

Malaysian Actuary

FOR INTERNAL CIRCULATION ONLY

Message from the President

By the time you receive *Malaysian Actuary* Issue 3, the term of the current EXCO would have almost come to an end. I think it is an opportune time to share with all of you what I think as important issues for ASM going forward. This may also serve as a roadmap to the next EXCO.

The most important area that the ASM should focus on, in my forward-looking opinion is in the area of professionalism. We embarked on the journey a year ago to “convert” ASM from a “social club” to a true professional body. While we have made some small achievements, I think we are still moving too slowly. With the implementation of RBC in a few years time, actuaries will need to stay ahead of the game by preparing themselves with new skills. The recent workshop in “Setting Assumptions in a Volatile World” hopefully highlights the fact that not only actuaries are required to put a figure on “best estimate” as

it is the case now, moving forward we will need to be able to quantify based on a specific degree of conservatism. In statistical terms, we have been dealing with “mean” in the past, going forward we will have to deal with “standard deviation” as well. This shouldn’t sound daunting with the training that we have gone through, but in practice it is not as straightforward. Malaysian actuaries will get more heavily involved in new techniques like stochastic modeling.

With the implementation of RBC, we will see tremendous changes in General Insurance. Currently non-actuaries are allowed to certify the reserve for General Insurance. This is possibly and partly due to the inadequate number of general insurance actuaries in Malaysia. With the normally more stringent requirements under RBC such as setting reserve at 75% confidence level, going forward professional with specialized skills are required to perform the tasks. Actuaries are well positioned to take on this challenge, as evidenced in other developed countries elsewhere. The challenge to Malaysian actuaries is how quickly we can rise to the occasion by equipping ourselves with the necessary skills and experience before we accept the

task. In compliance with Paragraph 3.3 of our Professional Code of Conduct, all of us must be satisfied of our personal competence in the area before we provide actuarial advice. ASM has an important role to play in the next 12 months to help our members to gain the knowledge and competencies in order for us to be in the position to provide actuarial advice on general insurance matters.

The other area I foresee to develop in the coming year is our own Malaysian Actuarial Standards. Currently Malaysian actuaries are guided by guidance notes and professional standards issued by their respective professional bodies as well as guidelines issued by the regulator. The time is ripe for us to issue our own guidance notes or standards to cater for the local specific requirements.

Before I sign off, let me take the opportunity to thank my EXCO members, sub-committee members, task force members, the editorial team and all members who have helped in one way or another in the running of ASM in the past year. I hope you can continue to extend your assistance to the incoming new EXCO.

Hong Kong - City of Life

A Year Ago... Hong Kong, the City of Life, was transformed from a city bustling with activity to a ghost town on the 2nd of April 2003 when the World Health Organization (WHO) issued a recommendation that all but essential travel to Hong Kong should be postponed.

Overnight restaurants, hotels and shops were devoid of customers. Where once it was a battle to walk the streets of Hong Kong thronging with people, now only a few brave, mask-wearing souls dared to walk those same streets. Nothing was immune to the touch of SARS. Even commuter trains normally packed with people at any hour of the day departed a deserted and desolate Central station on Saturday night devoid of any passengers on their long and lonely journey to the New Territories.

While Hong Kong braced itself for the worst, product actuaries worked late into the night developing products to provide SARS benefits. It is remarkable how rapidly products were developed and launched. Within

two weeks of the WHO travel advisory at least ten life insurance companies were offering products that included SARS related benefits.

Some examples of the benefits included in the SARS products are:

- Hospital income products providing a daily income in the event of hospitalization where the benefit is enhanced and/or waiting period is reduced if hospitalization is due to SARS.
- Products offering a weekly benefit in the event of quarantine as a result of SARS under the relevant Hong Kong legislation.
- Waiver of premium benefit if hospitalization in Intensive Care occurs as a result of SARS.
- Enhanced death benefits if SARS is the cause of death.

At the time the products were developed, the magnitude of the SARS impact was uncertain. Consistent with prudent risk management practices, the "innovative" SARS products in the market were only offered for a limited period (one to three months).

The initial SARS mortality rates that were reported in the news were grossly understated. Initial mortality rates were quoted as 3% - 5% as no consideration had been given to the additional deaths that would arise in the future due to

the currently known infections! Using more appropriate methods, the mortality rate was estimated to be 16%.

Life today... For many, SARS is a distant memory (although as this article is being written two cases of SARS have been reported in Beijing!). Despite SARS, the insurance industry maintained steady growth in new business in 2003. New office premiums increased by 23.5% over 2002. Claims generated by SARS only had a limited financial impact on insurance companies and many achieved record earnings in 2003, largely due to improving investment markets. For example, investment returns of over 50% were achieved from the Hong Kong equity market. This has certainly been a relief for the insurance industry after three continuous years of negative equity returns.

Restaurants, hotels and shops are again overflowing with tourists and business travelers. Tourist numbers have rebounded with a vengeance and hotel occupancy rates in November 2003 reached a high of 92% from single digit lows during the SARS crisis. Again one must brave the tide of humanity walking the streets of Hong Kong, queue for seats and pay higher prices in restaurants.

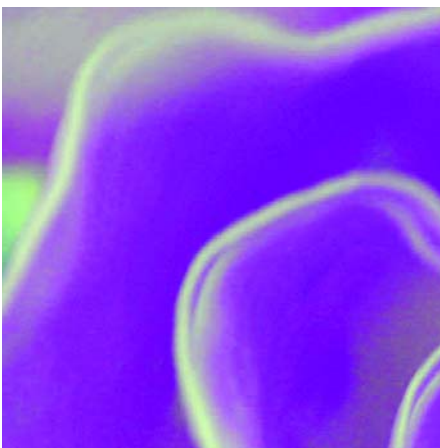
The insurance industry is also benefiting from the post-SARS relaxation of travel restrictions for Mainland Chinese who travel to Hong Kong. The Mainland visitors are eager to spend in

Hong Kong - City of Life cont'd

Hong Kong where genuine and better quality products can be purchased. Their shopping list includes Louis Vuitton handbags, Versace shirts, Christian Dior cosmetics, and yes, insurance products! There are no hard figures, but it is estimated that purchase of insurance products by Mainlanders account for some 30% of new business sales for some insurance companies.

However, for some, SARS has been more than just an aberration. This is particularly the case for the health and medical workers in Hong Kong who suffered the most during the crisis. And, it looks like this has not yet come to an end. Reinsurers in Hong Kong have given notice that they will no longer provide health insurance for employees in the medical professions. This decision affects private hospitals, homes for the elderly and many private clinics. The strange thing about insurance is that it never seems to be available when one needs it most....

The Actuarial Society of Hong Kong



Society of Actuaries Education Redesign Update

Since the education redesign change in 2000, as SOA exam takers, we will once again have to embark upon another new chapter in SOA education redesign. Effective from January 1, 2005, SOA will implement its new education system gradually. To ensure smooth transition, current courses will be extended up to 2006. This means there will be two different education systems held parallel to each other between those dates.

Currently, SOA Education force has finalized most of the education design structure, conversion rules and implementation plans. Ongoing hiccups are inevitable as part of the change process but as shown in the past, emerging issues will be dealt with professionally by SOA.

What do we have to do to become a full fledge Associate or Fellow then? For Associateship designation, the candidate must complete Preliminary Education requirements, Fundamentals of Actuarial Practice (FAP)

Course and Associateship Professionalism Course (APC). As for Fellowship designation, the candidate must complete 2 practice-specific examinations, several e-learning modules, a capstone module, a seminar and lastly, the Fellowship Admission Course. Interestingly, for the Fellowship specialty track, there may be a new Enterprise Risk Management track created from the Finance Track.

According to SOA, the redesign is to overcome weaknesses in the current system as well as to meet the demands for near-reaching international guidelines, and the evolving and ever increasing demands on our actuarial profession.

Other benefits of new system over old include:

- E-learning facilities which are a good solution for international exam takers. Currently only PD components allow non-traditional exam approach.
- ASA components will be self-paced and available on demand. This would be good for scheduling of exams depending on student availability. Computer-based testing may be introduced to make the probability exam more frequent. It is also designed for candidates to complete a substantial number of ASA modules by the time the four preliminary education exams have been passed.
- Reduce overall travel time for

Society of Actuaries Education Redesign Update cont'd

ASA designation, approximately at half way point to FSA. Factors influencing are flexibility in ASA on-demand exams and a shift in some Course 6 materials to FSA level. This however does not change the requirements of Appointed Actuaries in Malaysia, unlike North America requirements, as FSA is the minimum qualification.

- More practical applications early in career where process will be made more relevant to actuarial practice. This will better prepare actuaries for the future. There will be more practical and nation-specific material tested which is currently inadequate for those working outside of North America practice area.
- Make use of available university credits for accredited institutions. This allows educational experience to be used to validate certain subjects.
- Testing what is relevant and more practical application. Simple assumptions in traditional formulas may not be practical in real life situations. For example, theoretical continuous exponential distribution versus practical discrete distributions. Traditional testing may create a bottleneck if it does not allow SOA to change based on market demand.

Possible drawbacks from the redesign includes:

- Delay in mathematical testing. For new exam structure, mathematical testing will be indirectly in the fourth exam while current exams test candidates earlier. Delay may not be an issue if the standards are set at par with the current education system.

Basically the SOA education structure needs to evolve to meet changing demands in actuarial practice. SOA's new education redesign benefits to Asian candidates and Asia's readiness for the changes are still uncertain as the changes are primarily for North America initially. Hopefully we can raise emerging issues and make the best of these changes in times to come. At best, our profession will survive the next millennium if we continually address and change to meet the evolving demands on our profession. Until the next SOA update, good luck in all your exams.

A summary of the new education redesign is available in the web site as follows

SOA web site:
<http://www.soa.org/eande/index.asp>

Education Redesign Update & Final Conversion Rules

Summer 2003 Report to the Membership

Eng Yuan Choong

Actuarial Meeting: Setting Assumptions in a Volatile World

Due to the changing and often volatile economic landscape, the use of time honoured methods may require updating. Coupled with the fast paced developments in product design and the requirement to hold adequate amounts of capital for the risk being borne by insurers, actuaries may need to employ more dynamic methodologies in assisting key decision makers in addressing the conflicting issues of risk and capital, amongst others. The introduction of dynamic solvency testing and risk based capital in Malaysia will require actuaries to move from looking at fixed assumptions for elements like mortality, investment return, expense, lapses etc., to those



Encik Hassan Scott: the Mortality expert



Mr Tony Cheong: the Investment Return advisor



Seminar in progress



Lunch break

Actuarial Meeting: Setting Assumptions in a Volatile World cont'd

that incorporate volatility.

With this in mind, the Professional Committee and Event Committee of Actuarial Society of Malaysia (ASM) jointly organized the following event on 31 March 2004:

“Actuarial Meeting: Setting assumptions in a Volatile World”

This was the first step taken by ASM in the process of developing appropriate guidance for actuaries in setting these and other assumptions.

Presenting at this meeting were two distinguished actuaries practising in Malaysia, who covered methodologies in setting assumptions for:

Mortality - Hassan Scott Odierno
Investment Return - Tony Cheong

The session was moderated by another distinguished actuary, i.e. Danny Quant.

This meeting was well received by the members, with a total of 58 members joining the event.

Sophia Ch'ng

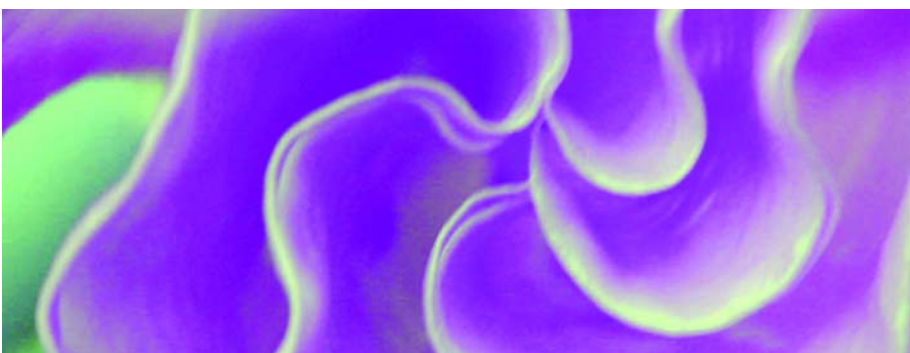
ASM Exam Techniques Seminar

ASM held their very own ‘Exam Techniques Seminar’ on 28th February 2004 in the cool highlands of Awana. The overall objective of the seminar was to give an insight into exam preparation and answering techniques from those who have ‘been there and done that’.

It was a splendid afternoon despite the nauseating feeling I got on the way up. However, after breathing in the fresh air and downing lunch from a sumptuous buffet spread, I felt revitalized and ready to sit through the seminar.

The group consisted of 3 speakers, 1 moderator and 20 attendants. The 3 speakers were the ASM president himself, Teh Loo Hai (FIAA, Great Eastern), fellow committee member, Aiza-Yasmin Benjamin (FIA, Mercer Zainal Consulting) and Jeffrey Zain (FSA, IppAdvisors). The moderator was Loo Boon Teik (FIA, Prudential Assurance (M) Berhad).

Teh Loo Hai (speaker for IAA exams) gave tips on the order and style of answering exam questions. He, having been a past marker pin-pointed some



ASM Exam Techniques Seminar cont'd

common faults made by students and what he as an examiner would prefer, adding the hint that the role of a marker can be frustrating if the answer is not clear or justified. Imagine being locked in a room having to mark exam papers the whole day! (Moral: Never, never, never keep examiners in suspense and try to make their job as easy as possible.)

Aiza (speaker for IOA exams) stressed the importance of memorizing your bookwork. You would be surprised that it takes up 25% of the total examination marks which she called 'gift

marks'. Also, active studying techniques should be adopted during the exam preparation process. (Moral: Know your bookwork and stay motivated)

Jeffrey emphasized on the psychological preparation towards exams and on the day of the exam. How many actuarial students do you know have passed without failing before? And how many encounter a 'mental block' on the exam day? (Moral: Put past failures behind and look ahead)

There was a Q&A Session after the 3 presentations and before we knew it, time was up! I was

pleased that the seminar was fast-paced, informative and didn't drag on. I personally felt more confident and was psychologically ready and motivated to go home and start preparing for my exams with those useful techniques I've picked up during the seminar. The only thing I was dreading was the journey back down!

If ASM holds another 'exam technique seminar', I encourage all ASM members to attend. If you never go, how would you know whether it's useful or not?

Diana Foong

Good News for all IAAust Students

The Education Sub-committee recently wrote to the Institute of Actuaries of Australia (IAAust) to request for the 90% discount on Part I and II exemption fees and Part III examination fees be extended to all students in Malaysia regardless of the status of their employers. We are pleased to announce that IAAust has approved our request.

Previously, only students who are employed by local companies were entitled to the 90% discount on Part I and II exemption fees and Part III examination fees.

In response to a survey conducted in September 2003, the Education Sub-committee took the initiative to request that IAAust extend eligibility of fee relief to employees of international companies as well. A recommendation was then put forth to the International Committee of IAAust and it was subsequently approved.

We hope that the change in the fee relief structure will benefit our ASM members.

The extract here shows the updated fee relief eligibility criteria:

Updated Fee Relief Eligibility Criteria:

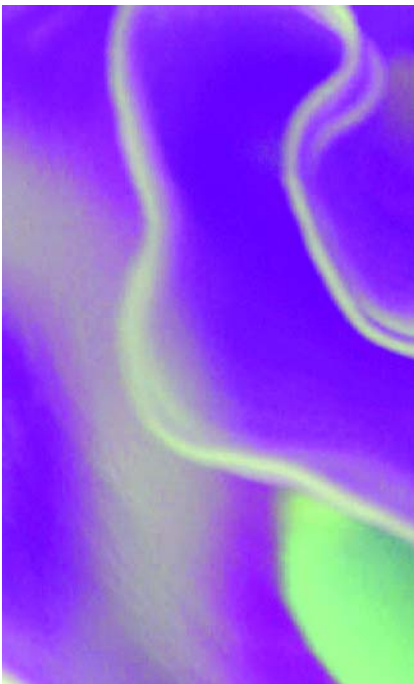
1. The candidate must be a current full-time resident of a qualified emerging country (a complete list of qualified countries can be provided on request).
2. The candidate must attest that he or she is personally paying for the enrolment/exemption fees and that he/she is not being reimbursed by an employer, or a company or other individual or entity.
3. The candidate's salary must be in local currency.
4. The candidate may attempt the same examination no more than three times under the fee relief program.

*Good News for all IAAust Students
cont'd*

Any member who satisfies the above criteria is eligible to pay only 10% of the exemption/Part III course fees (this does not include textbooks).

Ngam Wai Sum

For more information, please visit www.actuaries.asn.au (Members section).



Singapore Update

At the annual general meeting of the Singapore Actuarial Society, held on 5 Mar 2004, there was a change of guard as Mr Tan Beng Lee stepped down from the Presidency, after 3 years at the helm, and Mr Steve Miles stepped up from the Vice-presidency, to take his place.

Mr Andrew Linfoot, who had a year ago returned to Singapore, after spending a few years in Germany, was elected Vice-president.

Chi Cheng Hock

News from University of Malaya

University of Malaya is proposing to introduce an Actuarial Science programme for the coming intake in June 2004. The undergraduate programme will take 4 years to complete and successful graduates will be awarded a BSc in Actuarial Mathematics and Finance. The course will follow the syllabus of the Society of Actuaries of America (SOA) quite closely, and aims to prepare students for Course 1 to Course 6. The university also intends to invite speakers from the insurance industry to help students with Course 7. The first batch of actuarial students is expected to graduate in 2007.

Khoo Poh Beng

Note From the Editorial Team

Time has indeed flown by. We are at the end of the term of the current EXCO, and with it we have seen 3 issues of the Malaysian Actuary.

This issue may not be as 'colourful' as the last, but we have included a special 'ASM Trivia' that may be of interest. Who knows, you may be the lucky one to win the Starbucks vouchers up for grabs! We hope that you will have as much fun thinking about the answers, as we have had drawing up the questions!

It has been our privilege to share the going-ons in ASM and to bring you the regional updates on the actuarial profession. We would never have done it without all your contributions- and for these you have our heartfelt appreciation and thanks.

The Editorial Team for 2003/2004 is signing-off now; best of luck to the incoming Editorial Team!

Editorial Team 2003/2004

Tung Hsiao Ley
TungHsiaoLey@lifeisgreat.com.my

Chan Sook Yian
csy@jhancock.com.my

Brosnan Lim
BrosnanLim@lifeisgreat.com.my

ASM Trivia

Win Starbucks vouchers worth RM 50!!

Just answer the questions below - you will need to surf the ASM website to figure out the solutions: try the articles, documents, or any information posted on the website!

The first all-correct answer to reach the Editor at TungHsiaoLey@lifeisgreat.com.my by noon on Friday 28th May 2004 wins! Happy Surfing!

Trivia questions:

1. Fellowship of the Ring less one. The same number led us in 2003/2004- name them all.
2. In the last issue in January,
Open your eyes and you will see,
Careers 4 U at PWTC,
Which profession came after the Actuary?
3. What happens in the Land of the Midnight Sun in June this year?
4. East met West here in 1989.
Who else met there in Nov 2003?
5. Summer School venue in the home of the Matterhorn.
6. Vodafone does this for Manchester United, as does Siemens for Real Madrid. Who are doing the same for the podium positions in the research race?

Rules & regulations:

This contest is open to all ASM members; except the Editorial Team and those who assist with the posting of the Malaysian Actuary on the ASM website.

- ii. Only 1 entry per person is allowed- please include your Name and IC number in your entry. Only entries submitted by e-mail to the above address are accepted.
- iii. The judges' decision is final. Late entries will not be accepted.
- iv. The deadline for this contest is 12 p.m. on Friday 28th May 2004.

