



18TH EAST ASIAN ACTUARIAL CONFERENCE

12-15 October 2014

Taipei International Convention Center in Taipei Taiwan

The General Insurance Actuarial Profession in Malaysia

- The Dull Past (Reserving),
- The Serious Present (Capital, AA/FCR), and
- The Sexy Future (Pricing)





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The Dull Past (Reserving)

- History
- Issues faced
- Reserving today



The Dull Past (Reserving)

In the '90s

- Basic Chain Ladder to determine IBNR
- No requirement for actuaries to sign-off

Sometime between 2000-2004

- Exploring use of stochastic methods
- Companies explore using consultants (qualified actuaries) for sign-off on IBNR

The Dull Past (Reserving)

From 2005 onwards, new requirements for Reserving:

- Sign-off by qualified actuary
- Claims & Premium liabilities on quarterly basis
- Best Estimates & commonly used methods
- Concept of risk margins at 75% confidence level & methods

The Dull Past (Reserving)

Typical issues faced then:

- IBNR considered a nuisance created by actuaries
- Perceived low-value compliance exercise
- Lack of understanding especially 75%, 99.5%, 100%?

The Dull Past (Reserving)

Long-tailed nature of Third Party Bodily Injury claims

- Claims can take > 10 years to settle
- Significantly unprofitable (loss ratios 200%+)
- Court awards can be unpredictable
- Cases of under-reserving
- 2-3 large motor players suffered significant losses

The Dull Past (Reserving)

The present situation...

- Insurers have better understanding of actuarial reserves
- “Keep an eye” on quarterly movements



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The Serious Present (Capital)

- Risk Based Capital Framework (RBC)
- Internal Capital Adequacy Assessment Process (ICAAP)



The Serious Present (Capital)

Risk Based Capital Framework (RBC)

- Introduced in 2008
- Standard risk charges, theoretically at 1-in-200 year sufficiency (but not written in black-and-white)
- Capital Adequacy Ratio (CAR)

$$\text{CAR} = \frac{\text{Total Capital Available}}{\text{Total Capital Required}}$$

- TCR – Liability, Market, Credit, Operational

The Serious Present (Capital)

Risk Based Capital Framework...

- CAR ratio over 100%
- Supervisory CAR = 130%
- Insurers need to set an Internal Target Capital Level (ITCL) typically around 180% (commonly 150-200%)
- Set by way of Stress Testing
- Actuaries commonly involved in these financial models
- However, no allowance for internal models

The Serious Present (Capital)

ICAAP (Internal Capital Adequacy Assessment Process)

- Recently introduced in 2012
- Direction globally, as part of ERM framework
- Emphasis on qualitative aspects in addition to quantitative
- Setting of risk appetite, risk tolerance, risk limits
- New area of growth and opportunity for actuaries
- Risk management teams with actuarial expertise
- Role of Chief Risk Officers reporting to Board



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The Serious Present (AA)

- Requirements of Appointed Actuary
- Current resources



The Serious Present (AA)

Background

- Qualified actuary is defined as Fellow of SOA (US), CAS (US), IOA (UK), IOAA (Australia), CIA (Canada) only
- Present requirements for Life and General insurers differ:
 - Life : Appointed Actuary, in-force for many years already to cover full aspect of insurance business
 - General : Signing Actuary, sign-off for reserves only
- But a change is taking place from 1 Jan 2015 - general insurers will move to Appointed Actuary regime

The Serious Present (AA)

Roles of an Appointed Actuary in 2015 for GI:

- Quarterly valuation of claims and premium liabilities
- Annual submission of Financial Condition Report
- Provide advice and opinion on product pricing (cannot be accountable for pricing)
- Advise the Board on insurer's financial condition and the distribution of surplus/profits
- Support the CEO and Board in ensuring fair and equitable treatment of policyholders

The Serious Present (AA)

Financial Condition Report

- Exact requirements not yet released for general insurers
- But based on what is required of life insurers, it covers
 - Business profile and new products, pricing
 - Underwriting standards and changes
 - Claims experience analysis, reserving practices / changes
 - Investment policy, asset-liability matching, default risk
 - Solvency, capital adequacy
 - Distribution of surplus
 - Reinsurance
 - “Any other issues”
- Within 3 months of end of financial year

The Serious Present (AA)

Appointed Actuary 2015 requirements for GI:

- A Fellow as defined previously
- Have at least 3 years PQE
- Be a resident in Malaysia
- Have adequate practical experience/understanding of Malaysian insurance industry and regulations
- Be an in-house resource

How prepared are the insurers for this?

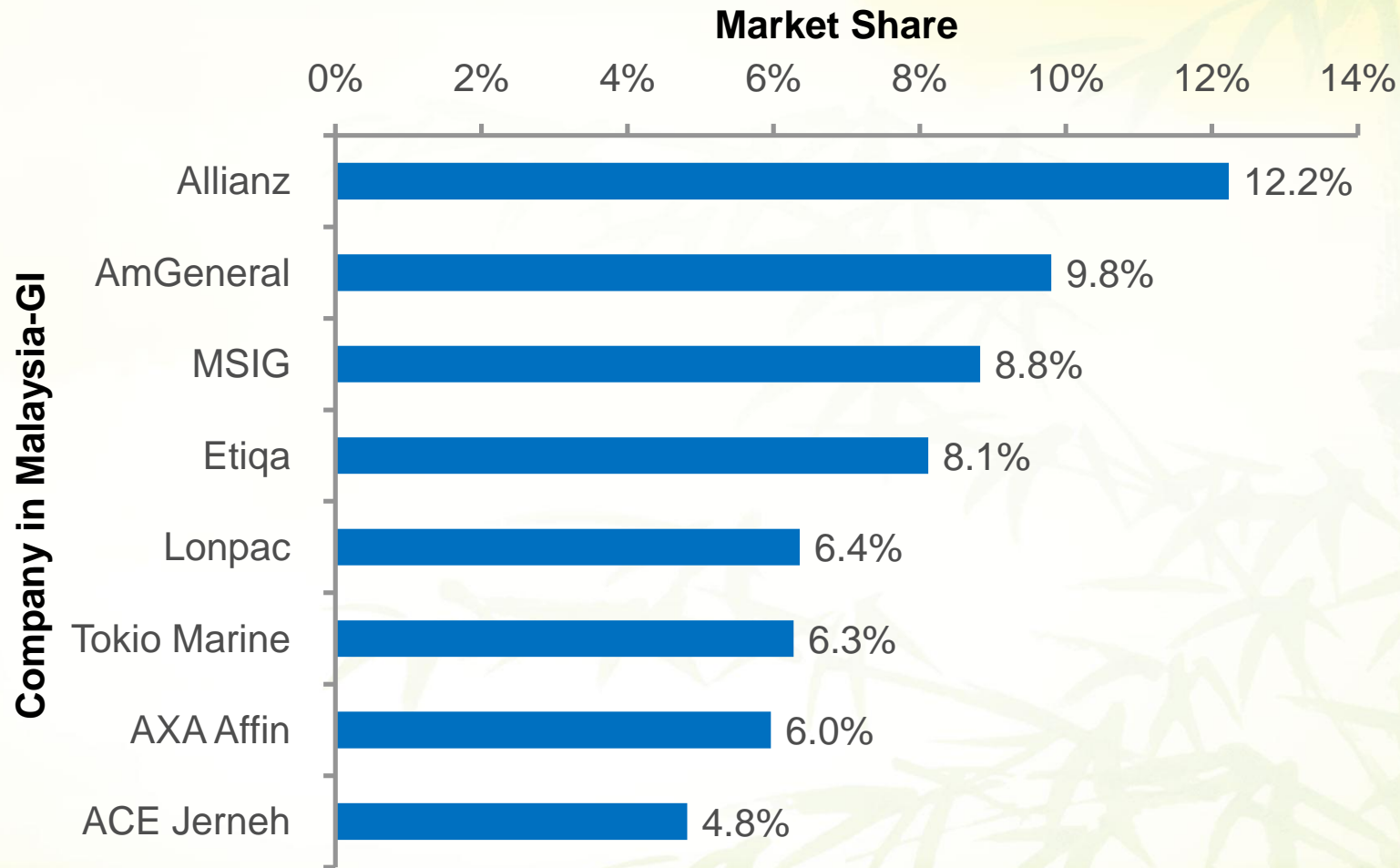
The Serious Present (AA)

Number of General Insurers (including Takaful):

- 19 general insurers
- 5 composite insurers (they will have to split...)
- 8 takaful companies that are in general takaful business
- 5 general reinsurers
- 1 composite reinsurer
- 4 retakaful reinsurers

Grand total of 42 general insurance/takaful/reinsurance/retakaful entities that will require their own Appointed Actuaries in-house

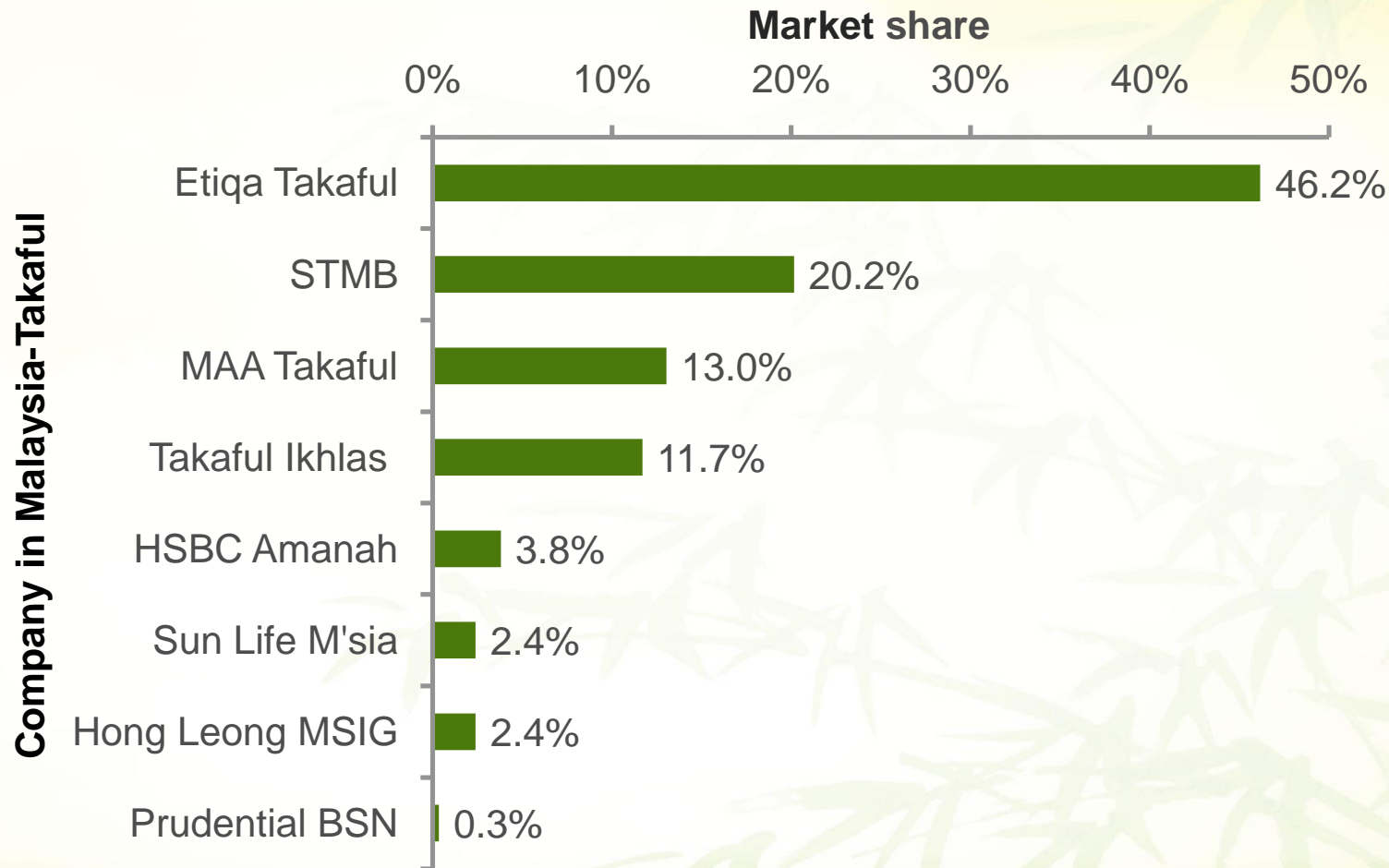
The Serious Present (AA)



Company Market Share Based on GWP in Malaysia for Year 2013-General Insurance

Source From: *ISM Insurance & Takaful Statistics 2013*

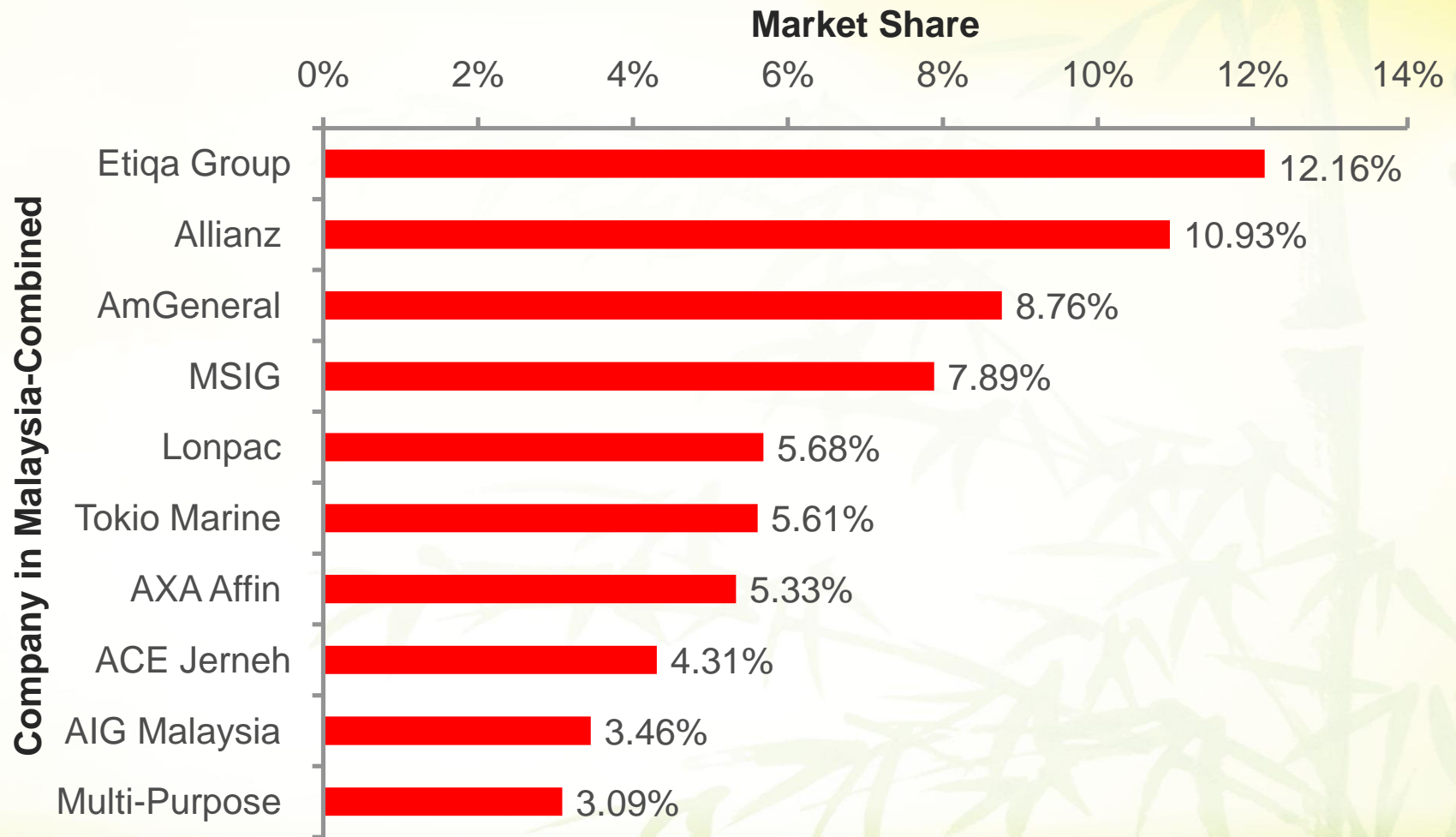
The Serious Present (AA)



Company Market Share based on GWP in Malaysia for Year 2013- General Takaful

Source From: *ISM Insurance & Takaful Statistics 2013*

The Serious Present (AA)



**Company Market Share based on GWP in Malaysia for Year 2013 -
Combined General Insurance & General Takaful**

Source From: *ISM Insurance & Takaful Statistics 2013*

The Serious Present (AA)

Current GI actuarial resources

- Significant gap seen – demand (42 companies) against supply
- As such, a grace period for transition has been allowed by regulators until 2017 for full compliance especially for an in-house Appointed Actuary
- Larger companies are given more pressure to comply early
- Opportunity for consultants in the near term
- And also foreign actuaries who would like to bring your experience and expertise to Malaysia!



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The Sexy Future (Pricing)

- Premium Rate Tariffs & Liberalization
- Opportunity for Actuaries

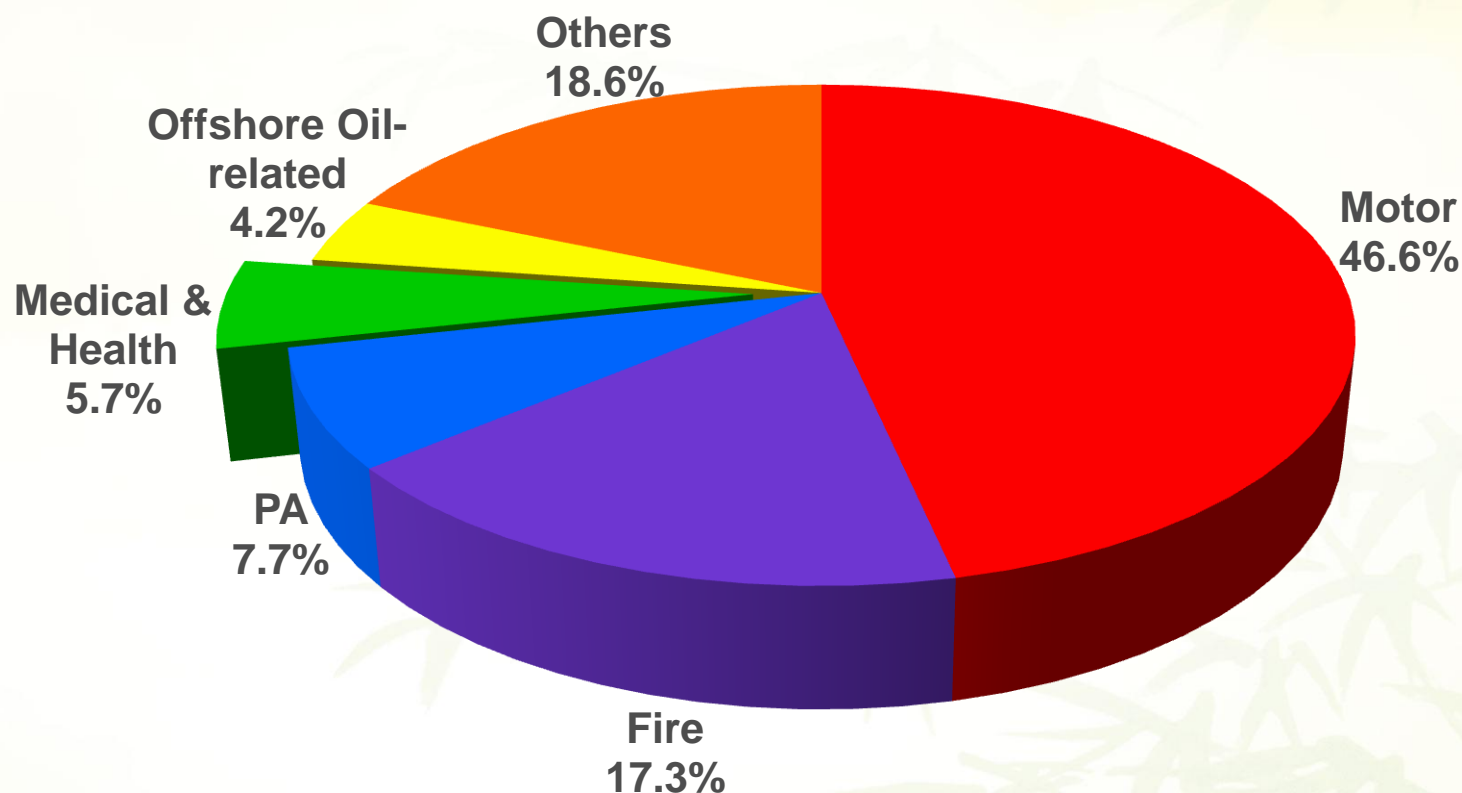


The Sexy Future (Pricing)

Tariff Rates

- Motor & Fire insurance are still under Tariff rates for more than 30 years
- Rates have generally not changed except for some small increases recently for Motor
- How is the profitability of these classes of business?

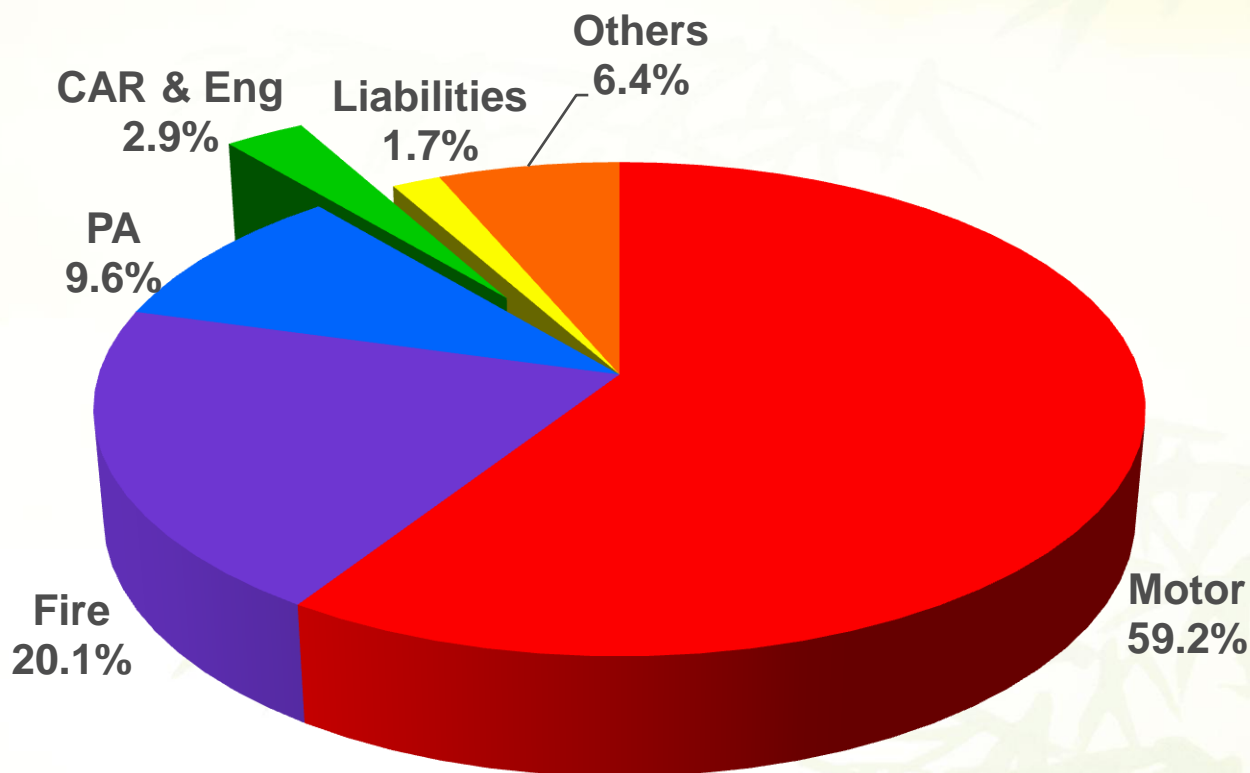
The Sexy Future (Pricing)



**Market Share by Class based on GWP in Malaysia for
Year 2013 – General Insurance**

Source From: *ISM Insurance & Takaful Statistics 2013*

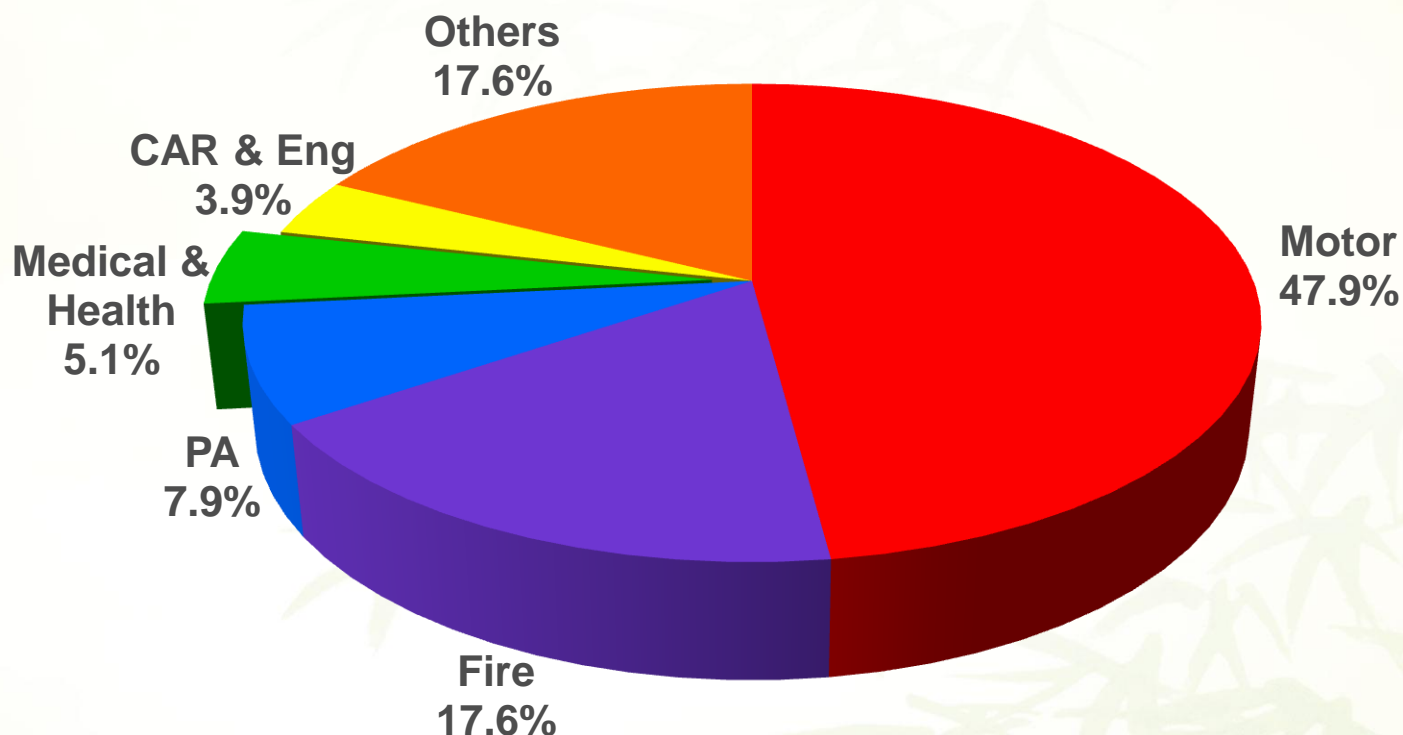
The Sexy Future (Pricing)



Market Share by Class based on GWP in Malaysia for Year 2013 – General Takaful

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)



**Market Share based on GWP by Class in Malaysia for
Year 2013 – Combined General Insurance & Takaful**

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)

Liberalization of Tariff Rates

- Has been talked about for years
- Is now expected to happen in 2016
- No specific details yet, but probably a gradual detarrification to avoid bloodbath experienced in other countries

The Sexy Future (Pricing)

Are insurers prepared?

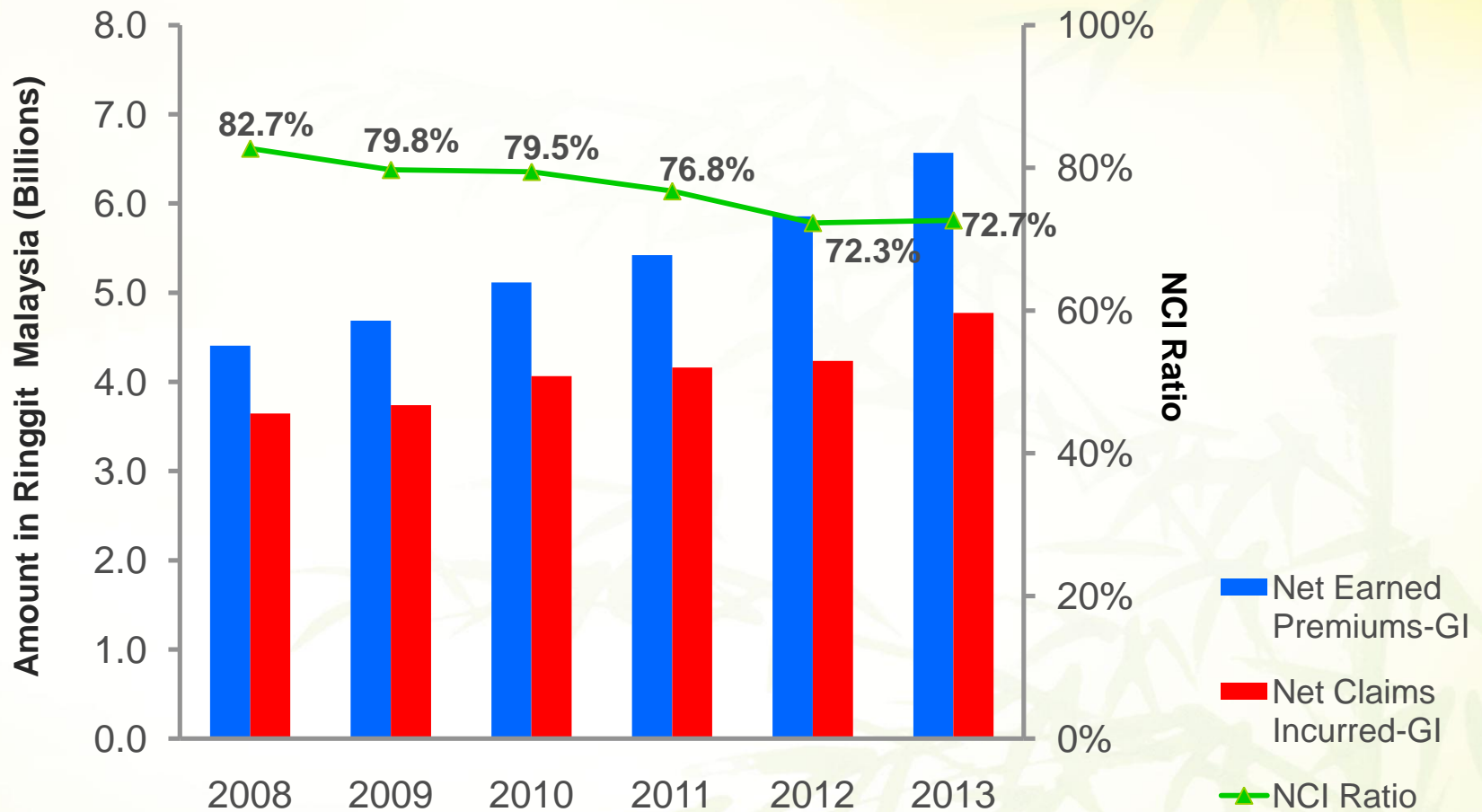
- Big insurers and motor players have been preparing recently especially on data analytics
- Pricing tools/software to do GLM
- Regional expertise tapped where available
- However, small/mid-sized companies have a long way to catch-up
- To help, an industry study is underway to produce some reference burning costs / risk rates (but need to be wary of anti-competition act to not seen as colluding)

The Sexy Future (Pricing)

Motor

- Not been very profitable for a number of years
- Giving rise to significant growth of the Malaysian Motor Insurance Pool (MMIP)
- Insurers can refer risks to MMIP if they choose not to offer coverage
- Large losses incurred (premium rates are still tariffed) which is then shared among all insurers equally
- Hence the large insurers are quietly contented while the small insurers are badly suffering (their share of MMIP losses can wipe out a full year's profits!)

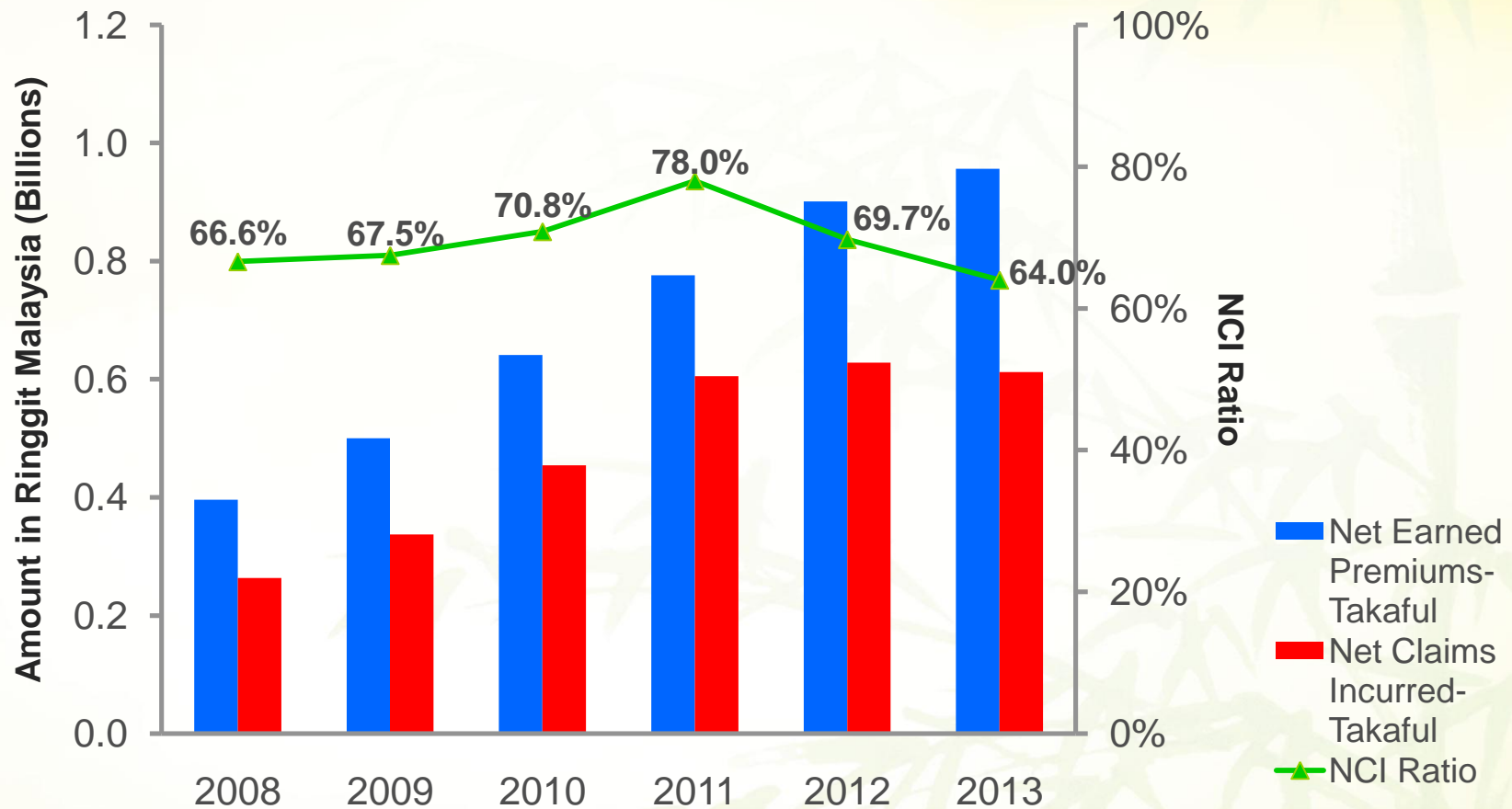
The Sexy Future (Pricing)



Claims Experience of Motor Class For General Insurance in Malaysia from Year 2008-2013

Source From: *ISM Insurance & Takaful Statistics 2013*

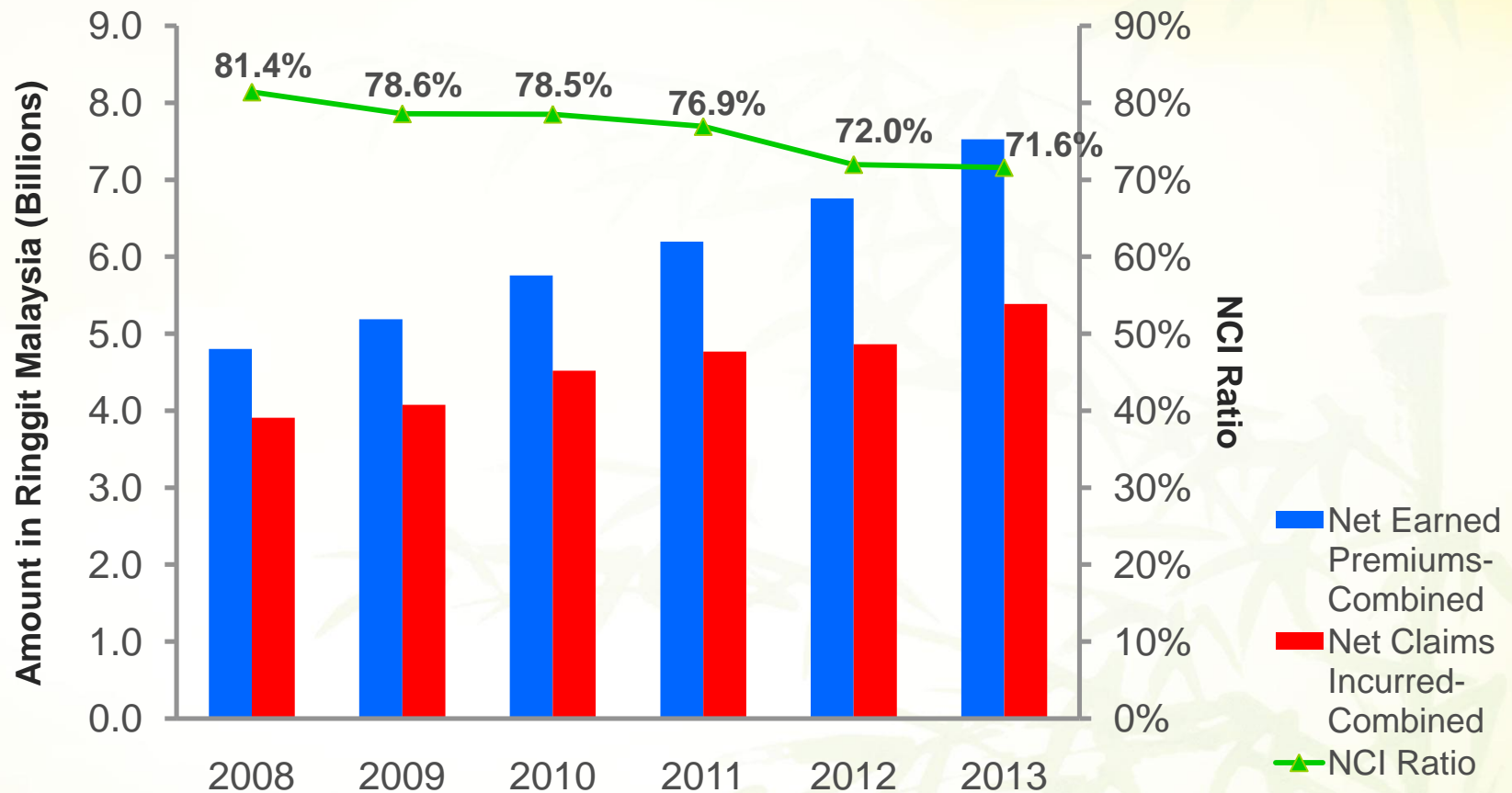
The Sexy Future (Pricing)



**Claims Experience of Motor Class For Takaful in Malaysia
from Year 2008-2013**

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)



Claims Experience of Motor Class in Malaysia from Year 2008-2013 – Combined General Insurance & Takaful

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)

Motor...

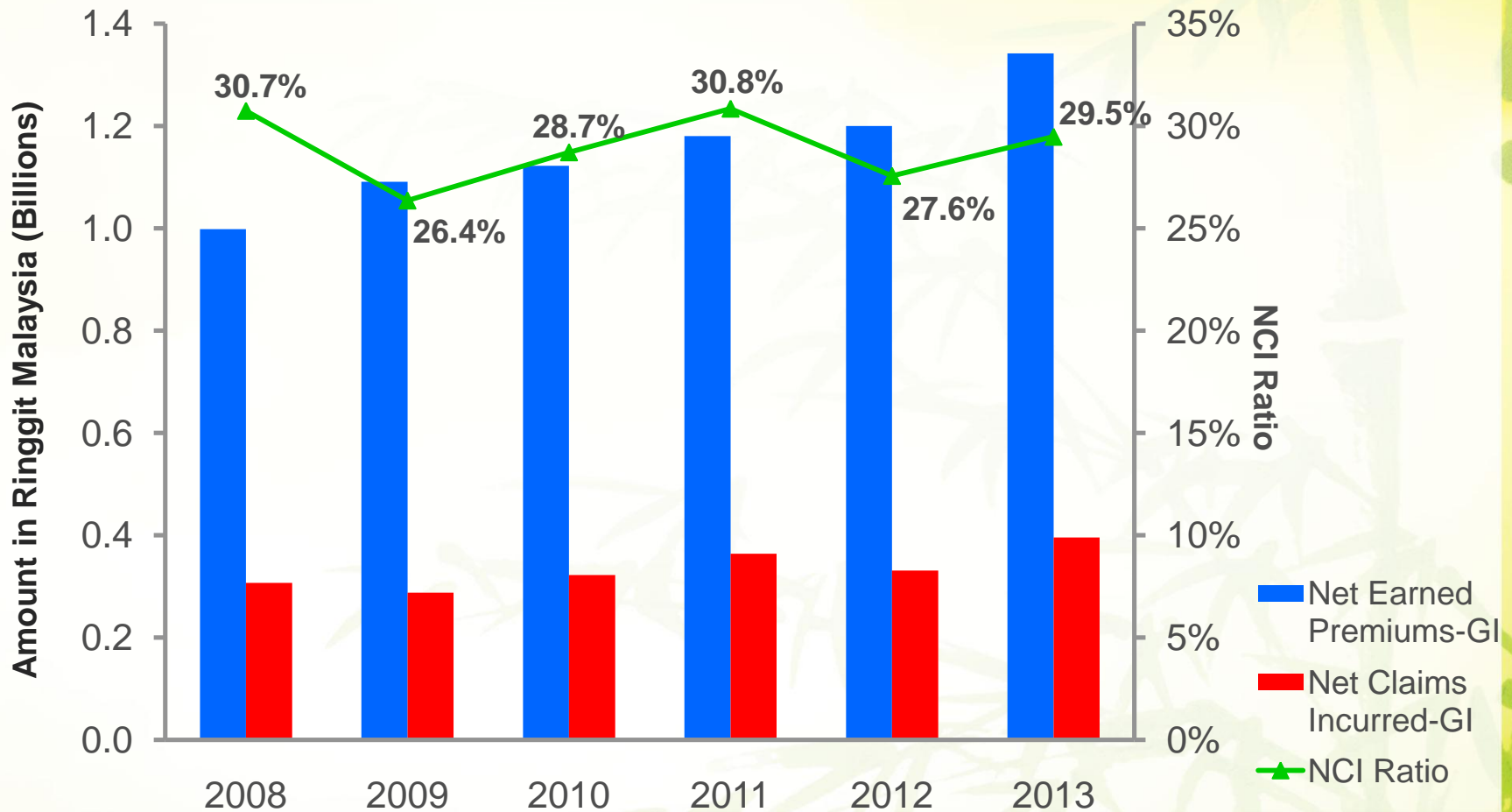
- I suspect there will be some price war but many has experienced hardship in the past
- Hopefully the larger motor players are more inclined to risk management and staying within their risk appetite
- Small/mid-sized companies will tend to follow the leader
- Need for revenue to continue paying operating expenses

The Sexy Future (Pricing)

Fire

- Is very profitable with loss ratios typically around 30%
- My biggest worry!
- Insurers will fight for market share and compete on price
- Profitability will dwindle (e.g. if rates are halved, loss ratios are still only about 60%)
- If this happens, insurers will find it very difficult to reproduce the big profits they were used to from Fire

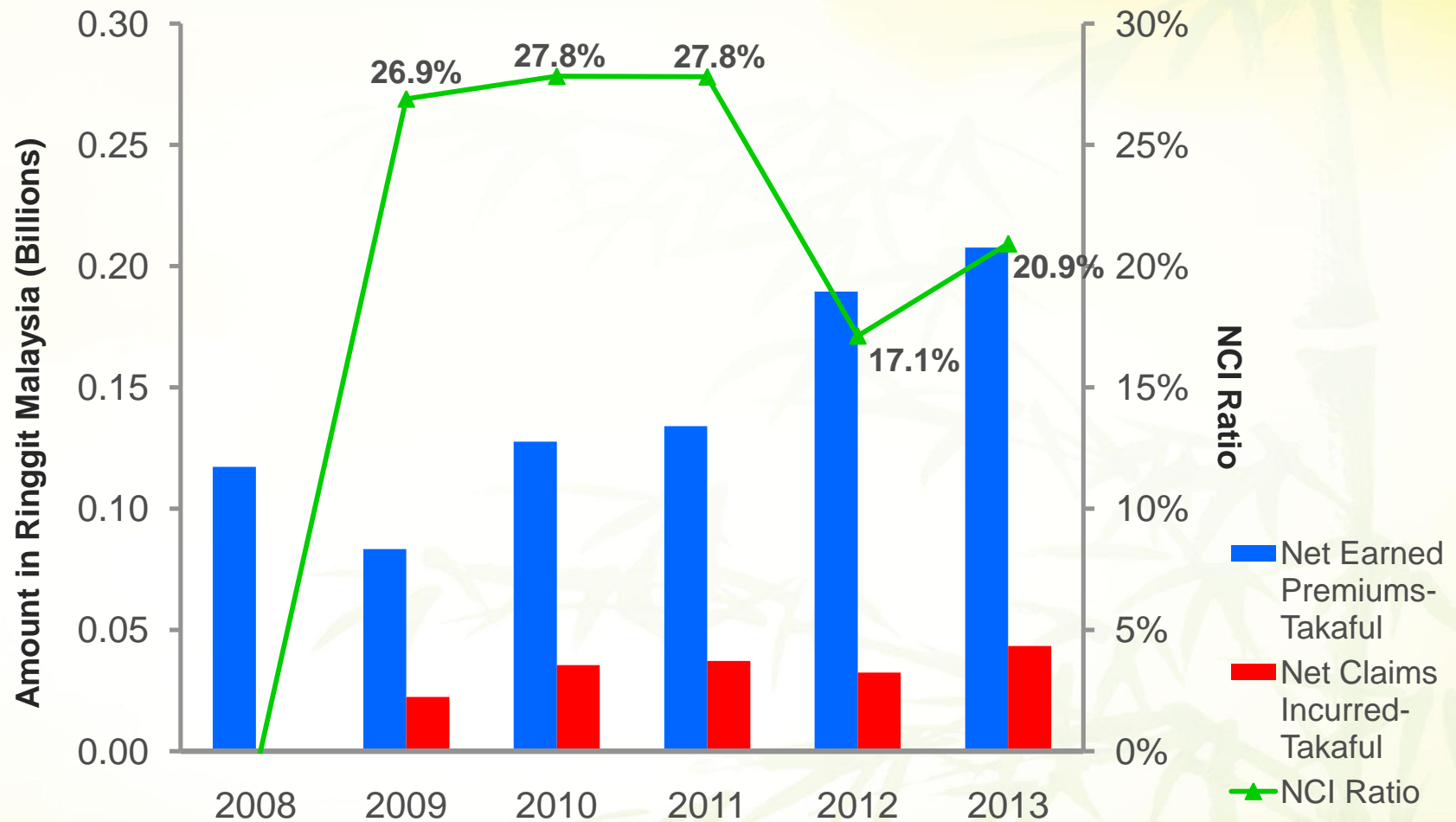
The Sexy Future (Pricing)



Claims Experience of Fire Class For General Insurance in Malaysia from Year 2008-2013

Source From: *ISM Insurance & Takaful Statistics 2013*

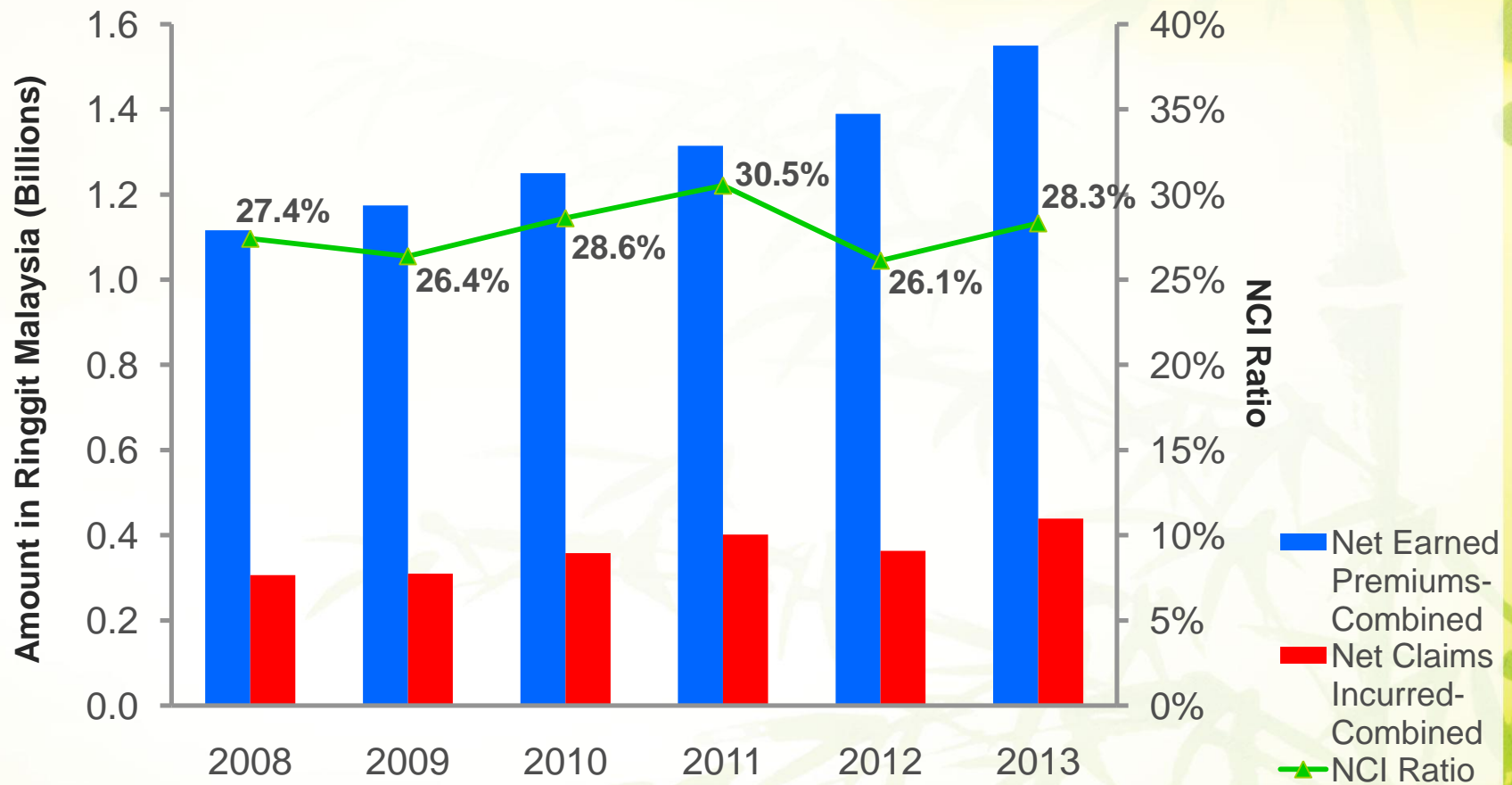
The Sexy Future (Pricing)



Claims Experience of Fire Class For Takaful in Malaysia from Year 2008-2013

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)



Claims Experience of Fire Class in Malaysia from Year 2008-2013 – Combined General Insurance & Takaful

Source From: *ISM Insurance & Takaful Statistics 2013*

The Sexy Future (Pricing)

Opportunity for Actuaries

- Technical pricing skills much sought after currently
- Talents who have been involved in such pricing functions are few and their experience is limited
- Appointed Actuary guidelines indicate a separation of responsibility (AA cannot be accountable for pricing), indicating a need for a Pricing Actuary...

Actuarial Society of Malaysia
www.actuaries.org.my