be it in terms of technical, professional or business expertise. I should also say that relevant experience and expertise is a key criterion when the Bank assesses a candidate for the role of Appointed Actuary or Signing Actuary, especially in the light of a rapidly changing operational and regulatory environment.

Ladies and gentlemen,

4. The insurance & takaful industry and its regulatory oversight continue to undergo changes at a pace that has picked up significantly since the global financial crisis. Whilst our insurance & takaful industry has remained resilient throughout this period, we are not insulated from the global forces of change that even now contribute to the uncertainty in the world's financial markets, as evidenced by ongoing discussions on whether there will be a double-dip recession, and on the future of the Euro area. These forces have prompted a strong response from banking and insurance regulators, in particular with proposed changes to the Basel framework, the expectation of higher capital requirements with Solvency II, and the increased emphasis on stress testing and scenario analyses. In addition, the recently published Exposure Draft of IFRS 4 Phase II will spur further debates on the measurement of insurance liabilities and the valuation of insurance businesses. As actuaries will be key players in the implementation of these new requirements, you will need to keep abreast of the latest developments and the implications for your employer or clients.

5. The Risk Based Capital framework is now in its second year of implementation and insurers have generally responded positively through better resourced risk management functions and increased capital adequacy ratios. The industry-wide Capital Adequacy Ratio stood at 242% at the end of the first quarter of 2010, well above the benchmark supervisory target of 130% set under the RBC framework. However, this is not a sufficient indicator of individual companies' financial strength – insurers are expected to have an internal target capital level that is appropriate to their own risk profile, and a capital management plan to ensure the adequacy of capital resources on an ongoing basis. On this front, we have also noticed substantial involvement of actuaries in the preparation of companies' stress tests and capital management plans. This is a positive development as you have much to offer in this area from your quantitative skills and your deep understanding of insurance risks. Going forward, we expect insurers to continue enhancing their frameworks for capital management and that actuaries will be a central part of this process. This is where your actuarial training and rigour can be brought to bear on ensuring the robustness of stress testing methodologies and assumptions, and your communication skills can also aid in the Board and Senior Management's understanding of risks and uncertainties.

6. Another area where actuaries continue to play a key role is in the development of products. Since the introduction of the "Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators", we have observed various improvements being made to the governance of the product development process including the setting-up of product development committees and more detailed policies for new products. In this regard, we expect Appointed Actuaries to play a key role in ensuring that product design and pricing are fair to consumers, and that the Board and Senior Management are adequately advised on all risks that new products will pose to their business. With the "launch-and-file" system in place, it is imperative that all aspects of a product are thoroughly assessed to avoid any need for recall or redress to consumers after the launch of the product. The Bank continues to place

significant reliance on Appointed Actuaries, to ensure that new products are fit-for-purpose and are appropriately priced.

Ladies and gentlemen,

7. Reliance on actuaries, along with external auditors, is a key feature in the Bank's supervisory approach under the Risk Based Supervisory Framework. This is only appropriate given the importance of actuarial inputs into the various processes that contribute towards ensuring the financial strength and ongoing viability of insurance & takaful business, as I have already outlined. Hence, it is vital that all actuaries that we approve to play these statutory roles possess the highest level of professionalism and the appropriate experience and expertise. In addition, this has to be underpinned by a level of trust that can only be gained and maintained through constant demonstration of these desirable characteristics of an actuary. For this to happen, there should be frank and open communication between actuaries and the Bank. Some of you may already have noticed our increased level of engagement especially when approving new Appointed and Signing actuaries, and even during renewals, as our way of "keeping in touch". This close rapport will be necessary for us as supervisors to remain on top of the emerging risks within individual insurers & takaful operators and across the industry as a whole.

Ladies and gentlemen,

8. I have heard the joke about having too many actuaries in one room. But tonight, I am pleased to note that the actuarial profession in Malaysia has grown over the years and is now quite sizeable. It is my hope that the ASM will continue to facilitate this growth and to ensure that the profession continues to play its valuable role in ensuring financial stability in our insurance and takaful sectors.

9. Finally, I wish you all the best as you pursue your goals and vision as the Professional Body for all actuaries here in Malaysia.

On that note, I wish you all an enjoyable dinner.

Thank you. ❖


Actuarial Society Of Malaysia
Persatuan Aktuari Malaysia
LIFE INSURANCE AND FAMILY TAKAFUL CONFERENCE 2010
13 - 14 DECEMBER 2010
ROYALE CHULAN HOTEL, KUALA LUMPUR
NEW LIFE NEW DECADE
Register by 15 October 2010
for Early Bird discount
Closing Date: 3 Dec 2010
Platinum Sponsor:
RGA
MLRe
Malaysian Life
Diamond Sponsor:
ReMark
Gold Sponsors:
South East Asia Committee
TAS Search
hannover life re
Endorsed by:
Munich RE
Retakaful

It has always been fascinating to be to be acquainted with the developments in the actuarial and insurance industry. Consequently, today's actuary is called upon to bring a wider perspective into their daily routine in additional to technical competencies. As a full member of the International Actuarial Association (IAA) and a leading actuarial organization in the South East Asian region, we are proud to organize the 1st Actuarial Society of Malaysia (ASM) Life Insurance and Takaful Conference in Kuala Lumpur, Malaysia on 13th to 14th December 2010.

The theme for this conference is "New Life New Decade". What would the new decade entail? What are the challenges and trend of the new decade? We have invited a list of experts in the industry, consisting of CEOs, CFOs, COOs, Appointed Actuaries and other distinguished speakers to share their views. Whether you are new entrant into the actuarial field or a seasoned actuary, this event would leave you with some insights on the new challenges and opportunities of the new decade and provide opportunity to network with your peers and industry leaders.

This conference would also serve as a run-up to the 16th East Asian Actuarial Conference that would be held in Kuala Lumpur in 2011.

Thus, on behalf of the ASM, I take great pleasure in inviting you to attend the 1st ASM Life Insurance and Takaful Conference in Kuala Lumpur, Malaysia which promises to be an interesting and exciting event.

We look forward to seeing you in Kuala Lumpur.

Liew Pek Hin

Organising Committee Chairman

LIFE INSURANCE & TAKAFUL CONFERENCE 2010

OVERVIEW

- **Welcome & Opening Remarks**

  By Patrick Cheah, FIA FASM, President of Actuarial Society Malaysia

- **Keynote Address**

  By Jessica Chew, Assistant Governor of Bank Negara Malaysia

- **Conventional Life Insurance/Family Takaful Industry for Next Decade**

  Chair Panel: Dato' Hassan Kamil, FSA FASM, Group Managing Director of Syarikat Takaful Malaysia Berhad

  - **Issues Facing The Life Insurance Industry Regionally and Globally**

    By Tony Cheong, FIA FSAS FASM, Chief Financial Officer of Great Eastern
  - **Issues Facing The Takaful Industry Regionally and The Way Forward**

    By Azim Mithani, FIA FASM, Chief Executive Officer of PruBSN Takaful

- **Changes to Distributional Channels and Alternative Distribution Channels for Next Decade**

  Chair Panel: Alex Foong, FSA FASM

  - ***Changes to Distribution and Channels and Alternative Channels for Life Insurance Industry***

    By Khor Han Heng, Managing Director South Asia Region of LIMRA & LOMA
  - ***Challenges & Opportunities - Direct Distribution as an Effective Channel to Increase Takaful Product Penetration in Malaysia***

    By Na Jia, FSA, Chief Marketing Officer of ReMark

- **Risk Management for Insurers and Takaful Operators**

  Chair Panel: Raymond Lai, FSA FASM, Chief Risk Officer of Uni.Asia Life

  - ***Risk Management for Insurers***

    By Jill Hoffman, FSA FSAS, President of Singapore Actuarial Society, Actuary at Munich Re
  - ***Financial Risk Management for Life Insurers & Takaful Operators***

    By Alan Yip, Vice President of Morgan Stanley

- **The Challenges in Life Insurance and Family Takaful for Next Decade**

  Chair Panel: Vincent Kwo, FSA FASM, Chief Operating Officer of MAA Assurance

- ***Educating Actuaries to Tackle The Challenges of the Next Decade in Life Insurance and Family Takaful***

  By Assoc Prof John Shepherd, FIAA, Macquarie University (Retired)
- ***Impact of Ageing Population and Lifestyle Changes in Role of Reinsurance & Retakaful for Next Decade***

  By Peter Tan, FIAA, General Manager of RGA Global
- ***New Directions in Micro Insurance***

  By Stephen Cotham, ACII, Products, Distribution & Markets at Towers Watson

- **Breakout Session – Conventional Insurance**

  Chair Panel: Frank Mclnerney, FIA FIAA FSAS, General Manager of Gen Re
  - ***The Way Forward – M&A***

    By Mark Saunders, FIA FASI FSA, Managing director of Towers Watson
  - ***Annuities in the Next Decade***

    By Dieter Kroll, DAV, General Manager of Hannover Life Re
  - ***Making Commercial Sense of Life Insurance for Shareholder and Customer***

    By Mark Godson, FIA, Actuarial Consultant of Ernst & Young

- **Breakout Session – Family Takaful**

  Chair Panel: Tobias Frenz, DAV, Chief Executive Officer of Munich ReTakaful
  - ***Evolution in Takaful Model***

    By Zainal Kassim, FSA FASM, Managing Director of Mercer Zainal
  - ***Product Development in Takaful***

    By Jeffrey Zain, FSA FASM, Appointed Actuary of Takaful Ikhlas
  - ***Shariah Board***

    By En Ezamshah Ismail, ASA, Secretary Shariah Advisor Council, RGA Global Re Takaful

- **Closing Remarks**

  By Liew Pek Hin, FSA FASM, Chairman of Organizing Committee, Life Insurance and Family Takaful Conference

WHO SHOULD ATTEND?

- CEOs, COOs and CFOs of Life, Composite and Takaful Insurance companies
- Actuaries
- Professionals serving the Insurance Industry

For more information on the Conference and speakers' profile, please visit www.actuaries.org.my

Malaysian Motor Insurance: Bodily Injury Reform

Chong Wan Leng & Gary Hoo

This article was first published in the August 2010 issue of Asia Insurance Review

Overview

Malaysians, whether residents of the city or its rural areas, regard commuting with one's own motor vehicle an essential part of their daily lives. It is unsurprising then that motor insurance forms the bulk of Malaysian general insurers' gross premiums (about 45%). However, insurers are restricted by the motor insurance tariff which has not been revised since 1978. Statistics show that the premiums collected by motor insurers (capped by the tariff) are inadequate to provide for claim payments in recent years as claims costs keep increasing with inflation. The situation is further exacerbated by high levels of no-claims discount (up to 55% discount for 5 claim-free years), causing further strain to already underpriced premiums.

The Problem

A substantial loss making component of motor insurance is the Third Party Bodily Injury and Death ("TPBID") cover, which has unlimited liability. Cover is mandatory for all motor vehicles as stipulated under the Road Transport Act 1987 (the "Act"). It is sold together with Third Party Property Damage ("TPPD") cover as a Third Party policy. Motorists desiring additional coverage may opt for a Comprehensive policy instead which covers Own Damage and Theft in addition to TPBID and TPPD.

Based on our experience in the Malaysian market, recent motor claims experience is as follows:

Motor Classes	Motor Act	Motor Non-Act
Claims Frequency	0.5% to 0.8%	4% to 10%
Claims Severity	RM 10,000 to RM 20,000	RM 3,000 to RM 5,000
Loss Ratio	200% to 300%	55% to 65%

"Motor Act" refers to the TPBID component mandatory under the Act, whilst "Motor Non-Act" includes all other components not mandatory under the Act (such as TPPD and Own Damage). The overall Motor loss ratio is typically between 70% and 80%.

Factoring in commissions payable to insurance agents (10%) and administrative costs (15-20%), general insurers are at break-even or suffering underwriting losses from their motor business. Low investment yields do little to provide relief and along with the regulatory Risk-Based Capital requirement to maintain reserves at 75% adequacy (TPBID claims are long-tailed and take years to settle), several general insurers in Malaysia have decided to drastically cut down or even stop underwriting motor insurance.

An unprecedented number of motorists have been forced to seek help from the insurer of last resort – the Malaysian Motor Insurance Pool ("MMIP") – for insurance cover at significantly higher premiums in order to fulfil their mandatory motor insurance obligations. To avoid these substantial premiums, some motorists have resorted to operating their vehicles without valid road tax certificates (in Malaysia, a motor vehicle must be properly insured before its road tax can be renewed each year). Consequently, these uninsured motorists may not have the means to pay should they cause an accident.

The Solution… Actuarially

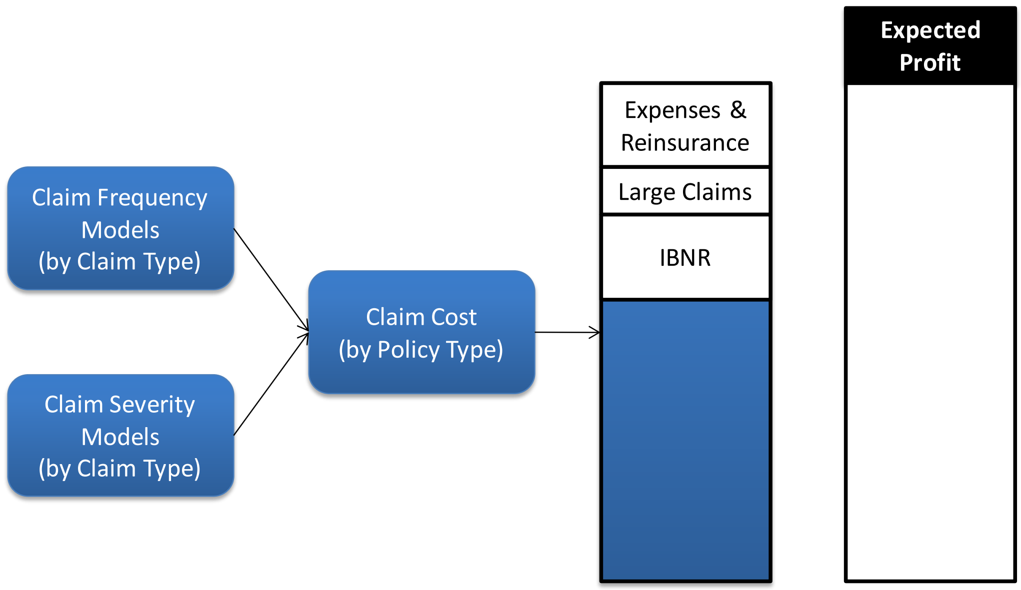
The situation can be remedied by reviewing the existing motor tariff to better reflect the true cost of claims, or removing the tariff to allow market forces to set premium rates – however, this assumes insurers have the required expertise and an interest in the equitable treatment of policyholders for it to work.

In concept this sounds straight-forward and sensible though the situation may be too delicate for such a quick fix. In the present environment, owners of older motor vehicles (who are generally poorer and buy Third Party policies) are being highly subsidised by owners of newer motor vehicles (who generally purchase Comprehensive policies). If the tariff were to be reviewed or deregulated, such premiums are expected to increase significantly for Third Party policies. This would result in creating considerable burden on motor vehicle owners in the lower income group, many of whom own older motor vehicles and live in more rural areas.

Deregulation may also catch many insurers unprepared as it is not easy to derive technical premium rates for motor insurance. The risk factors involved can be numerous, based on characteristics of the insured (e.g. age or gender), the vehicle (e.g. sum insured or make/model) and other aspects (e.g. usage of vehicle). These factors may be integrated into the pricing of motor insurance premiums using generalised linear modelling ("GLM"), a method widely accepted internationally though not yet commonly used among actuaries or insurers in Asia.

Using GLM, the effect of each rating factor may be separately identified, analysed and quantified into relativity factors, which will then be used to determine premium rates for individual risks based on their profiles and risk characteristics. To construct such a motor rating model, claims frequency and claims severity by claim type (e.g. Own Damage, TPPD, TPBID) are modelled and subsequently combined to calculate the expected cost of each claim type followed by the expected claims costs of each policy type (e.g. Comprehensive, Third Party). Allowance for expenses and the cost of reinsurance as well as the desired profitability will be factored in, along with provisions for IBNR and large claims.

The rating process can be summarised in the following diagram:



Bank Negara Malaysia's Proposed Solution

The Malaysian insurance industry's regulator, Bank Negara Malaysia ("BNM"), recently proposed an alternative solution to the loss-making TPBID problem.

BNM's proposition is to restructure the current motor policy and to make available a basic motor cover as the bare minimum for everyone, similar to the existing Third Party policy which covers TPBID and TPPD. However, an overall liability limit will be imposed to allow for the reasonable pricing of premiums. Consumers will have the option to purchase additional protection over the liability limit and to purchase comprehensive coverage against Own Damage, Theft, etc.

BNM has envisioned 2 possible variations to this proposed scheme. The first enforces a fixed scale compensation for claims so existing premiums may be maintained at current levels. This would reduce the involvement of lawyers whom many insurers feel have contributed to the increase in claims litigation and overall claims cost. The second variation would require a slight increase in premiums, with the current compensation system for claims (involving the legal system) retained but with an overall liability limit imposed.

At the time of writing this article, the proposal is still under review by BNM after comments from the public were recently received. Insurers were generally supportive of BNM's proposal as it addresses their main worries of profitability, while certain legal professionals understandably preferred the second variation described above. Motorists were naturally concerned with any increase of premiums.

Meanwhile…

Insurers in Malaysia have in recent years found it necessary to apply maximum loadings as allowed by the tariff in order to minimise losses. Our understanding is that most insurers have exhausted this option with no further room to increase loadings, and yet still continue to suffer poor underwriting results.

In view of this, insurers have resorted in finding other ways to combat the premium inadequacy. One such means is the selling of compulsory driver's personal accident insurance (which we understand to be profitable) together with motor insurance to collect more premium. However BNM has taken steps to ensure that insurers do not force-sell or make it compulsory to purchase this additional coverage.

Many insurers have restricted the selling of Third Party policies, offering Comprehensive policies instead with a fixed minimum sum insured (e.g. RM 10,000). This allows the insurer to collect more premiums but may prove unfavourable to consumers if the vehicle is under or over-insured. In the case of under-insurance, the insured would receive insufficient compensation should they make an Own Damage claim in the future, although they would be adequately protected for TPBID and TPPD claims. Over-insured motorists (typically with older vehicles) would be paying excessive premiums.

Moving Forward

The insurer's objective is to achieve sustainable growth while underwriting prudently and profitably. The current TPBID system in Malaysia poses a formidable hurdle as it continues to cause losses due to inadequate premiums. Should the government and the insurance industry continue to subsidise the poorer population or should the market move towards a risk-based pricing approach? In any case, we are of the view that any changes that take place should be rolled out progressively and systematically, to enable a gradual transition for all parties involved. ❖

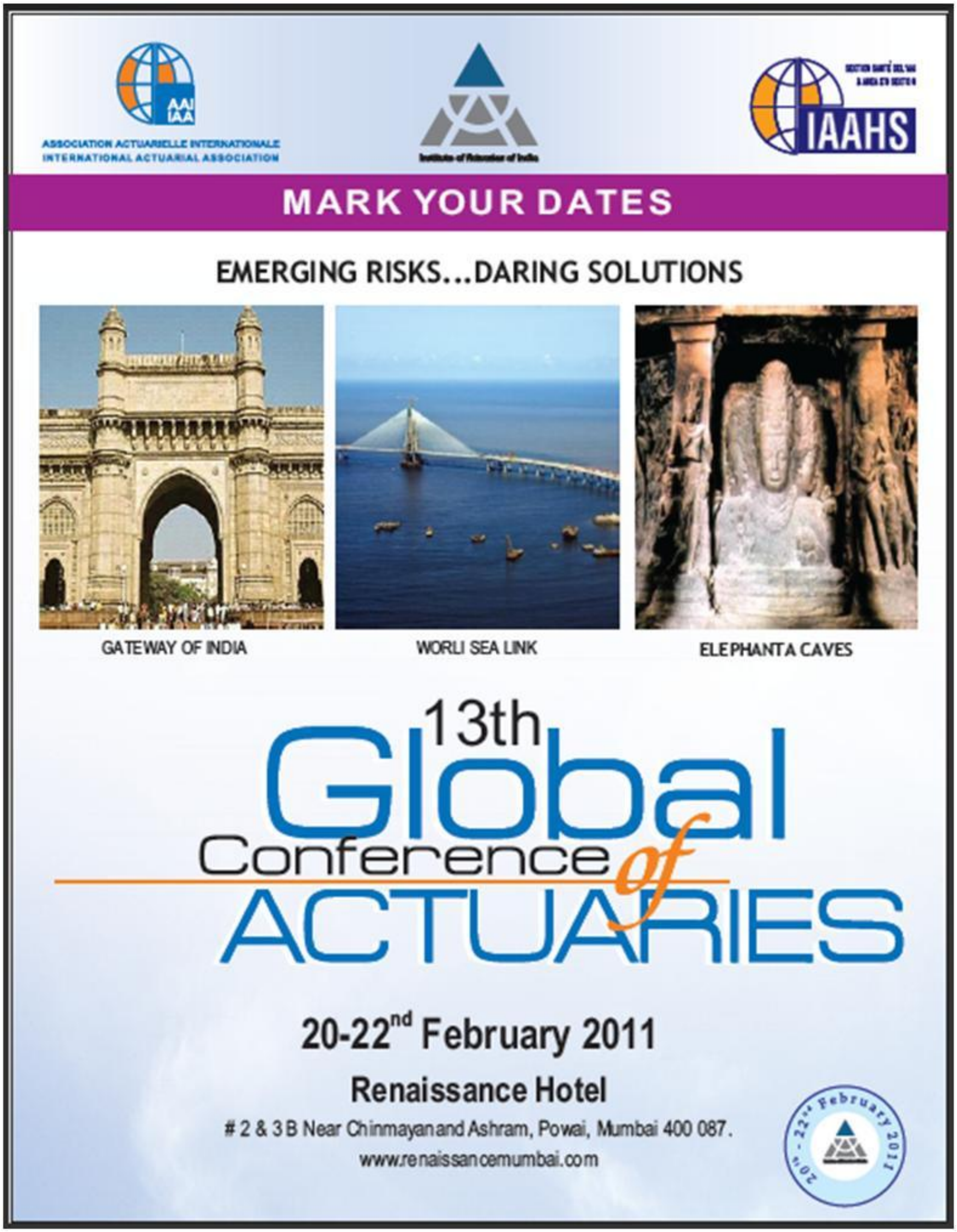
About JPWALL

JPWALL provides merger & acquisition advice, actuarial consulting and customised software solutions to the general insurance industry across the Asia-Pacific region.

Supported from local operations in Hong Kong, Malaysia and Singapore, JPWALL works with clients to achieve profitable growth through improvements in business performance and stronger risk management capabilities.

JPWALL Malaysia is the largest general insurance actuarial practice in Malaysia.

For more information visit www.jpwall.com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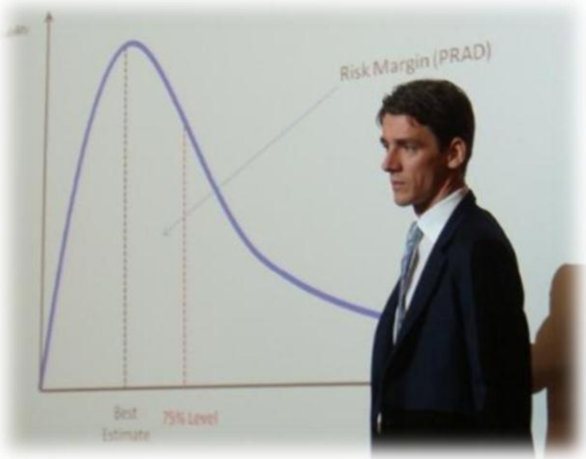

General Insurance Actuarial Program 2010

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The annual General Insurance Actuarial Program by JPWALL Consulting Partners was successfully organized on the 23rd and 24th of September 2010. The two-day program designed to equip the participants with the knowledge and tools to understand and apply various aspects of actuarial science to real-life problems in general insurance took place at the Kuala Lumpur Convention Center.

The workshop was conducted by Jeremy Wall and Gary Hoo, both of whom have extensive experience in general insurance. During the whole course of the program, all 41 participants were introduced the theories and concepts of various actuarial practices in the general insurance industry. General Insurance Reserving and Risk Margins were covered on the first day while Pricing, Generalized Linear Modeling (GLM), Risk Based Capital (RBC), and Stress Testing (which is part of Capital Modeling) were covered on the second day.

The first day of the seminar kicked off with a short ice-breaking session as the speaker welcomed the participants by company. After that, the participants were given a brief introduction to the general insurance industry and the basics of loss reserving. Different reserving methods such as the Chain Ladder (CL) method, the Expected Loss Ratio (ELR) method, and the Bornhuetter-Ferguson (BF) method and the concepts behind each method were introduced to the participants.

Before progressing to the second session of the day, there was a short morning tea break. The second session, Risk Margins, was apparently the topic most participants were looking forward to.

During this session, participants were introduced to a lot of actuarial jargons such as Claims Liability, Premium Liability, Unearned Premium Reserves (UPR), Unexpired Risk Reserve (URR), and Provision of Risk Margin for Adverse Deviation (PRAD). The more common methods used to estimate PRAD in Malaysia such as Mack Method and Bootstrapping Method were presented. A sample Mack Method worksheet was also shown to the participants.

Lunch was served shortly after that. It was a good time for the participants to socialize especially with people from different companies. After a hearty meal, the seminar continued with a workshop to provide the participants an opportunity to apply the knowledge that they gained earlier that day. During the workshop, everyone was given a set of reserving problems to work on. Small groups were formed for discussion purposes. Two analysts from the JPWALL team were available to provide assistance to the participants. After several minutes of number crunching, a representative from every team announced the IBNR that they had arrived at. All the answers were written on the board for comparison purposes. It was interesting how different teams came up with different numbers even though they were given the same set of problems. The teams whose values were far from the mean value were invited to share their judgments and thought processes.

The workshop was followed by an afternoon tea break and Session 4. The last session of the first day was about dealing with practical reserving issues. This session explored possible real-world scenarios in the area of reserving such as loss reserves estimation for new companies or new products, explicit discounting, and claims escalation. The impact of change in claims reserving practices claims settlement, premium rates, and underwriting on loss estimation were also discussed.

The second day started with Session 1: Introduction to Pricing Methods & GLM where the participants got exposed to the basic factors considered and methods used to determine appropriate premium rates when performing a motor or medical pricing. It was truly an interactive and stimulating session as Gary opened the floor to the participants to share their thoughts, ideas, and experiences. After the morning tea break, Session 2, a workshop on Pricing was conducted where participants were asked to price a Personal Accident Product with Critical Illness coverage given a sample scenario.

Like the first day, lunch was served after the second session of the day. It was also buffet style with a wide variety of amazing food and drinks. It was noticed that some participants mingled around while some preferred to hang out with their circle of friends.

The program continued with Session 3 which was on RBC, Stress Tests & Internal Capital Targets at around 3pm. During this session, the participants were exposed to the capital requirement of insurance companies in Malaysia, Capital Adequacy Ratio (CAR) and its components. The participants were brought into the world of Stress Tests as examples of risk factors used for stress testing, assumptions, and the impact combination of risk events were presented. The 2-day program wrapped up with a Stress Tests workshop where participants were given the task to fill in the blanks in financial statements such as the Projected Revenue Account, Projected Balance Sheet, and Projected Capital Adequacy Ratios based on certain assumptions.

At the end of the day, the participants were presented a certificate of participation and a gift as a token of appreciation for their participation.

Personally, I find the General Insurance Actuarial Program educational especially to those who wanted to get a feel of actuarial practices in the general insurance industry on a practical level. Besides, the group discussions during workshops definitely facilitated the learning process and gave meaningful insights to the participants. The opportunity to network with great people from different backgrounds made the experience even more amazing. ❖