

ASHK Hong Kong Actuarial Summit 2020

“Embracing the New Future”

25 November 2020

Welcome Address by Dr Moses Cheng

Chairman of Insurance Authority

Peter¹, distinguished guests, friends & colleagues, ladies and gentlemen, Good Morning!

It is my great honour and privilege to join all of you here as well as virtually at the inaugural Hong Kong Actuarial Summit. Though we could not gather in person, our common objective remains unchanged: that is to gain insights into the future development of the actuarial profession and the insurance industry. I would like to extend my sincere appreciation to ASHK for overcoming various logistical challenges posed by the COVID-19 pandemic and in making this event possible.

And I would like to congratulate the organizer for choosing the very clever and timely theme “Embracing the New Future”. We used to believe that the future is best told by methodical analysis based on experience, or more precisely put, past data. However, enormous changes that took place over the past 11 months have demonstrated the limitation of this postulation as what we are now facing is truly unprecedented. I am no clairvoyant, but it might be useful for us to examine two powerful tools in coping with uncertainties: professionalism and optimism.

¹ Mr Peter Duran, President of Actuarial Society of Hong Kong

Now, let me firstly look into “Professionalism”. I know that Peter will be moderating the fourth plenary session tomorrow on the topic of “professionalism” and I am therefore mindful not to steal his thunder.

It is the lifetime commitment of insurance and actuarial professionals to effectively identify, manage and mitigate risks. The simple fact that close to 80% of ASHK members are employed by insurers or reinsurers speaks volumes of this relationship. Looking back in history, the two professions have always been shadowing each other. For centuries, actuaries spent their best years to produce reliable mortality tables and sophisticated forecasting models. When insurers began to immerse deeper into the capital market, actuaries evolved to specialize in asset and liability management as well as dynamic solvency testing. It is fair to say that actuaries are performing a dual role as the mastermind of insurers in mapping out corporate strategies and the sentry of regulators in ensuring that discipline and prudence are adopted when doing business – a true display of professionalism at work.

Having been involved with the promotion of good corporate governance for decades, I can testify that pursuing excellence should be a habit rather than a choice. The ASHK is rightfully proud to have upheld professionalism for over 50 years and played no small part in nurturing this small city which we call home into a mesmerizing metropolis. I am aware that efforts are being directed towards strengthening the requirement for your members to be equipped with local knowledge and installing a mechanism for conduct and discipline, as part of the preparations by ASHK to establish itself as a statutory body.

Ladies & Gentlemen, now let me move on to look at “Optimism”. Optimism is a reflection of confidence, while confidence comes with competence. One cannot

therefore be optimistic without professionalism. Noam Chomsky, an American philosopher, wrote and I quote – “Optimism is a strategy for making a better future. Because unless you believe that future can be better, you are unlikely to step up and take responsibility for making it so”. So where does the future hold for Hong Kong? Can we be optimistic? I urge you to tackle these probing questions in the next two days by actively participating in the parallel sessions. For what it is worth, I would like to highlight a number of topical issues collectively referred to as “GRIT”, which encapsulates four main changes of the insurance industry in the next future. They are -

“G” for Group-Wide Supervision (“GWS”) framework;

“R” for Risk-Based Capital (“RBC”) regime;

“I” for International Financial Reporting Standard (“IFRS”) 17; and

“T” for Technology.

Let me start with the GWS framework. The Insurance Authority (“IA”) is already the lead supervisor of several major insurance groups, allowing us to claim the pole position as the premier location for similar entities to anchor their operational base in the Asia Pacific region. After obtaining green light from the Legislative Council, we are full steam ahead with the formulation of implementation details such as the draft rules on group capital requirement and qualifying capital resources. Our target is to roll out the framework in the first half of 2021, and I welcome the continued engagement of ASHK in this project.

Moving on to the RBC regime, which seeks to align the prescribed capital requirements of an insurer with the risk that it bears, we have completed the third Quantitative Impact Study and are addressing some technical adjustments on

Pillar 1 put forward by stakeholders including ASHK to pave way for industry consultation. On Pillar 2, the Guideline on Enterprise Risk Management has taken effect and the first set of Own Risk and Solvency Assessment reports is due in June next year. We are gearing up internal capacity to examine these reports and will stay in close touch with ASHK for your advice and support.

Regarding IFRS 17 that revamps the accounting treatment of insurance contracts to remove inconsistencies and improve comparability for analysts and investors, a recent decision taken by the International Accounting Standards Board to defer the commencement date until 2023 would stretch out the lead time for implementation. ASHK is a protagonist in assisting insurers, especially those with limited resources and experience, to cope with the transition.

Although the GWS framework, the RBC regime and IFRS 17 might be perceived as additional compliance burdens, they are essential infrastructures that shelter us from shocks and torrents. Since actuaries are the architects and collaborators responsible for building these infrastructures, they promise ample career prospects for the young and capable among your ranks.

Let me round up with technology, which is the key enabler of this event held in its present form. The past year has been fraught with volatility and disruption, bringing despair and disillusionment for many. As the global economy is bracing itself for the post-pandemic new normal, it did not take long for the insurance industry in Hong Kong to realize that we must face up to the problem. Adoption of technologies is an obvious way to attenuate the negative fallouts. On its part, the IA is looking for opportunities to widen distribution channels and inculcate a stronger awareness on the social value of insurance.

This led to a phased roll-out of the temporary facilitative measures (“TFMs”) which allow designated protective products to be sold without face-to-face interactions and certain compliance requirements subject to compensatory measures like enhanced upfront information disclosure and a longer cooling-off period. Up to the end of October, 20, 800 policies have been issued through TFMs, producing \$320 million of annualized new premiums. According to the data collected so far, the customers taking advantage of TFMs are younger, vindicating our belief that technological solutions could help stimulate hidden demands.

To address aspirations expressed by the industry to extend the arrangement to cover more diverse product types, we have expedited the vetting of applications under the Insurtech Sandbox and approved nine pilot trials of this nature. In parallel, the Hong Kong Federation of Insurers has installed a virtual on-boarding platform for shared use by smaller insurers so that they could bypass the technical evaluation stage of an application under the Insurtech Sandbox. This is a real-life example of how one should stay optimistic to figure out that every challenge entails an opportunity, which heralds better future.

Let me conclude by citing a quote from Pope John Paul who said: “the future starts today, not tomorrow.” To embrace the future, we must get the best out of today. Please take advantage of this Summit to learn, unlearn and relearn from one another, to inject new ideas, and to take home some food for thoughts.

May I wish you all a very successful and fruitful Summit! Thank you very much.