

Financial Risk Management for Insurance Companies

Asset Liability Management In China

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Financial Risk Management for Insurance Companies: Asset Liability Management in China

- **Introduction: the past, the present and the future**
 - The Basic Question: What do I want to achieve?
- **A Step by Step Approach**
- **Assessing the Cash Flow Needs**
 - Cash flow model
 - Scenario testing
 - Dynamic Financial Analysis
- **Setting the Asset Liability Framework**
 - Asset Liability Committee
 - Statement of Investment Policy and Objective
- **Practical Issues in China on Implementing asset liability Management**
 - Data: A legacy from the past
 - The China capital market – moving from the past into the future
 - Investment deregulation – a vision of the future – is the grass really greener?
- **Case studies**
 - Dynamic Financial Analysis
 - Statement of Investment Policy and objectives
 - Doing the Trade
- **Closing Remarks**

Introduction: the past, the present and the future

In the ***past***, the Chinese insurance industry put a lot of effort focusing on what we call '***top-line growth***', or premium growth and market share.

Nowadays, the Chinese insurers pay a lot more attention to the profitability of their business. There are several driving forces:

- Insurance companies raise capital by becoming public listed companies
- The much expected further deregulations in China on investment of insurance fund present opportunities for Chinese insurers to enhance profitability, but also challenges on managing investment risks
- The expected further deregulations on product design and product pricing demand more pro-active management of profit margin and risks

And what of the ***future***? Areas which are relatively new to the Chinese market, such as liability insurance changes the risk you face, for example by lengthening the duration of the liability of the Chinese P/C insurance companies. This demands insurers to pay more attention to the risk management, and also to their asset liability management.

Introduction: the past, the present and the future

In the overseas insurance markets, more sophisticated techniques have been developed to manage risks, for example, dynamic financial analysis (“DFA”) or asset liability management (“ALM”).

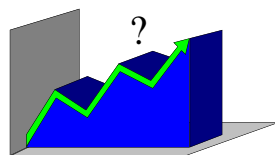
Although some practical issues, such as the undeveloped nature of the capital market in China, may limit the full implementation of these techniques, we feel that Chinese insurers can gain much benefit by starting to understand the fundamental concepts and making the first step towards the right direction.

We were asked to introduce some of these concepts and techniques, whilst considering the practical constraints of the current environment in China.

The aim is to help Chinese insurers start implementing a ***practical solution*** to better manage their assets and liabilities, in order to achieve optimum balance between risk and return.

The Basic Question: What do I want to achieve?

Insurance companies earn money by undertaking risks. But taking greater risk does not automatically equate to greater profit. The very fundamental questions that insurers should seek to answer no matter what they do are:

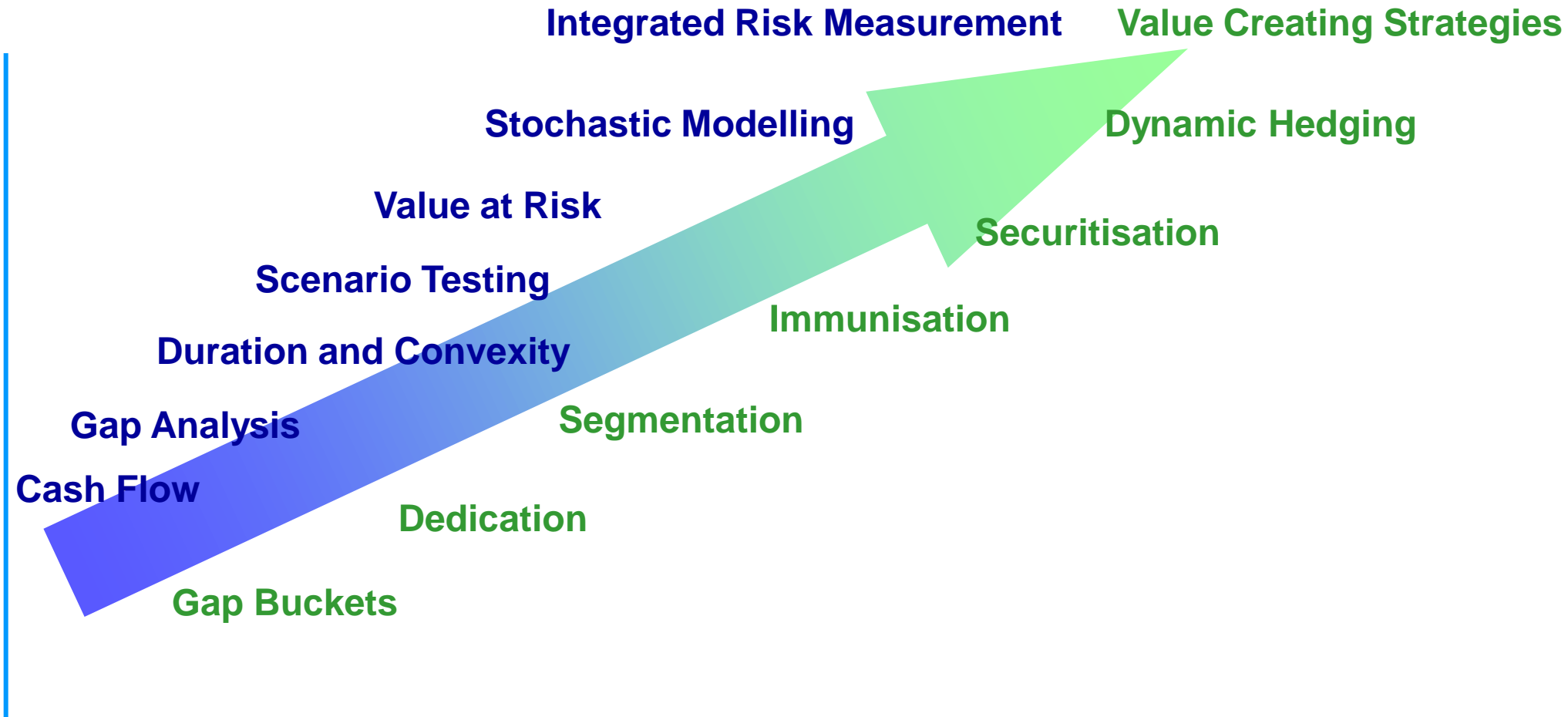


- Am I making profits?*
- Which risks are giving me, or going to give me the best returns?*

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A Step by Step Approach – Evolution of Risk Metrics and ALM Strategies



A Step by Step Approach



Managerial Focus

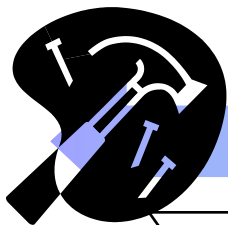
Premium Adequacy

Capital Adequacy



Financial Risk Management

Management Tools



Cash Flow Modelling

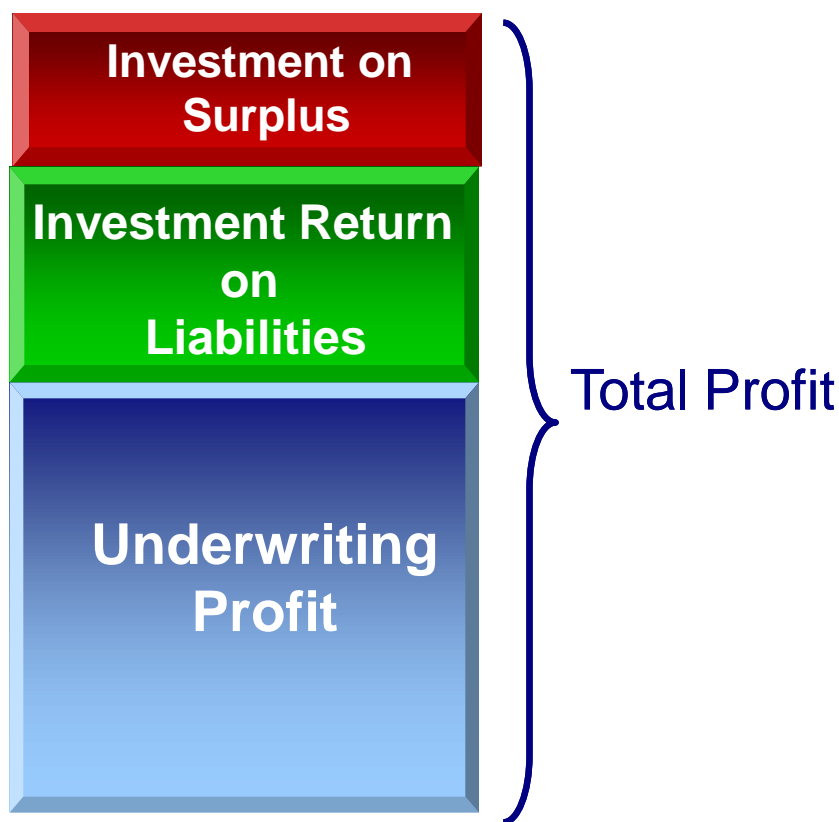
Scenario Testing

Dynamic Financial Analysis

A step by step approach is more suitable for Chinese insurers to build up their risk management techniques.

A Step by Step Approach

Breaking down your profit into components helps you identify how much freedom you have with your **investment profit component**, in view of your **insurance profits**. It also helps you to separately measure the success of your underwriting and investment functions.



For **P/C insurers**, especially in China, the business is currently shorter tailed - insurance gains and losses are often a bigger component of total profits than for Life insurers.

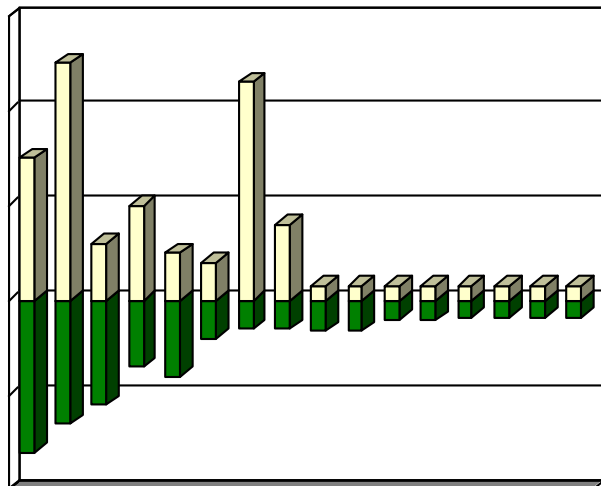
For **Life insurers**, premiums are often received well in advance before claims are paid and life insurers rely on the setting aside of reserves plus interest income on these to cover future claims and expenses - the investment return is a much more substantial component of profit.

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Assessing the Cash Flow Needs: Cash Flow Modelling

Cash Flow Analysis



Cash Flow

Scenario Testing

Integrated Risk Measurement

Assessing the Cash Flow Needs: Cash Flow Modelling

Step One: The basic budgeting or business planning process.

- What are your expected cash flows – for each line of business and at the corporate level
- When your cash flows are expected to be paid, and whether cash inflows are sufficient
- How much are your expected cash flows?

	2004	2005	2006	2007	2008
Gross written premium					
<i>Less: Ceded premium</i>					
Net written premium					
Claims and LAE					
<i>Claims recovered</i>					
Change in reserve					
Commission and sales expense					
Operating expense					
Undewriting profit					
Investment income					
Profit before tax					

Assessing the Cash Flow Needs: Cash Flow Modelling

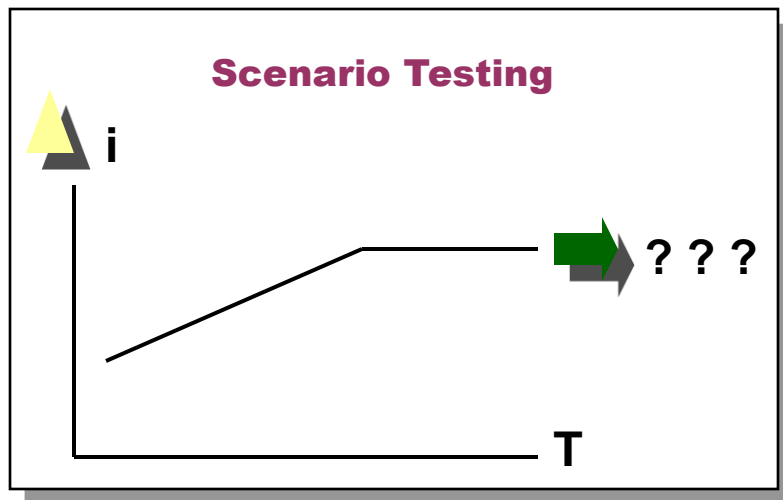
The Base Case

This is a static projection to start with, i.e. no stochastic element. This will produce your base case for the underwriting and insurance component of your profit, i.e. your expected cash flow needs.

Based on this, you can begin to assess the amount of capital to earmark to meet cash flow needs and based on this you can begin to form a framework for your investment policy.

Use 'constructed data', based on the data that you have, and where incomplete, combined with best estimate judgments from your underwriters, actuaries and sales staff, and industry benchmarks (where available or reliable).

Assessing the Cash Flow Needs: Scenario Testing



Integrated Risk Measurement

Scenario Testing

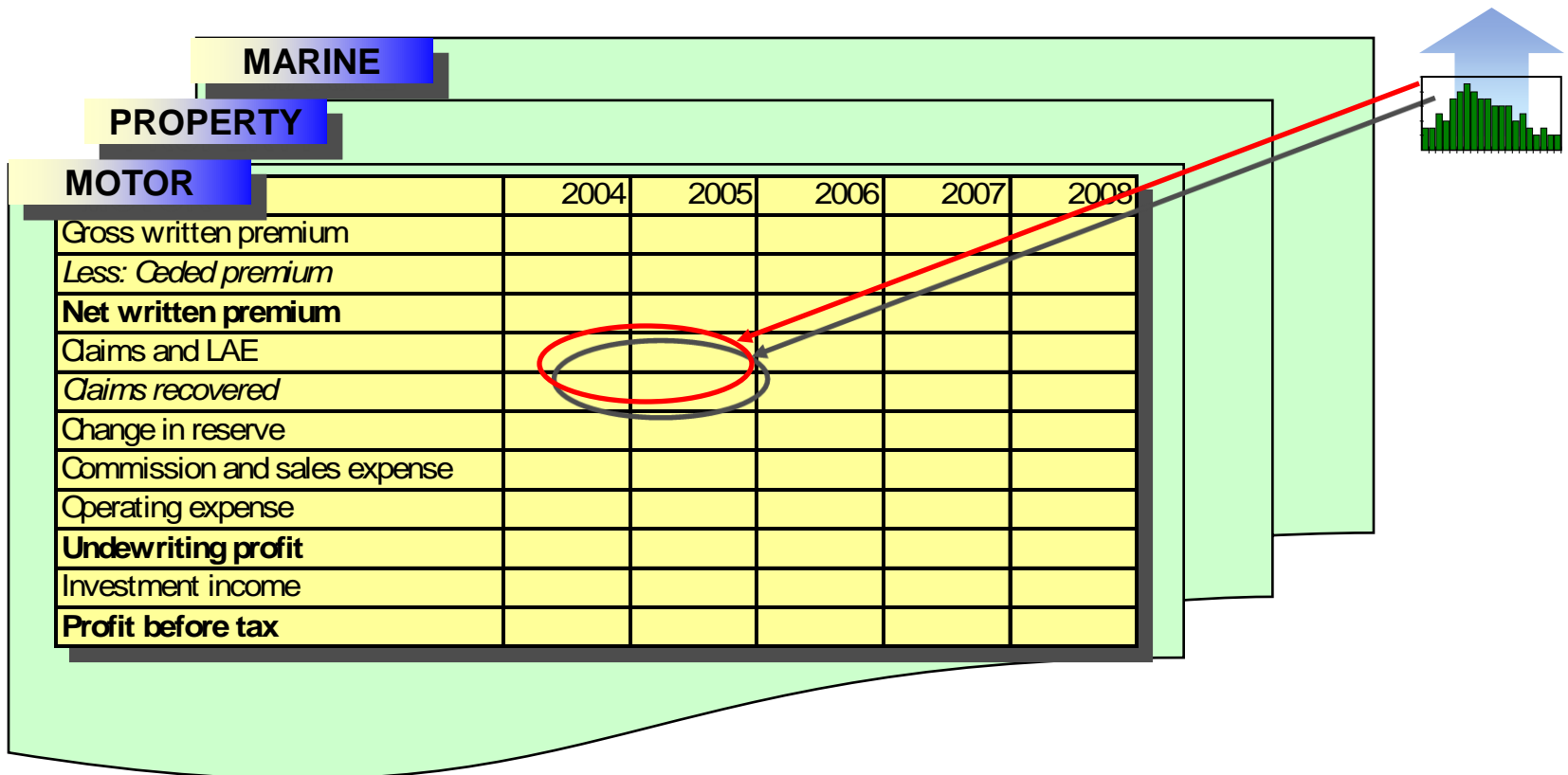
Cash Flow

Assessing the Cash Flow Needs: Scenario Testing

Step Two: Allowing for Adverse Deviations

There will be variations around the best estimate - your investment policy should cater for adverse cash flow scenarios (timing and amount).

Can be a series of stress tests, or maybe even some simple form of stochastic modelling (i.e. with elements of random fluctuation)



Assessing the Cash Flow Needs: Scenario Testing

Preparing for the future

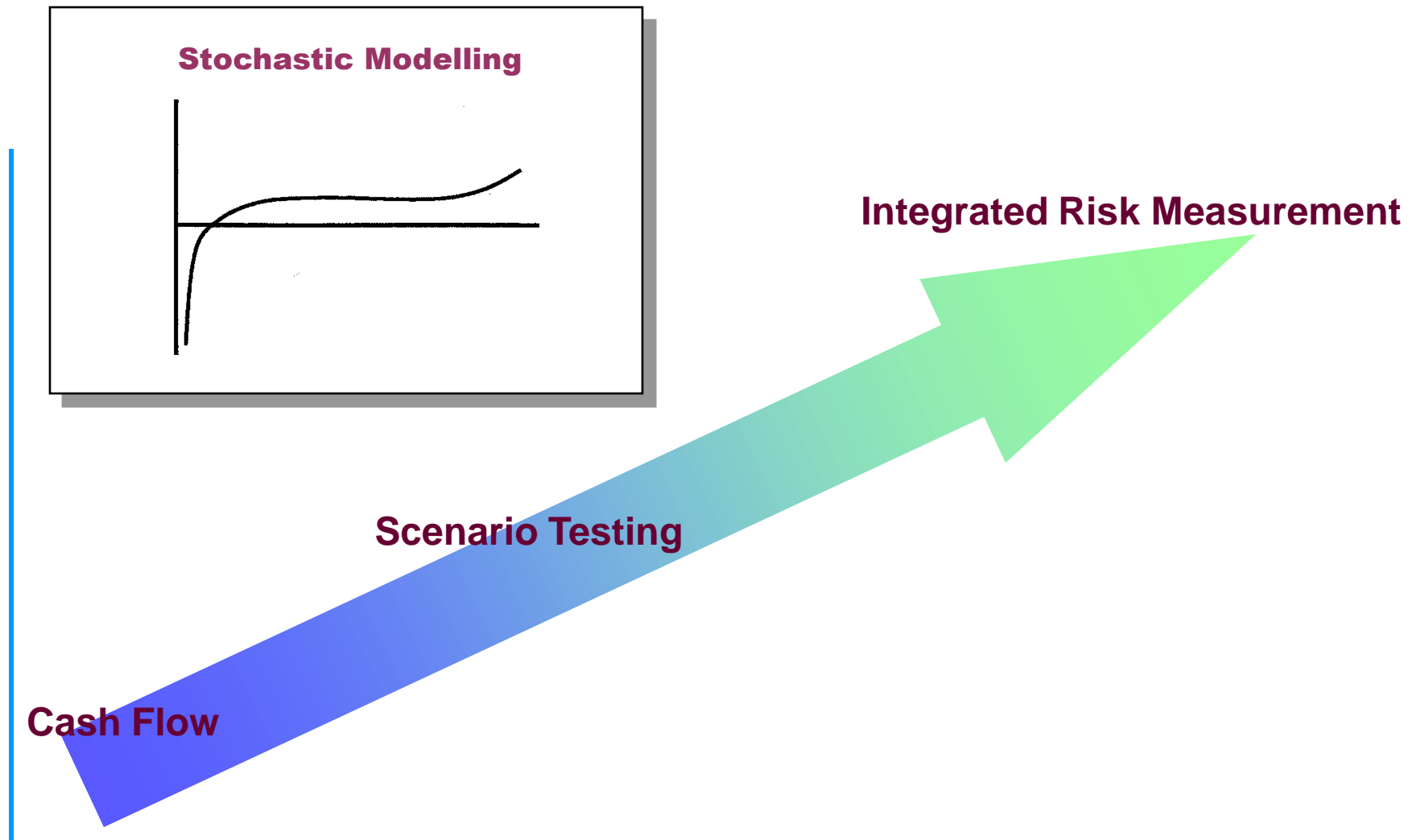
This exercise will in itself provide many insights

- Help you understand the drivers of profitability in your business
- Lay the foundation for more complex modelling in the future
- Highlights areas where you are weak and should therefore focus your monitoring efforts on in the future

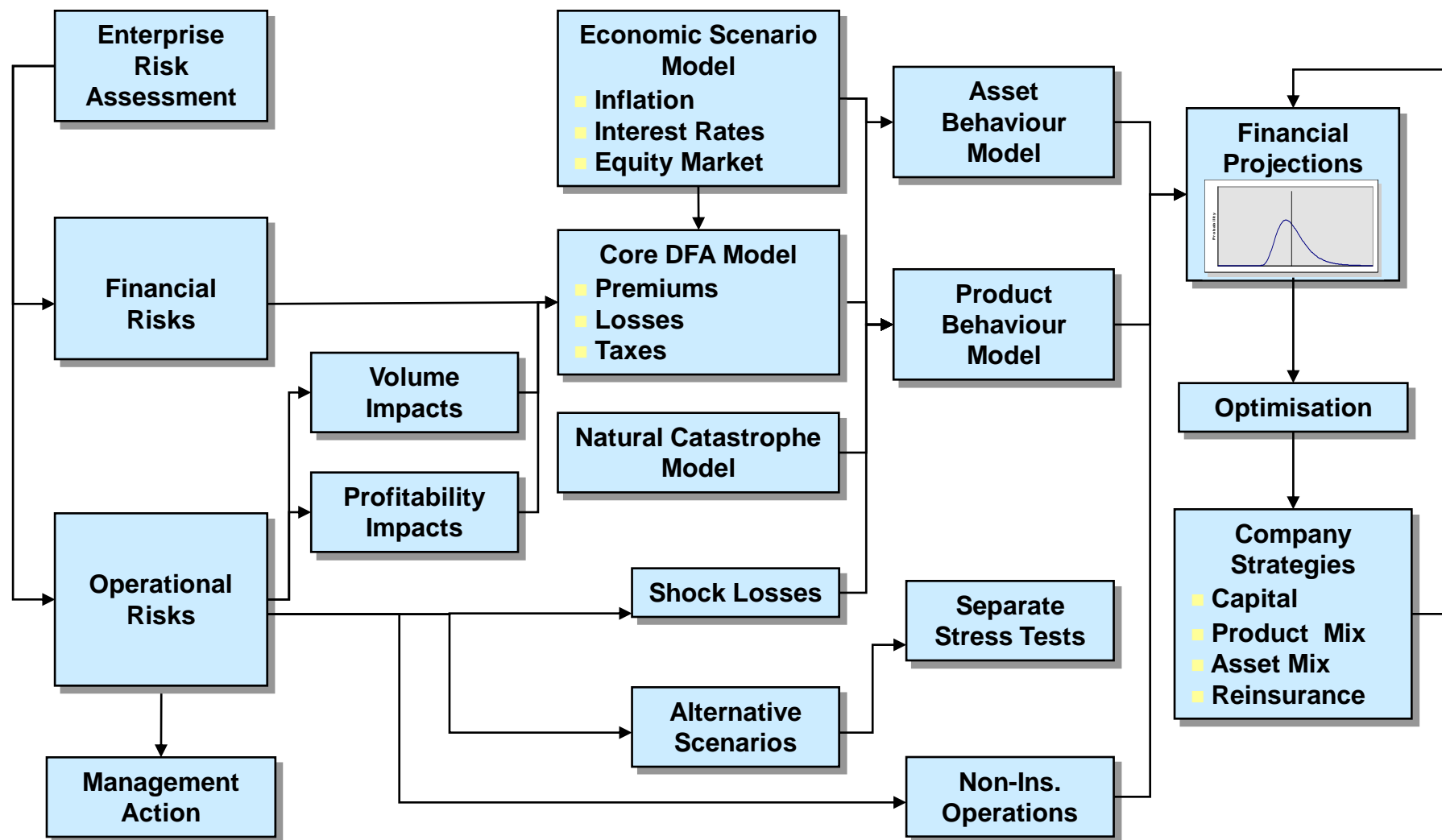
For example, reinsurance is often important in P/C insurance, and this process can help you assess the costs and benefits of your reinsurance arrangements. You may find that you are relatively confident and strong in a particular line of business and you may therefore assess the effects of moving from a quota share to excess reinsurance agreement.

- Examples of scenario testing:
 - New York Regulation 126 (7 prescribed interest rate scenarios)
 - UK Resilience testing (prescribed economic scenarios)
 - HK Dynamic Solvency testing (prescribed economic and business scenarios, still in progress)

Assessing the Cash Flow Needs: Dynamic Financial Analysis



Assessing the Cash Flow Needs: Dynamic Financial Analysis



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Setting the Asset Liability Management Framework

The SOA Task Force on ALM Principles provides the following working definition for ALM:

“Asset-Liability Management is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.”

Practical implications are:

- Designing and pricing **good products**, and managing the risk of those products
- Allocating your funds to certain **asset classes** according to
 - Firstly, expected cash flow needs, and then;
 - Appetite for risk

The ALM Framework:

- Asset Liability Management Committee
- Statement of Investment Policy and Objectives
 - Asset Allocation

Setting the Asset Liability Management Framework: ALCO

In typical insurance companies, there are different departments for different functions, and employees in these functions have specific skill sets.

- ⇒ Departments will tend to work independently from one another with infrequent communication.
- ⇒ Real threat for those whose funds are managed by separate asset management companies, with no formal communication and reporting process, i.e. investment mandate.

The most important step is setting up a formal *asset liability management committee* (or “**ALCO**”).

Setting the Asset Liability Management Framework: ALCO

In our experience, successful asset liability management has two key elements - ***commitment*** and ***communication***.

⇒ Different functions of the insurance company work together to produce the same profit and loss accounts.

Two critical success factors to establish an ALCO:

- ***Senior managers*** representing
- ***Different departments*** of the insurance company
 - Actuarial needs to know what investment return assumption is supportable
 - Investment needs to report progress and update on practical issues such as divestment of assets, and know when cash needs to be paid, or is expected to come in
 - Marketing and Sales need to know what premium rates and bonuses the company can offer, and also give others their perspective of competitive pressures
 - CFO

Setting the Asset Liability Management Framework: SIPO

Setting a *statement of investment policy and objectives* (SIPO) is then a process of:

- Setting your performance expectations whilst:
 - Managing your investments to meet the cash flow needs identified above, and
 - Explicitly recognising the financial risks that you find acceptable, or not acceptable.
 - Clearly identifying financial risks taken, e.g. currency mismatch positions
 - Set risk limits

Performance expectations and risk appetite are combined to produce your target **asset allocation**.

Whilst the nature of business for insurers, and especially Life insurers, are longer term, year to year results are also important, and consideration should therefore be given to both long term expectations and short term constraints.

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Practical Issues in China on Implementing asset liability Management

There are many *practical* issues facing insurers in China today that make sophisticated asset liability management difficult. Here, I've selected just three topics to focus on, including key issues and possible solutions.

1. Data – legacy from the past
2. Domestic capital markets – moving from the past into the future
3. Investment deregulation – vision of the future – is the grass really greener?

Practical Issues in China on Implementing asset liability Management

Data – Legacy from the past

ISSUE: LACK OF GOOD DATA

Insurance is a data-driven business. Information in historical data can help you examine expected and variation in cash flows.

- Many Chinese insurers have not kept reliable data records
- Short history of fully functioning insurance market in China
- Macro-economic data

SOLUTIONS:

So the first step is to collect the data.

Specify requirements for a system.

WHY?

- Claims analysis
- Early warning signals

Practical Issues in China on Implementing asset liability Management

The China Capital Market – Moving from the Past into the Future

ISSUE: The Chinese capital markets do not currently offer the diversity of investments as in Western markets. Where China is today, will not be where China is in a year's time.

- Structural constraints creating anomalous pricing (e.g. the interbank exchange and the stock exchanges with different pricing on each; maintenance of separate A and B class shares with shares of the same company differently priced under both regimes)
- No reliable benchmark government yield curve with a range of maturities
- High levels of non-performing loans for banks
- There is currently no globally recognised rating system to give securities of different risks their appropriately indicative ratings, as in say, the US, where bonds can be rated from AAA to Junk
- Investors do not perceive domestic listed companies as transparent or even necessarily good at making profits.
- The RMB is pegged to the USD at a fixed range
- There are restrictions for insurers to investing their funds
 - ⇒ The usual economic models of referencing returns to a risk free yield curve, with elements of stochastic volatility may be of limited use for you in China. This is because China is a transitioning economy, and asset returns will behave differently in the future than in the past.

Practical Issues in China on Implementing asset liability Management

The China Capital Market – Moving from the Past into the Future

SOLUTIONS:

- Consider product design, subject to current investment constraint in order to avoid making the asset liability mismatch worse
- Strengthen the research and management capability of your investment department. Discourage unnecessarily speculative behaviour
- Initial emphasis on understanding your liability behaviour and stress testing

Practical Issues in China on Implementing asset liability Management – Investment deregulation

Investment deregulation – Vision of the Future – is the Grass really Greener?

ISSUES:

Opening up of China's financial and insurance markets. No doubt, further de-regulation will come. Insurers are exposed to new risks, e.g. currency risk.

Other developments:

- Alternative long term investments, e.g. infrastructure projects
- Financial derivatives, e.g. retail product 'snowball'

SOLUTIONS:

Firstly, understand the risks of these asset classes, i.e. coupon/income cash flows, potential for capital gains/losses.

For example, for investment into foreign markets, you are taking a deliberate mis-match in your asset liability position, because your liabilities are RMB, but your assets are not RMB denominated. Possibility – foreign currency products?

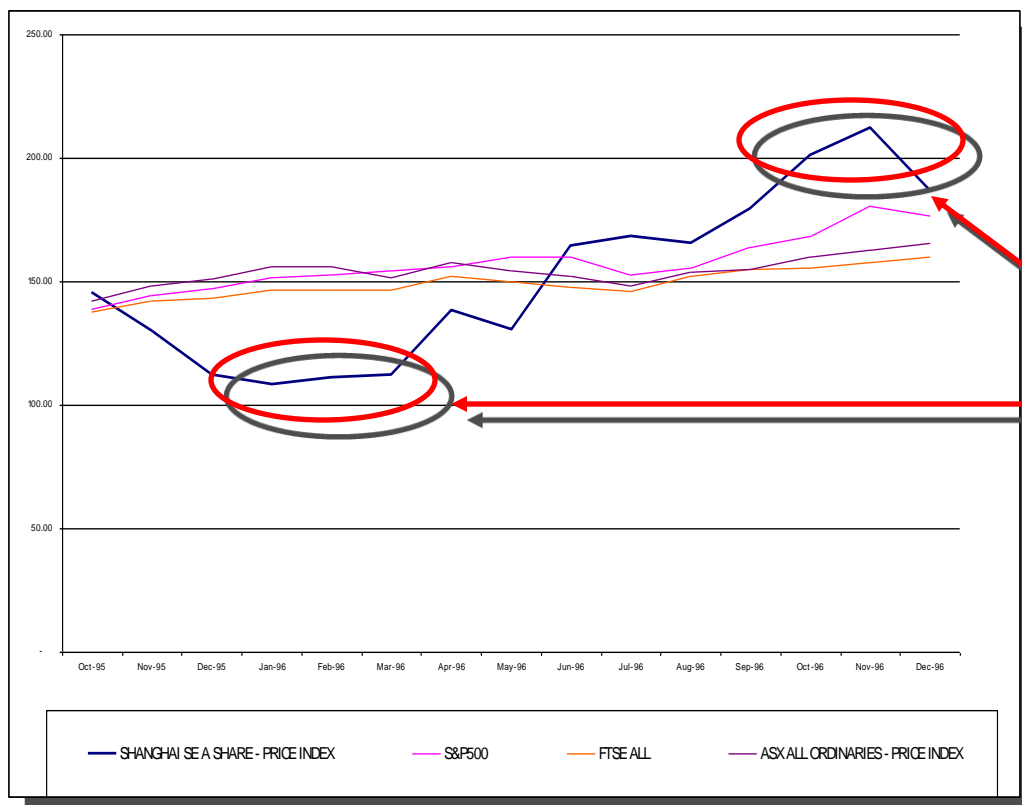
Consideration for liabilities:

- PC insurers: liabilities short tailed
- Life insurers: liabilities long tailed
- Free assets
- Scenario testing on assets

Practical Issues in China on Implementing asset liability Management – Investment deregulation

Investment deregulation – Vision of the Future – is the Grass really Greener?

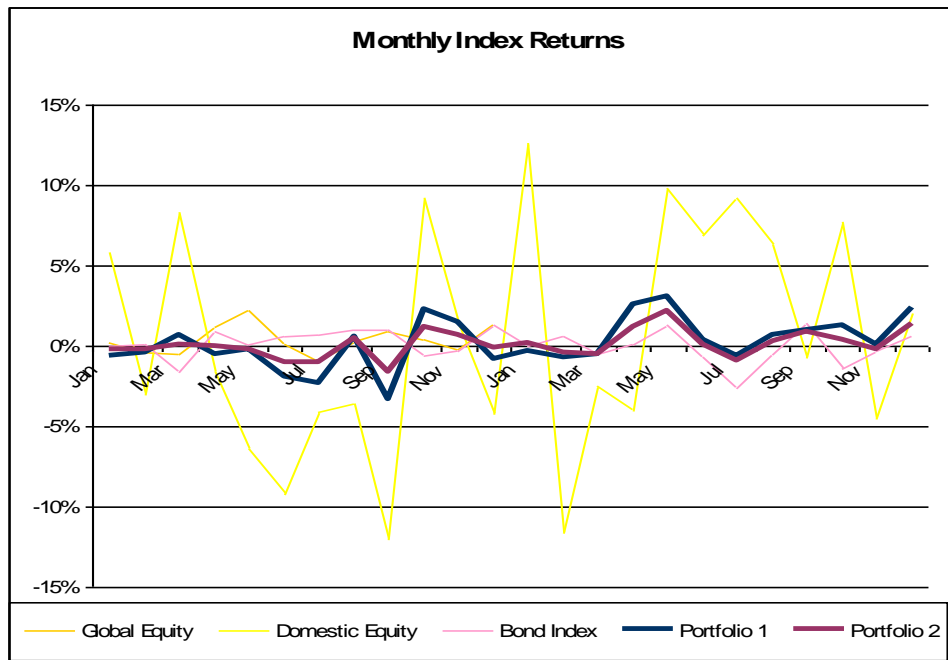
SOLUTIONS:



Secondly, is it true that foreign assets will **always** yield higher returns? It may not be the absolute returns that are as important as the **diversification** effect that a broader range of investment allows, i.e. volatility in total investment return may be reduced because different markets do not move together perfectly.

Practical Issues in China on Implementing asset liability Management – Investment deregulation

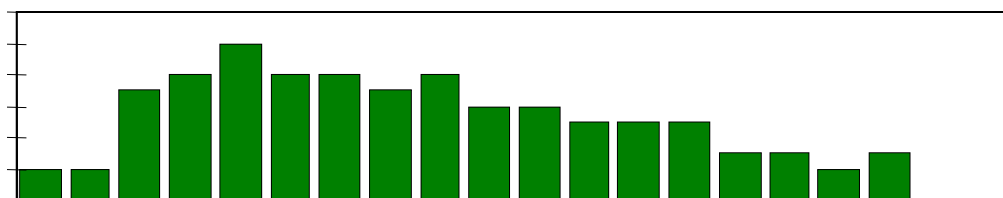
	Domestic Equity	Global Equity	Bond Index	Portfolio 1 30%5%65%	Portfolio 2 15%15%65%
2002					
Jan	6%	-3%	0%	2%	0%
Feb	-3%	-1%	0%	-1%	-1%
Mar	8%	4%	-2%	2%	1%
Apr	-2%	-3%	1%	0%	0%
May	-6%	0%	0%	-2%	-1%
Jun	-9%	-6%	1%	-3%	-2%
Jul	-4%	-8%	1%	-1%	-1%
Aug	-4%	0%	1%	0%	0%
Sep	-12%	-11%	1%	-4%	-3%
Oct	9%	7%	-1%	3%	2%
Nov	1%	5%	0%	1%	1%
Dec	-4%	-5%	1%	-1%	0%
2003					
Jan	13%	-3%	0%	4%	1%
Feb	-12%	-2%	1%	-3%	-2%
Mar	-3%	0%	0%	-1%	-1%
Apr	-4%	9%	0%	-1%	1%
May	10%	6%	1%	4%	3%
Jun	7%	2%	-1%	2%	1%
Jul	9%	2%	-3%	1%	0%
Aug	6%	2%	0%	2%	1%
Sep	-1%	1%	1%	1%	1%
Oct	8%	6%	-1%	2%	1%
Nov	-5%	2%	0%	-1%	-1%
Dec	2%	6%	1%	1%	2%
2002	-20%	-20%	3%	-5%	-4%
2003	32%	34%	-2%	10%	8%



- Start small – pilot type investments
- Diversification effect
- Consider cash flow requirements



LIABILITY CASH FLOWS



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This presentation presents work performed in client assignments, in a stylised case study format. Client-specific data and results are not included, and recipients should not infer conclusions about any company from the results depicted herein.

Case Study: Dynamic Financial Analysis

Client: US insurer

Risk/reward metrics

- The selected reward metric was the 5-year ending GAAP surplus
- The selected risk metric was the standard deviation of ending surplus

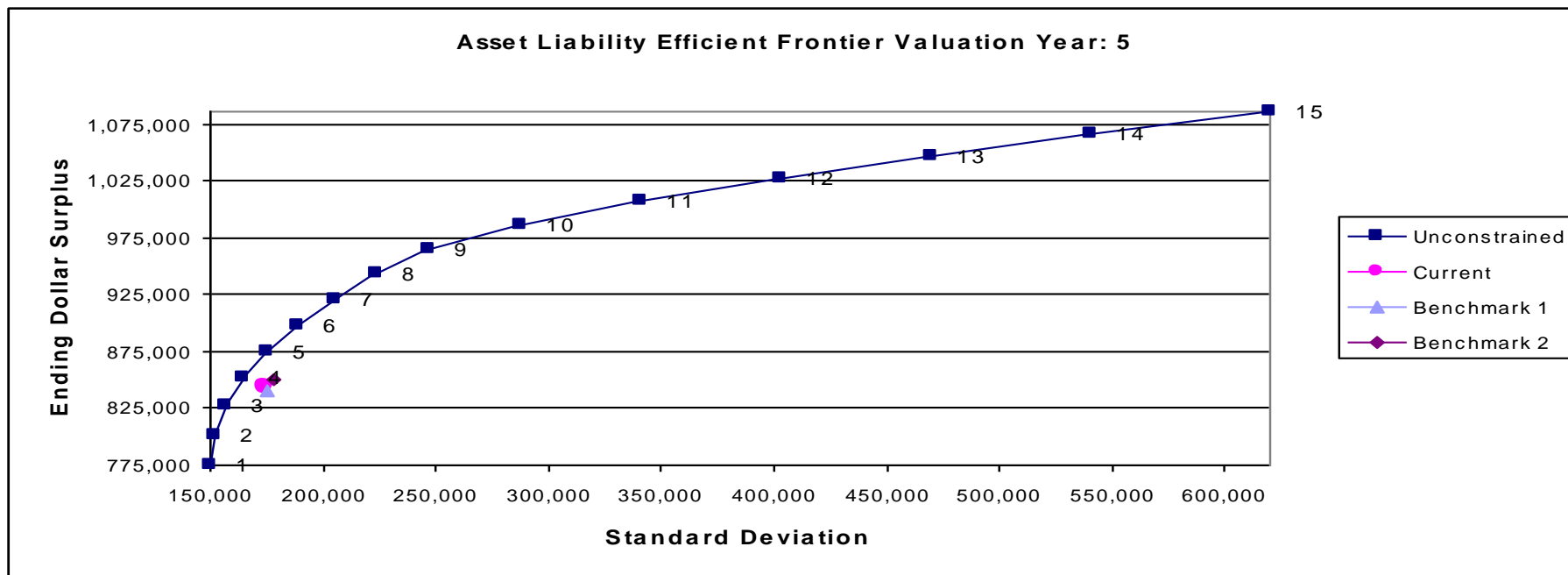
Constraints reflected the Company's investment policy guidelines

Performance of asset classes

- Based on Tillinghast's Global CAP:Link economic scenario generator
- The parameters were reviewed by the Company's Chief Investment Officer

Illustration Only

Asset Allocation -- Results -- Unconstrained



Assets	Unconstrained															Alternate Portfolios		
	Efficient Portfolios															Benchmark		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Current	1	2
Cash-US	38.3	46.7	42.5	41.6	33.4	27.9	16.4	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.8	0.5
Short_Gov	27.3	5.8	2.1	2.0	2.3	2.1	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	1.3	1.3
Mid_Gov	0.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	6.9	6.9
Int_Corp	32.6	29.7	16.0	3.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.6	24.6	23.0
Mid_Muni	0.0	1.8	3.2	2.9	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.5	31.6	29.0
MBS	0.0	0.0	4.6	6.9	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8	13.9	14.8
Equity-US	0.6	1.0	1.7	2.0	2.1	3.0	4.3	5.5	5.7	6.2	5.8	6.2	5.6	5.8	0.0	9.9	10.3	10.3
SmCap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	2.2	2.5	2.8	2.8	2.9	1.5	2.7	2.5	2.5
For_Eqt	1.0	3.0	3.9	4.9	7.1	9.3	10.6	12.0	19.6	31.2	44.4	56.5	69.2	80.8	98.5	1.2	0.9	2.0
PrefStock	0.0	0.0	4.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.7	7.2	4.7
HI_Yield	0.0	10.4	21.8	36.5	47.7	57.6	66.7	75.9	74.5	60.4	47.3	34.5	22.4	10.6	0.0	0.0	0.0	5.0
Risk	150,163	152,009	156,843	164,530	175,157	188,823	205,014	223,733	246,679	287,281	340,969	402,847	469,924	540,064	619,818	174,192	175,212	178,267
Reward	775,086	801,264	826,637	851,220	875,085	898,376	921,082	943,258	964,841	986,007	1,006,725	1,027,026	1,046,943	1,066,468	1,085,768	842,964	840,977	850,012

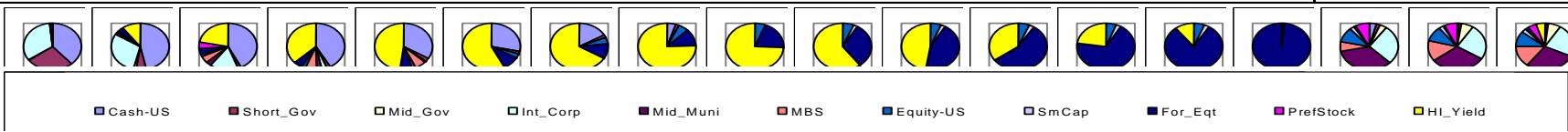
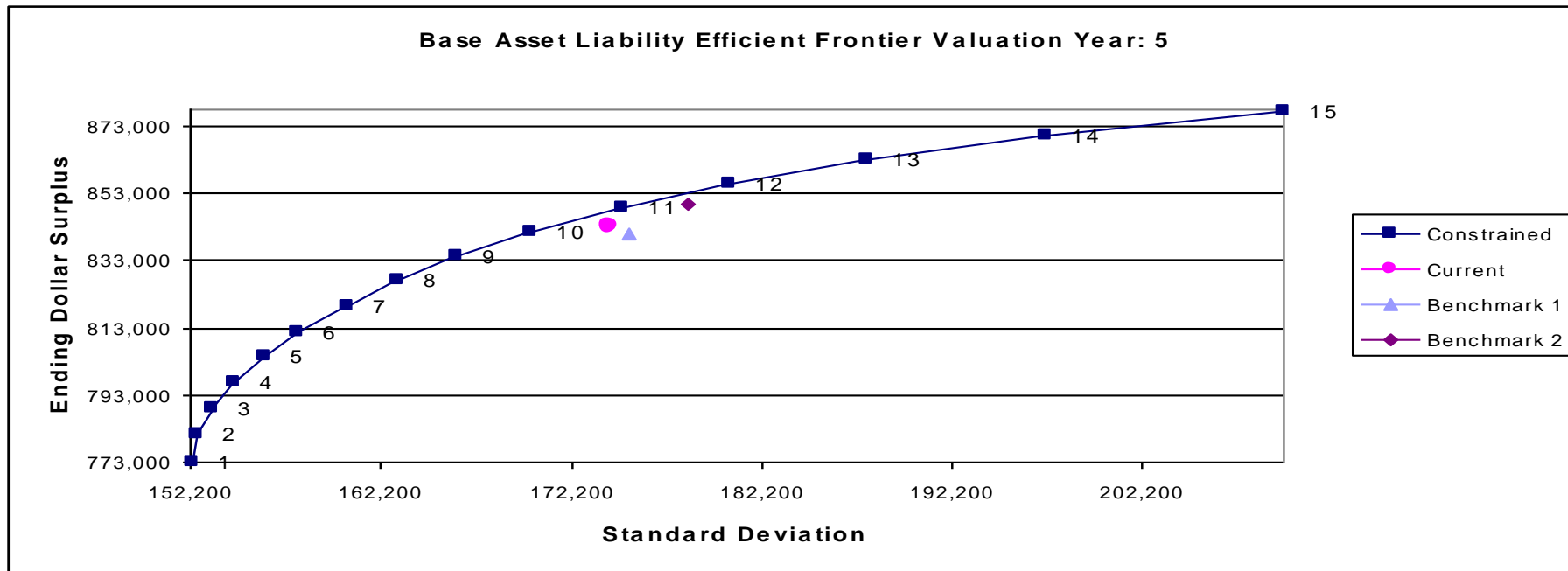
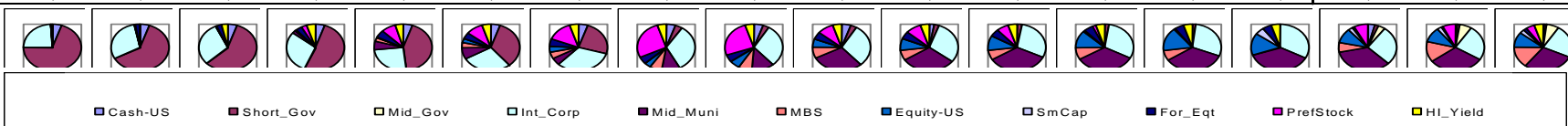


Illustration Only

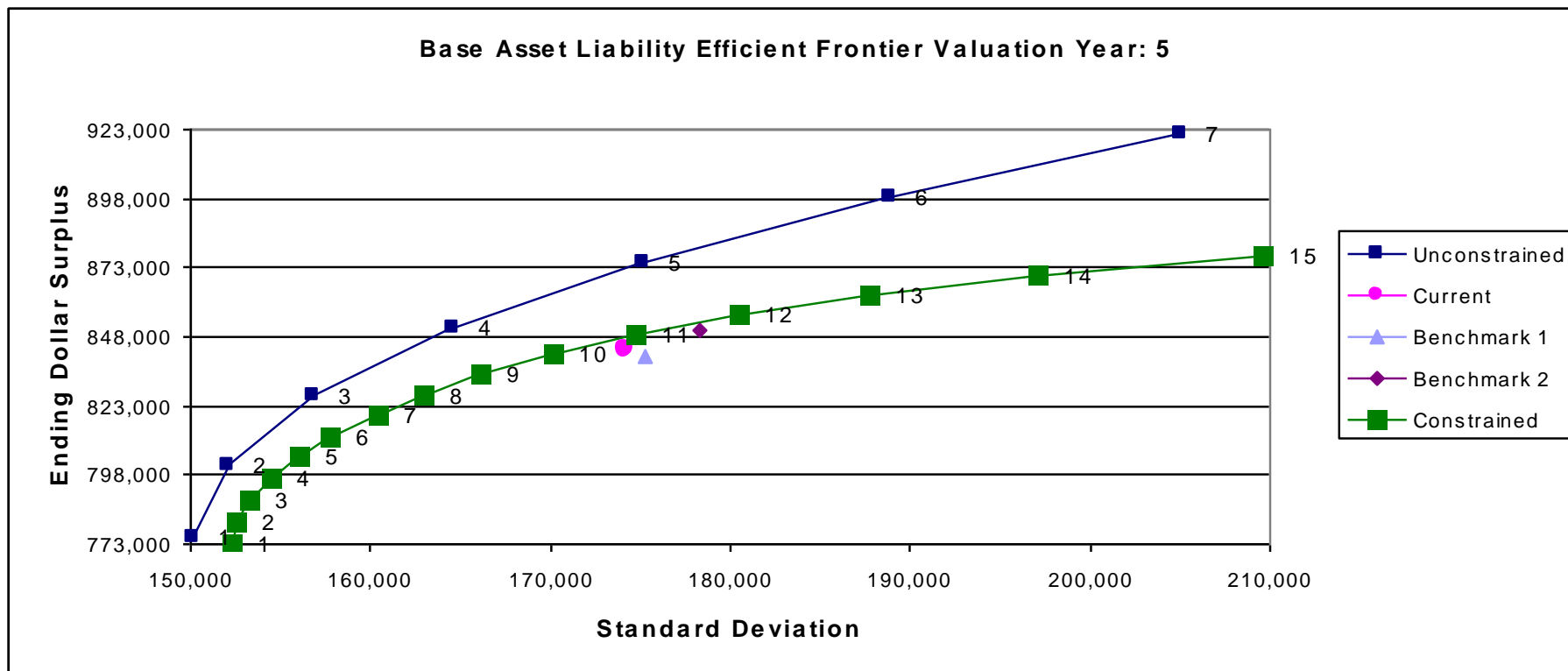
Asset Allocation -- Results -- Constrained



Assets	Constrained															Alternate Portfolios		
	Efficient Portfolios															Current	Benchmark 1	Benchmark 2
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			
Cash-US	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	2.6	0.0	0.0	0.0	0.0	4.0	0.8	0.5
Short_Gov	70.3	62.5	58.3	51.6	43.2	33.9	24.3	3.8	3.3	3.3	2.7	2.3	2.2	1.6	0.0	1.9	1.3	1.3
Mid_Gov	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	6.9	6.9
Int_Corp	23.7	29.3	29.7	29.2	25.4	28.4	33.2	33.6	29.9	29.9	30.1	29.7	30.2	29.2	32.6	27.6	24.6	23.0
Mid_Muni	0.0	0.0	0.0	2.0	5.8	7.7	5.0	10.3	13.2	29.5	31.1	34.6	34.6	35.4	37.4	34.5	31.6	29.0
MBS	0.0	0.0	0.0	0.0	2.5	3.7	4.4	7.0	7.7	7.7	7.0	6.8	7.9	6.8	0.0	6.8	13.9	14.8
Equity-US	0.0	0.4	0.7	1.0	0.7	2.7	4.1	3.7	6.0	5.7	7.9	9.9	11.9	16.2	15.0	9.9	10.3	10.3
SmCap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.9	5.0	2.7	2.5	2.5
For_Eqt	1.0	2.2	2.7	3.3	4.8	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	1.2	0.9	2.0
PrefStock	0.0	0.0	0.0	3.0	8.1	9.5	14.0	26.7	24.9	8.8	8.7	6.6	2.0	0.0	0.0	7.7	7.2	4.7
HI_Yield	0.0	0.6	3.7	5.0	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	0.0	0.0	5.0
Risk	152,279	152,543	153,317	154,450	156,089	157,760	160,451	163,047	166,199	170,121	174,830	180,502	187,754	197,168	209,591	174,192	175,212	178,267
Reward	773,273	781,098	788,928	796,717	804,444	811,930	819,535	826,922	834,344	841,684	848,908	856,126	863,259	870,456	877,467	842,964	840,977	850,012



Asset Allocation -- Results



Case Study: Statement of Investment Policies and Objectives

The client: a Hong Kong composite insurer

The scope: formulation of a strategic asset allocation strategy and to produce a **Statement of Investment Policy** (SIPO) for each of the Life and General Insurance funds

- A separate and distinct investment policy is required for each fund, as the nature of the business of each fund is different.

An **investment strategy** is formulated to meet the **investment objectives**, whilst considering the **constraints**. The investment strategy is expressed through a **benchmark asset allocation**.

All insurers want to **maximise return**

... But they also would want to **minimise risk**.

This means setting **constraints**:

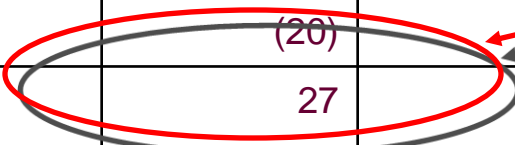
- Compliance with local statutory and regulatory requirements
- Achieve investment returns that support targeted surplus levels
- Adequate liquidity to fund potential claims and operational cash flow
- The investment portfolio as a whole has a reasonably diversified spread of risk
- The likelihood of a negative investment return in any one year, two year period should be kept within an acceptable level
- Comparison of the investment return to the cash rate, over an X-year rolling period

Case Study: Statement of Investment Policies and Objectives

Sample Profit and Loss Account for Investment Portfolio "X"

Projected Revenue Account					
	2004	2005	2006	2007	2008
Net written premium	375	430	480	530	590
Net Commissions	50	70	80	90	100
Other Operating expenses	72	80	85	92	98
Net Claims	215	250	285	315	350
Net Change in reserves	55	29	25	30	35
Underwriting profit	(17)	1	5	3	7
Profit after investment income					
Minimum	(20)	(18)	(25)	(35)	(20)
Average	27	35	40	45	27
Maximum	70	80	100	135	70

Stochastic/Scenario Testing



Case Study: Statement of Investment Policies and Objectives

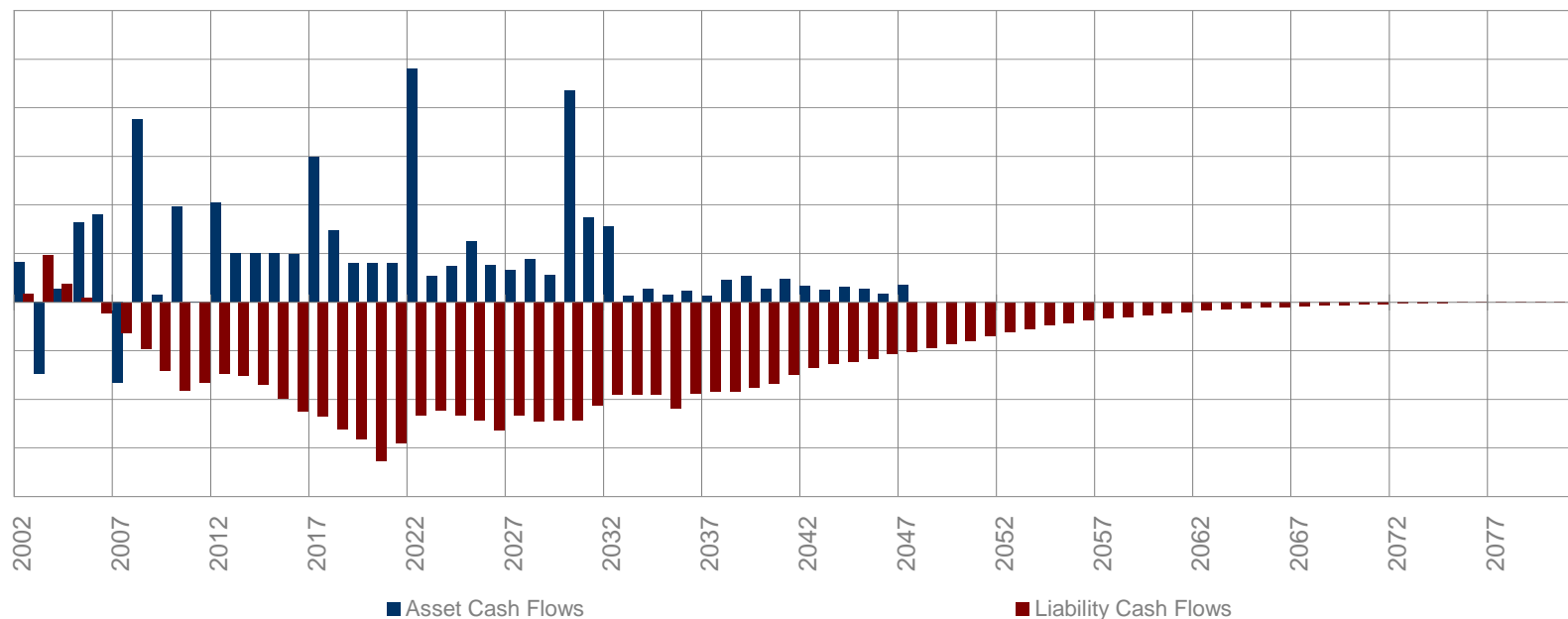
Sample Balance Sheet for Investment Portfolio " X"

Projected Balance Sheet					
	2004	2005	2006	2007	2008
Total Reserve	211	240	265	295	330
Total Solvency Margin	59	65	70	75	80
Target Surplus (50% of Solvency Margin)	30	33	35	38	40
Total Liability and Target Surplus	300	338	370	408	450
Total Assets					
Minimum		370	415	450	475
Average		400	440	485	535
Maximum		425	465	525	575
Total Admitted Assets					
Minimum		310	340	370	410
Average		330	365	400	445
Maximum		350	385	425	475

Stochastic/Scenario Testing

Case Study: Doing the Trade

Cash flow Projection



Example: NY Regulation 126 Test

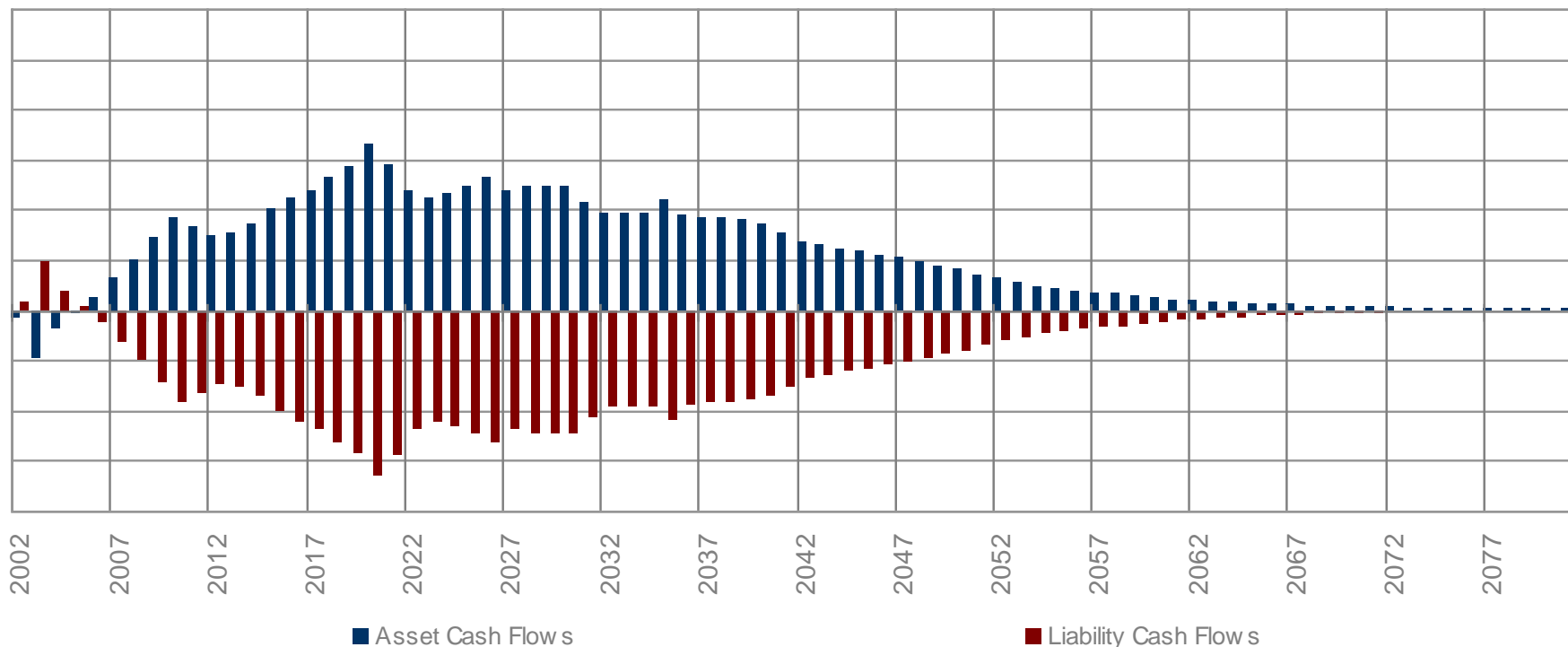
Scenario Description (*immediate change in interest rates*)

Gain / (Loss)*

- | | |
|--|---|
| 1 LEVEL - current rates remain level | A |
| 2 INCREASING - rates increase 0.5% per year for 10 years then level | B |
| 3 CAP - rates increase 1% per year for 5 years, decrease 1% per years for 5 years then level | C |
| 4 POP-UP - rates increase 3% immediately then level | D |
| 5 DECREASING - rates decrease 0.5% per year for 10 years then level | E |
| 6 CUP - rates decrease 1% per year for 5 years, increase 1% per years for 5 years then level | F |
| 7 POP-DOWN - rates decrease 3% immediately then level | G |

Case Study: Doing the Trade

Cash flow Projection



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Gain / (Loss)*

- A'
- B'
- C'
- D'
- E'
- F'
- G'

Financial Risk Management for Insurance Companies: Asset Liability Management in China

- **Introduction: the past, the present and the future**
 - The Basic Question: What do I want to achieve?
- **A Step by Step Approach**
- **Assessing the Cash Flow Needs**
 - Cash flow model
 - Scenario testing
 - Dynamic Financial Analysis
- **Setting the Asset Liability Framework**
 - Asset Liability Committee
 - Statement of Investment Policy and Objective
- **Practical Issues in China on Implementing asset liability Management**
 - Data: A legacy from the past
 - The China capital market – moving from the past into the future
 - Investment deregulation – a vision of the future – is the grass really greener?
- **Case studies**
 - Dynamic Financial Analysis
 - Statement of Investment Policy and Objectives
 - Doing the Trade
- **Closing Remarks**

Closing Remarks



Data:

Your experience data is your treasure - make greater effort in collecting and analysing good quality data.



A Leopard is a Leopard:

Measurement of risk does not change the underlying riskiness of the enterprise i.e. no amount of complex modelling no matter how good is going to make your business less risky.

You as management must use this information to make better and informed decisions, and then take action for the business.



Playing Russian roulette:

It's about product development and management. Insurers would reduce their risk exposure greatly if they designed products based on capabilities they have (or can and are committed to developing). This includes underwriting, expense control and investment capabilities.

Streamlining the product range to reduce risks was Manulife's strategy in Japan. At the beginning of 2003, they had around 40 different types of traditional and investment type products. By the end of 2003, they were only selling 5 Universal Life and Variable Life products, because that was where their strength was in Japan.

Closing Remarks



Do you need more Capital?

- Asian Insurance Review, August 2004

The Financial Services Agency in Japan considers tightening regulations on variable annuities by forcing life insurers to increase their reserves for future payouts...insurers should have sufficient reserves to cover payouts for principal guaranteed products

- USA – Standard of Practice 03-01 requiring additional reserve for guaranteed annuities
- IFRS – not permitted to capitalise investment return in calculation of reserve



Do you have the Expertise?

- Asian Insurance Review, August 2004

Chinese non life insurers urged to be more aggressive in developing investment type products. Deterrents include lack of awareness and expertise in handling investment type products and high risks of fixed interest rates

Closing Remarks



Here Comes the Competition:

What relevance of risk management techniques is it to China today? Let's look at *Italy* in 1995. Back then, the motor insurance market was just deregulated. Tillinghast conducted a survey that indicated ***premium differences of up to 50% only 16 months after market liberalisation.***

So, what relevance is it to China? The motor insurance market is currently dominated by 3 large insurers. However, the motor insurance market was de-regulated in January 2003. More imminent changes include:

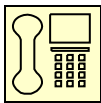
- By the end of 2004, foreign insurers can establish 100% owned subsidiaries.
- Geographical restrictions on insurance operations will be lifted.
- Arguably, China is undergoing change that is at least as fast, if not faster than the Italian market back in 1995, not least because of its phenomenal economic growth, and for motor insurance, heavy investment by foreign and domestic car manufacturers.
- Domestic companies have several advantages such as economies of scale, distribution networks and more knowledge of local behaviour. Foreign companies have advantages of inheriting advanced risk management techniques.

What's your next move?

Are you interested?



Thank you for your attention – it was a pleasure to give this presentation to you.



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