

Major Trends in the Global Financial Industry and the Role of the Actuary

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Great Eastern

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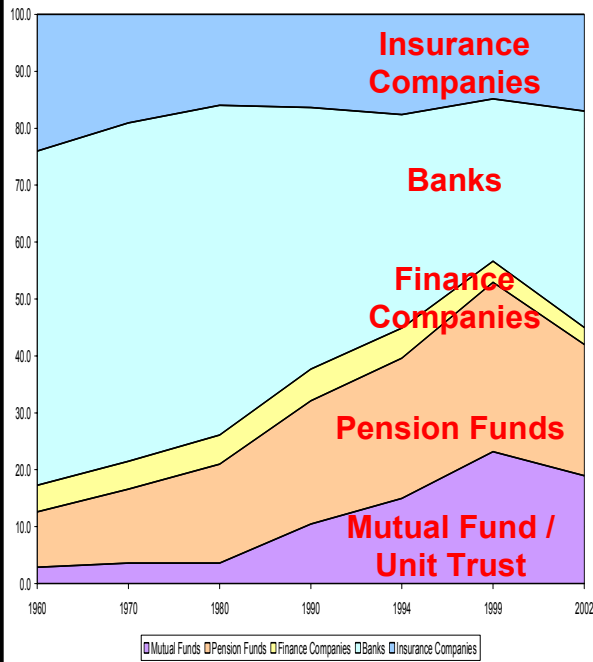
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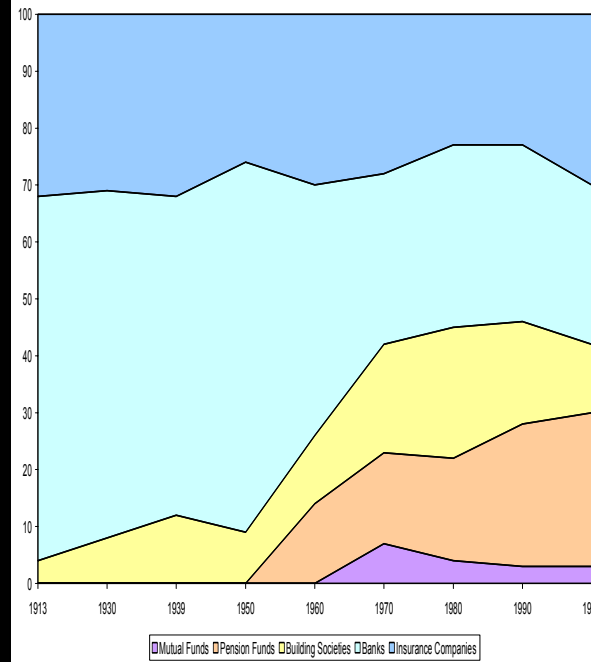
US

Relative Share of Assets - US



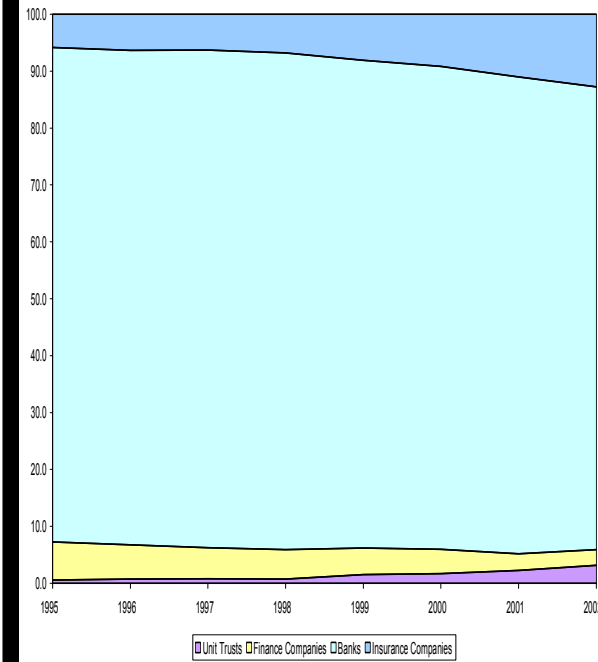
UK

Relative Share of Assets - UK



Singapore

Relative Share of Assets - Singapore



Insurance industry's percentage

US

1960: 24%
2002: 17%

UK

1913: 32%
1995: 30%

Singapore

1995: 6%
2002: 13%
% will be lower if include CPF money

Major Trends in the Global Financial Industry and the Role of the Actuary

4 major global trends:

- 1) Move to fair value accounting
- 2) Introduction of risk based capital
- 3) Growth in derivatives market, securitization and alternative risk transfers
- 4) Shift in risk profile

Major Trends in the Global Financial Industry and the Role of the Actuary

1) Move to fair value accounting:

- FRS 16, 25, 32, 36, 39, 104 – Singapore
- FAS 97, 133 – US
- IFRS 4, 39 – International standard
- MAS RBC – Singapore

Accountant

Convergence between GAAP and regulatory accounting, between insurance industry and the rest of the financial industry, and across geography.

Implications:

- **Increased balance sheet and income statement volatility if company not well managed.**
- **Move towards economic capital.**

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- 2) Introduction of risk based capital
 - MAS RBC – Singapore insurance, 2005
 - NAIC RBC – US insurance, 1992
 - Solvency II – Europe insurance
 - Basel II – global bank

Investment
Professional

Implications:

- **Capital to sufficiently support the risk that the company takes.**
- **Forces capital markets discipline upon the company (return on capital must be greater than the cost of capital)**

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- 3) Growth in derivatives market, securitization and alternative risk transfers
 - Across many sectors of the financial markets (e.g. equity, interest rate, FX, commodity), the derivatives market has become bigger and more liquid compared to the underlying market. In other sectors, the derivatives market is fast catching up (e.g. credit).
 - Securitization of all types of assets and risks has grown substantially over the past 15 years and the trend will continue (e.g. CMO, MBS, CMBS, ABS, ABCP, CDO, etc.)

Implications:

- **More tools to manage risk.**
- **More competition for traditional forms of financial intermediation (i.e. banks and insurance companies).**

Lawyer &
Investment
Professional

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4) Shift in risk profile

Banks

Market Risk (Interest Rate)

Liquidity Risk

Credit Risk

Operational Risk

Business and Strategic Risk



Market Risk (Interest Rate)

Liquidity Risk

Credit Risk

Operational Risk

Business and Strategic Risk

Accountant,
Lawyer &
Investment
Professional

Insurance Companies

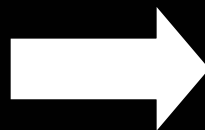
Market Risk (Interest Rate & Equity)

Credit Risk

Insurance Risk

Operational Risk

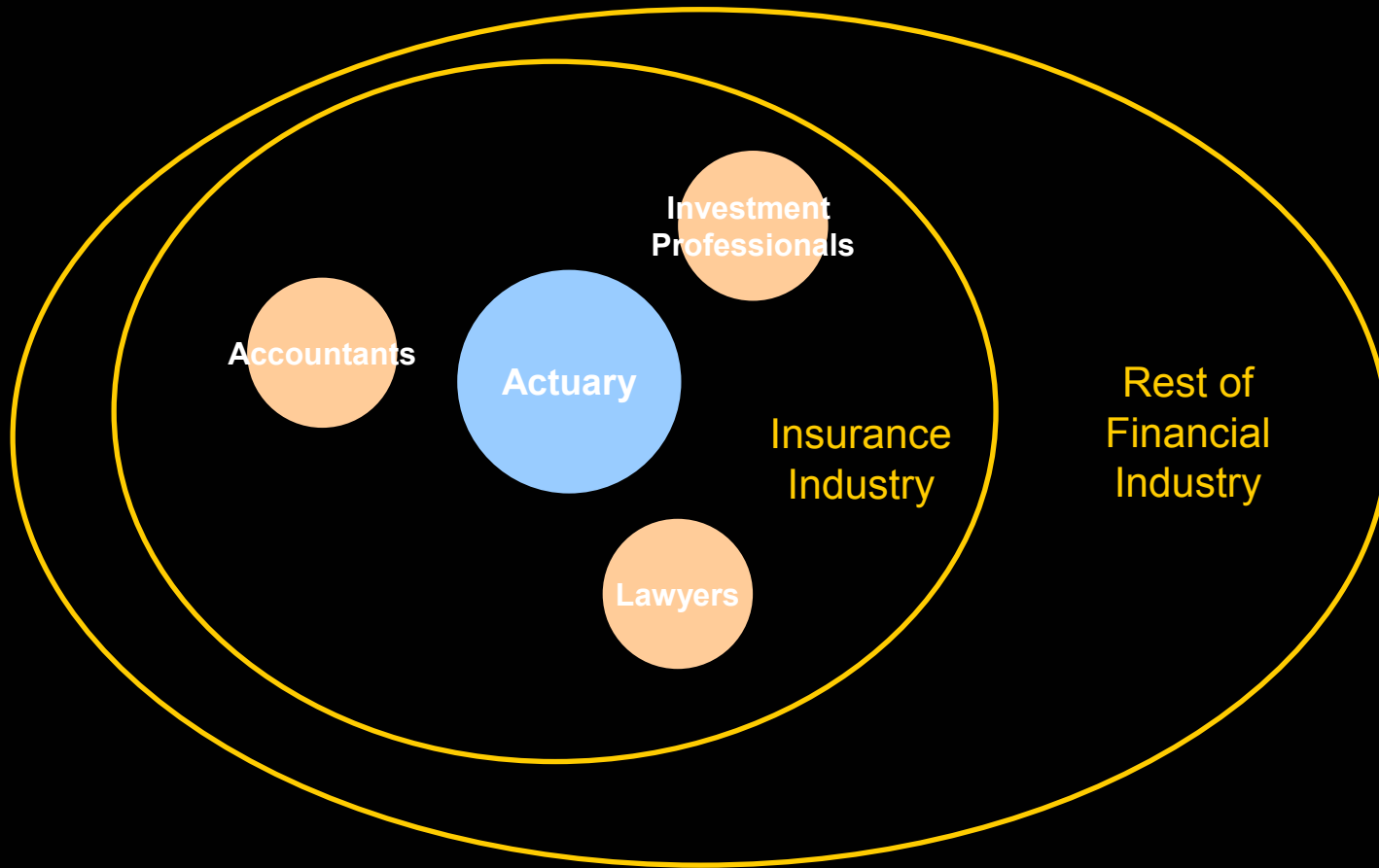
Business and Strategic Risk



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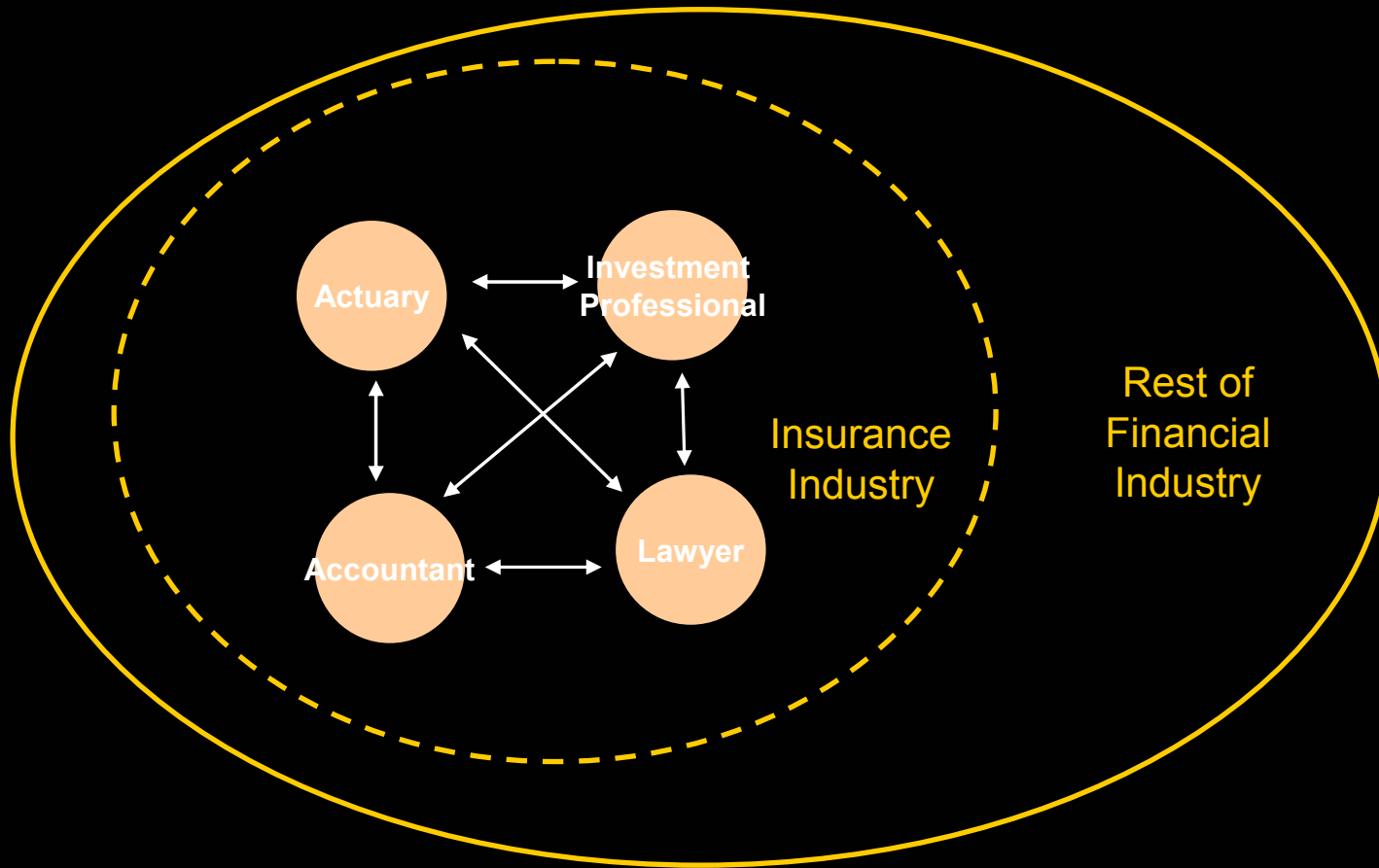
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Traditional Role of the Actuary in the Insurance Industry



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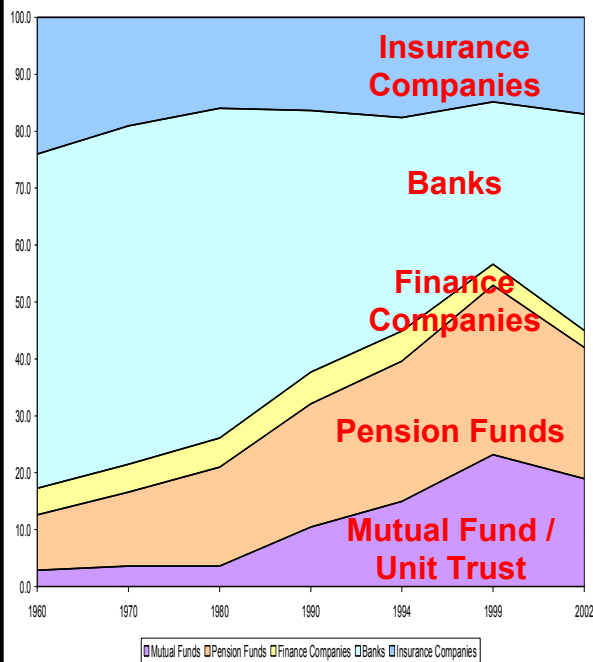
New Role of the Actuary in the Financial Industry



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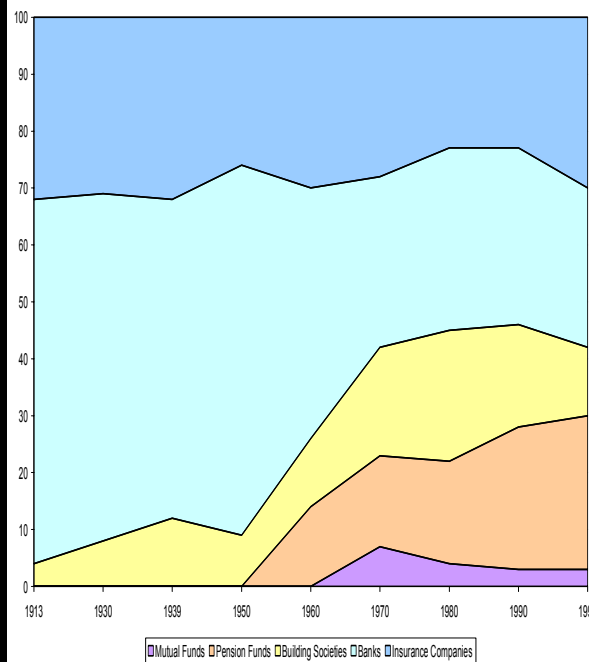
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Relative Share of Assets - US



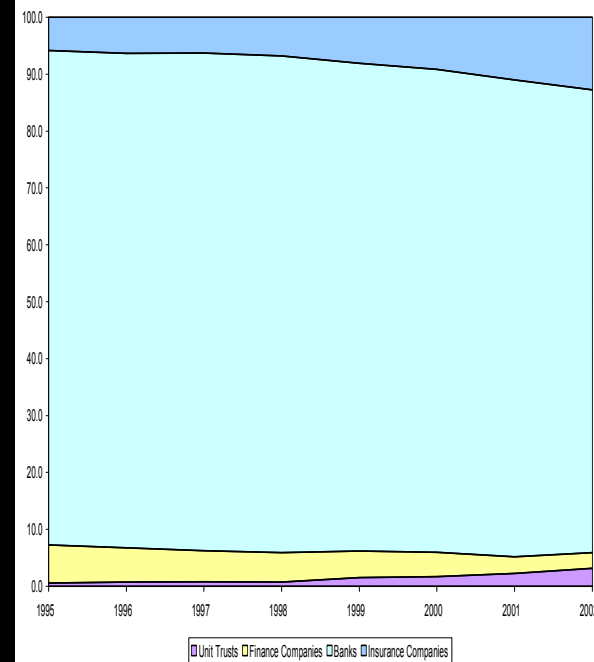
UK

Relative Share of Assets - UK



Singapore

Relative Share of Assets - Singapore



Can we, with our actuarial training and experience, help our company compete successfully in the global financial industry?

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Life is great !