SAS Monthly

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Contact

Office: 81 Clemenceau Avenue
#04-15/16 UE Square
Singapore 239917

Mail Box: Singapore Actuarial Society
Robinson Rd Post Office
PO Box 376
Singapore 900726

Patsy Lau
www.actuaries.org.sg

Editorial

A very Happy New Year to everyone!

After all the activities held by SAS towards the end of 2013 it is not surprising that January has been a relatively quiet month. It will not be long however before the AGM and Annual Dinner in March, which will be the next big gathering for SAS.

Now is the time to think about any issues that you would like to raise at the AGM, or to consider if you would like to stand for any formal position.

2014 also marks the start of the Annual hosting of the East Asian Actuarial Conference, which this year is being held in Taipei. I have recently seen a call for papers to this conference. It will be good to get contributions from Singapore to keep the momentum and visibility of SAS, following on from the successful event in Singapore last year.

Richard Holloway
Vice President

Message from the President

Happy New Year! I hope that you will all have a successful year in 2014. SAS Council has already met in 2014 and some important topics were discussed.

Thank you to the Fellowship working party, for putting together the materials and presentation for expanding the number of recognized actuarial societies. Thank you all who sent in your views on the matter, I have shared this with Council on an anonymous basis. Council has decided not to pursue expanding the list at this point in time. I'd like to remind those who are not on the recognized list, that there is another path to SAS Fellowship and details can be found here: http://www.actuaries.org.sg/files/library/other/Supplementary%20Application%20Form_July%202007.pdf

The 2014 EGM and AGM will be held on March 14th. Details will be provided soon, but in the meantime mark your calendars. All Council positions are up for election. I will not be standing for election, but will move into the ex-officio role (which is a non-elected Council position). After two years as Honorary Secretary and four years as President, it is time for fresh ideas and direction for the SAS. I'd like to thank you all for your support and your efforts; I couldn't have done anything without you. If you are interested in joining Council and would like to discuss, please don't hesitate to contact me with any questions.

Jill Hoffman

Upcoming Events

Date	Event	Location	Contact
17th – 18th Feb	16th Global Conference of Actuaries & 2014 AGFA	Renaissance Mumbai Convention Centre Hotel, Mumbai	Dilip Chakraborty: gca@actuariesindia.org
18th - 19th Feb	14th Asia CEO Insurance Summit	Bali, Indonesia	Sheela Suppiah-Raj: sheela@asiainsurancereview.com
26th – 27th Feb	2nd Asia Insurance Brokers' Summit	Singapore	Daniel Tan: daniel@asiainsurancereview.com
27th Feb, 4th Mar, 6th Mar	SOA Webcast: "Keeping Pace with ERM Practices and Regulatory Developments in Asia Pacific"	Online	Actuaries Office Hong Kong: actuaries@biznetvigator.com
14th Mar	Annual General Meeting	TBA	http://www.actuaries.org.sg/?q=node/6176
17th Mar	SAS SMU Career Fair	Singapore Management University	http://www.actuaries.org.sg/?q=node/6237
30th Mar – 4th Apr	30th International Congress of Actuaries	Washington, D.C.	http://www.ica2014.org/congressprogram/index.cfm?fa=plenarySessions
29th – 30th May	6th General Insurance Conference	TBA	http://www.actuaries.org.sg/?q=node/6238
19th – 20th Jun	Health and Retirement Conference 2014	TBA	http://www.actuaries.org.sg/?q=node/6157

Recent Events: SAS Bowling Night

On 17 Jan 2014, about 80 members from various companies came together and enjoyed the entire 3 hours at SuperBowl Marina Square, Last Party before CNY. 15 teams competed for the top prizes. Top male and female bowlers and 3 top Teams walked away the Prizes.







Council Update

Have you paid your SAS membership subscription for 2014? This year, our early bird discount period ends on 24th January. Please make your payment to Patsy early to take advantage of the 10% discount.

For all SAS Fellows and Associates, this is also the time of the year to start filling up the Continuing Professional Development (CPD) for 2013. Please be reminded that you are required to complete a minimum of 20 hours of CPD records for each calendar year. You may update the CPD hours via our SAS website. We look forward to receive all the updated CPD hours before our Annual General Meeting (AGM), which has been set on the 14 March. Please mark this date down in your calendar.

We look forward to an exciting 2014 as the SAS will be organising many interesting events such as conferences, afternoon forums and social events for our members.

We welcome any feedback and suggestions on how we can serve you better in the SAS. Please email me at secretary@actuaries.org.sg or Patsy Lau, our Administrative Executive, at patsy@actuaries.org.sg for any SAS matters.

Raymond Cheung

Committee Reports

• Health Insurance Committee

There has been progress in the projects which I announced at the start of the SAS year, in April 2014, but we have yet to reach the point where we are ready to share results with the general membership. We welcome more SAS members to join the Committee, to support the current Committee members in these projects. If you are interested, please let me know at chichenghock@gmail.com.

In the meantime, the Committee was "distracted" by the government's announcement of the review of the MediShield Scheme, to be re-named the MediShield Life Scheme. The Committee has responded in two ways:

- It drafted a Preliminary Comments paper, in response to the proposed amendments to the Scheme, and to suggestions made by academics, journalists and members of the public on how the government can achieve its objective of a universal health insurance for the lifetime of all residents. This paper is currently exposed to all SAS members, for their views before being finalised as an official SAS response.

- Committee members volunteered as seed members of an SAS Response Working Party, which will engage directly with the Ministry of Health, to add value to the MediShield Life Review process, principally by applying the core skills and knowledge of the actuarial profession to advise the MOH on the financial implications of proposals for amendments to the Scheme. A general call for volunteers yielded 24 members (including the initial seed members). I thank the SAS membership for their generous support of this SAS initiative, to be more engaged in public policy formulation. I regret that I had to turn down another 5 volunteers, who responded after the deadline.

The SAS Response Working Party is constituted as a separate ad hoc committee of the SAS and, in future, will report its activities independently. I will be chairing this Working Party, and look forward to the challenge of leading a team of enthusiastic actuarial professionals in harnessing our strengths for the good of the public.

Chi Cheng Hock

Life Committee

On the 5th of Dec last year, SAS Life Subcommittee has arranged for a sharing session between MAS and the Appointed/ Senior Actuaries in the Life Insurance industry. The turnout was good as almost all invitees attended the session. MAS provided updates on a few key areas of interest, such as RBC 2, Enterprise Risk Management and Own Risk & Solvency Assessment. They also took the opportunity to touch on the expectations of the upcoming Stress Testing exercise which is to be conducted in the first quarter of this year. On top of that, they provided feedback on the Actuarial Investigation Report and pointed out areas for improvement. Lastly, they shared some updates on the recent IMF FSAP, the follow-up actions and IAIS' work on global capital standards.

Overall, the session was well-received and we look forward to arranging similar sessions in the future to discuss on key developments in the insurance industry.

Tan Yue Li

GI Committee

The next SAS General Insurance Conference will be held in May 2014. The committee discussed and agreed on a range of working party topics. An announcement for the conference and call for paper will be circulated shortly.

Jim Qin

New Members

Fellow Membership:

Iain Laird RAMSAY, ***Cigna European Services (UK) Ltd***

Jack JIANG, ***Milliman Limited***

Cathy HWANG Yu Shan, ***Milliman Limited***

Jethro David GOODCHILD, ***Aviva Investors Pte Ltd***

TAN Gideon, ***Swiss Reinsurance*** *(Upgrade)*

CHEONG Kwok Seng Lance, ***Aviva Asia Pte Ltd*** *(Upgrade)*

Associate Membership:

Andrew Fergal MCGRATH, ***AXA Asia Regional Office***

Ordinary Membership:

Royce POH Qi Yang, ***Guy Carpenter***

YANG Zihao, ***AXA Life Insurance Pte Ltd***

LIM Tien Yung, ***Shenton Insurance Pte Ltd***

SENG Yi Liang Wilson, ***Canopius Asia Pte Ltd***

LIN Fangcheng, ***Allianz SE Reinsurance***

LI Boyu Carol, ***Allianz SE Reinsurance***

Affiliate Membership:

DE VERA Noriel, ***Eames Consulting Group***

CJ REYNOLD, ***Eames Consulting Group***

Student Membership:

KOH Woon Ling, ***National University of Singapore***

CHEONG Wei Quan, Herman, ***Singapore Management University***

SUN Qingwei, ***National University of Singapore***

TAY Yu Xuan, ***National University of Singapore***

TAN Wei Sheng Wilson, ***Nanyang Technological University***
ANG Ben Yun, ***Nanyang Technological University***
Jessica RAHARJA, ***Singapore Institute of Management***
ZHANG Ruirui, ***National University of Singapore***
CHONG Zhikang, ***Nanyang Technological University***
Mohamed HYDER Bin Mohamed Sulaiman, ***Nanyang Technological University***
YEO Shiping, ***Nanyang Technological University***
WANG Qianru, ***Nanyang Technological University***
LEE Shaw Shawn, ***Singapore Management University***
Renard TEO Yuan Ning, ***Singapore Management University***

News & Articles

• General News

Worldwide retirement crisis could mean longer working lives, lower benefits

The Associated Press, 4 January 2014

A global retirement crisis is bearing down on workers of all ages.

Spawned years before the Great Recession and the 2008 financial meltdown, the crisis was significantly worsened by those twin traumas. It will play out for decades, and its consequences will be far-reaching.

Many people will be forced to work well past the traditional retirement age of 65. Living standards will fall and poverty rates will rise for the elderly in wealthy countries that built safety nets for senior citizens after World War II. In developing countries, people's rising expectations will be frustrated if governments can't afford retirement systems to replace the tradition of children caring for aging parents.

The problems are emerging as the generation born after World War II moves into retirement.

“The first wave of underprepared workers is going to try to go into retirement and will find they can't afford to do so,” said Norman Dreger, a retirement specialist with the consulting firm Mercer in Frankfurt, Germany.

The crisis is a convergence of three factors:

>> Countries are slashing retirement benefits and raising the age to start collecting them. These countries are awash in debt since the recession hit. And they face a demographics disaster as retirees live longer and falling birth rates mean there will be fewer workers to support them.

>> Companies have eliminated traditional pension plans that guaranteed employees a monthly check in retirement.

>> Individuals spent freely and failed to save before the recession and saw much of their wealth disappear once it hit.

Those factors have been documented individually. What is less appreciated is their combined ferocity and global scope.

“Most countries are not ready to meet what is sure to be one of the defining challenges of the 21st century,” the Center for Strategic and International Studies in Washington concluded.

Mikio Fukushima, who is 52 and lives in Tokyo, worries that he might need to move somewhere cheaper, maybe Malaysia, after age 70 to get by comfortably on income from his investments and a public pension of just $10,000 a year.

People like Fukushima who are fretting over their retirement prospects stand in contrast to many who are already retired. Many workers were recipients of generous corporate pensions and government benefits that had yet to be cut.

Jean-Pierre Bigand, 66, retired Sept. 1, in time to enjoy all the perks of a retirement system in France that's now in peril. Bigand lives in the countryside outside the city of Rouen in Normandy. He has a second home in Provence. He's just taken a vacation on Oleron Island off the Atlantic coast and is planning a five-week trip to Guadeloupe.

“Travel is our biggest expense,” he said.

Under siege

The notion of extended, leisurely retirements is relatively new. Germany established the world's first widely available state pension system in 1889. The United States introduced Social Security in 1935. In the prosperous years after World War II, governments expanded pensions. In addition, companies began to offer pensions that paid employees a guaranteed amount each month in retirement — so-called defined-benefit pensions.

The average age at which men could retire with full government pension benefits fell from 64.3 years in 1949 to 62.4 years in 1999 in the relatively wealthy countries that belong to the Organization for Economic Cooperation and Development.

“That was the Golden Age,” Mercer consultant Dreger said.

It would not last. As the 2000s dawned, governments — and companies — looked at actuarial tables and birth

rates and realized they couldn't afford the pensions they'd promised.

The average man in 30 countries the OECD surveyed will live 19 years after retirement. That's up from 13 years in 1958, when many countries were devising their generous pension plans.

The OECD says the average retirement age would have to reach 66 or 67, from 63 now, to “maintain control of the cost of pensions” from longer lifespans.

Compounding the problem is that birth rates are falling just as the bulge of people born in developed countries after World War II retires.

Populations are aging rapidly as a result. The higher the percentage of older people, the harder it is for a country to finance its pension system because relatively fewer younger workers are paying taxes.

In response, governments are raising retirement ages and slashing benefits. In 30 high- and middle-income OECD countries, the average age at which men can collect full retirement benefits will rise to 64.6 in 2050, from 62.9 in 2010; for women, it will rise from 61.8 to 64.4

In the wealthy countries it studied, the OECD found that the pension reforms of the 2000s will cut retirement benefits by an average 20 percent.

Even France, where government pensions have long been generous, has begun modest reforms to reduce costs.

“France is a retirees' paradise now,” said Richard Jackson, senior fellow at the CSIS. “You're not going to want to retire there in 20 to 25 years.”

The fate of government pensions is important because they are the cornerstone of retirement income. Across the 34-country OECD, governments provide 59 percent of retiree income, on average.

The financial crisis

The outlook worsened once the global banking system went into a panic in 2008 and tipped the world into the worst recession since the 1930s.

Government budget deficits swelled in Europe and the United States. Tax revenue shrank, and governments pumped money into rescuing their banks and financing unemployment benefits. All that escalated pressure on governments to reduce spending on pensions.

The Great Recession threw tens of millions out of work worldwide. For others, pay stagnated, making it harder to save. Because government retirement benefits are based on lifetime earnings, they'll now be lower. The Urban Institute, a Washington think tank, estimates that lost wages and pay raises will shrink the typical American worker's income at age 70 by 4 percent — an average of $2,300 a year.

Leslie Lynch, 52, of Glastonbury, Conn., had $30,000 in her 401(k) retirement account when she lost her $65,000-a-year job in 2012 at an insurance company. She had worked there 28 years. She has depleted her retirement savings trying to stay afloat.

“I don't believe that I will ever retire now,” she said.

Many of those facing a financial squeeze in retirement can look to themselves for part of the blame. They spent many years before the Great Recession borrowing and spending instead of saving.

The Asia challenge

In Asia, workers are facing a different retirement worry, a byproduct of their astonishing economic growth.

Traditionally, Chinese and Koreans could expect their grown children to care for them as they aged. But newly prosperous young people increasingly want to live on their own. They also are more likely to move to distant cities to take jobs, leaving parents behind. Countries like China and South Korea are at an “awkward” stage, Jackson said: The old ways are vanishing, but new systems of caring for the aged aren't yet in place.

Yoo Tae-we, 47, a South Korean manager at a trading company that imports semiconductor components, doesn't expect his son to support him as he and his siblings did their parents.

“We have to prepare for our own futures rather than depending on our children,” he said.

China pays generous pensions to civil servants and urban workers. They can retire early with full benefits — at 60 for men and 50 or 55 for women. Their pensions will prove to be a burden as China ages and each retiree is supported by contributions from fewer workers.

The elderly are rapidly becoming a bigger share of China's population because of a policy begun in 1979 and only recently relaxed that limited couples to one child. China is considering raising its retirement ages, but the government would likely meet resistance.

The end of traditional pensions

Corporations, too, are cutting pension costs by eliminating traditional defined-benefit plans. They don't want to bear the cost of guaranteeing employees' pensions. They've moved instead to so-called defined-contribution plans, such as 401(k)s, in the United States. These plans shift responsibility for saving to employees.

But people have proved terrible at taking advantage of these plans. They don't always enroll. They don't contribute enough. They dip into the accounts when they need money.

They also make bad investment choices — buying stocks when times are good and share prices are high and bailing when prices are low.

Several countries are trying to coax workers to save more.

Australia passed a law in 1993 that makes retirement savings mandatory. Employers must contribute the equivalent of 9.25 percent of workers' wages to 401(k)-style retirement accounts.

In 2006, the United States encouraged companies to require employees to opt out of a 401(k) instead of choosing to opt in. That means workers start saving for retirement automatically if they make no decision.

Easing the pain

Rebounding stock prices and a slow rise in housing prices are helping households recover their net worth. But Boston College's Center for Retirement Research says the recovery still leaves about 50 percent of American households at risk of being unable to maintain their standard of living in retirement.

When they look into the future, retirement experts see more changes in government pensions and longer careers than many workers had expected.

Those planning to work past 65 can take some comfort knowing they'll be healthier, overall, than older workers in years past. They'll also be doing jobs that aren't as physically demanding. In addition, life expectancy at 65 now stretches well into the 80s for people in the 34 OECD countries — an increase of about five years since the late 1950s.

“My parents retired during the Golden Age of retirement,” said Mercer consultant Dreger, 37. “My dad, who is 72, retired at 57. That's not going to happen to somebody in my generation.”

Natural disasters produced $192bn global economic loss in 2013, while insurers face $45bn bill - Impact Forecasting annual catastrophe study

PRNewswire, 13 January 2014

Impact Forecasting, the catastrophe model development center of excellence at Aon Benfield, today releases its Annual Global Climate and Catastrophe Report, which evaluates the impact of the natural disaster events that occurred worldwide during 2013. Aon Benfield is the global reinsurance intermediary and capital advisor of Aon plc (NYSE: AON).

The report reveals that 296 separate events produced total economic losses of USD192 billion – four percent below the 10-year average of USD200 billion, but above the average 259 events.

The natural disasters caused total insured losses of USD45 billion – their lowest since 2009 and 22 percent below the 10-year average of USD58 billion.

In a reversal from 2012, the largest global events of 2013 were heavily concentrated in Europe and Asia, rather than in the United States. However, despite just 16 percent of all economic losses occurring in the U.S., the country accounted for 45 percent of all insured losses globally due to its greater insurance penetration.

Flood events accounted for 35 percent of all global economic losses during the year, which marked their highest percentage of aggregate losses since 2010. Notable events included major flooding in Central Europe, Indonesia, the Philippines, China, and Australia.

Meanwhile, severe drought conditions contributed to billion-dollar (USD) losses in Brazil, China, New Zealand, and the U.S.

Stephen Mildenhall, Chief Executive Officer of Aon Benfield Analytics, said: "2013 was an active year for serious catastrophe events but one in which the industry dodged the bullet of a single dominating insured event. Typhoon Haiyan, however, demonstrated the real and ever-present potential for large scale destruction. U.S. insured losses, at 45 percent of the total, were in-line with the U.S. 42 percent share of global property premium."

The 2013 report offers a more comprehensive analysis of possible loss trends across four key global regions: United States, Americas (Non-U.S.), EMEA, and APAC.

The study highlights that the most deadly event of 2013 was Super Typhoon Haiyan, which struck the Philippines in November, leaving nearly 8,000 people dead or missing.

The May/June floods in Central Europe were the costliest single event of the year, causing an estimated USD5.3 billion insured loss and approximately USD22 billion in economic losses. Most of the flood losses were sustained in Germany, which also endured record-level insured hail losses during multiple summer convective thunderstorm events.

No hurricanes struck the U.S. during the year, as the country extended its record streak without a major (Category 3+) hurricane landfall to eight consecutive years. The previous record was set between September 1900 and October 1906.

A total of 15 tropical cyclones (Category 1+) made landfall globally in 2013, slightly below the 1980-2012 average of 16. Thirteen of the landfalls were registered in the Northern Hemisphere, including nine in Asia.

Europe, the Middle East and Africa (EMEA) and the Americas (Non-U.S.) each sustained aggregate insured losses above their 10-year averages in 2013. The United States and Asia-Pacific (APAC) regions both incurred below normal insured losses.

Steve Bowen, senior scientist and meteorologist at Impact Forecasting, said: "Despite registering nine separate billion-dollar events, natural disaster losses in the U.S. were down 78 percent from 2012. The most significant losses in 2013 were found in Europe and Asia Pacific, where each region endured multiple events that had major financial and societal implications. While not the costliest event, Super Typhoon Haiyan was the most catastrophic after coming ashore in the Philippines as one of the strongest tropical cyclones ever recorded. Typhoon activity in the Western Pacific also led to Typhoon Fitow becoming the second-costliest insured event in China's history after payouts surpassed USD1.0 billion. An active year in Europe saw economic losses that were the highest since 2002 and 90 percent above its recent ten-year average."

The report also reveals that preliminary data indicates that 2013 was the fourth warmest year recorded since global land and ocean temperature records began in 1880.

Ten Trends That Will Shape Asia in 2014

Carnegie Endowment for International Peace, 21 January 2014

A fraught 2014 lies ahead for Asia. Political risks will rise, security tensions will increase, and skepticism will continue to grow about whether major Asian governments—especially in Beijing, Tokyo, New Delhi, and Jakarta—are sufficiently committed to growth-conducive reforms.

Ten trends will shape this more volatile Asia, yielding risks, opportunities, and patterns that will influence the next twelve months and beyond.

1. Asia Drives Demand

First, the good news: Asia's relationship to the world economy is changing in dramatic, and positive, ways. For decades, G7 countries beat a path to Asia's door—buying Asian exports and investing heavily in Asian economies. But Asia has become a major factor in the advanced economies' own growth stories. And where others have long consumed goods from Asia, it is Asians who are now investing and consuming more from overseas.

For an illustration, take the United States: American demand for Asian goods has powered export-led sectors across the region since at least the 1960s, from Japanese and Korean microelectronics to Thai rubber to Vietnamese textiles. But Asians are now major consumers of all things American, including corn and soybeans (for their animal feed), pork (for their tables), and natural gas (for their power plants). Increasingly, they are buying stakes in U.S. companies and resources too. If, as many argue, the prospects are finally brighter for the U.S. economy, it is in part because Asia has become a contributor to several pillars of the recovery, not least U.S. domestic energy production, agricultural exports, and high-tech innovation.

This trend will continue and grow in 2014, as Asia consolidates its role as a demand driver for the world economy.

2. Security Fragmentation Threatens Economic Integration

But here's the bad news: Asia is becoming more prosperous and economically integrated, yet the central strategic challenge in Asia today is the collision between economics and security.

Over half of Asia's trade is now being conducted within the region, powering a $20-trillion-plus regional economy. But the same countries that are trading, investing, and growing together are beset by security tensions and dysfunctional diplomatic relationships. Asia's major powers are mistrustful and prone to nationalism. Their strains are increasing over the sovereignty of tiny rocks and shoals in the East and South China Seas.

This contradiction between economic integration and security fragmentation will sharpen in 2014. Asia's economic dynamism and integration are being put at risk because of debilitating security competition and sharpening political disputes.

A central factor is China. Bluntly put, Beijing's long-term strategic intentions inspire deep anxieties. So, as a hedge against China's growing strategic weight, many Asian countries are deepening defense and political coordination with the United States and each other.

China has become the top trade partner for many of Asia's major economies. And it will continue to play a major role in powering the growth of other economies in Asia, including erstwhile strategic rivals like Japan, South Korea, Vietnam, and Australia. Yet, economic interdependence alone cannot serve as a conflict-mitigating mechanism. After all, economic interdependence did not make war in Europe obsolete in 1914.

3. The Contested Commons

These tensions are likely to play out not just in disputes over territory but in the global commons as well. Beijing's November declaration of an air defense identification zone (ADIZ) in the East China Sea raised hackles and will likely be followed in 2014 by similar declarations around China's maritime periphery. Yet the debates over China's actions raise broader questions about how competing sovereignty claims in Asia may touch public goods and the global commons—airspace, cyberspace, and the high seas.

Beijing and Washington in particular seem to be talking past each other—China talks mostly about sovereign rights and claims; the United States talks largely about international rights and customs. And these differences will compound existing tensions over the cyber-domain. So, quite apart from contested sovereignty claims between China and its neighbors, disputes will intensify in 2014 over issues of the commons—rights of passage, freedom of navigation, and diverging interpretations of customary international law.

Many countries have already framed their positions on these disputes around divergent perceptions of laws and norms. Take Beijing's new ADIZ: At a summit in December, Japan and ten Southeast Asian countries avoided mentioning the zone directly but called, in coded language, for "freedom of overflight and aviation safety in accordance with universally recognized principles of international law." Meanwhile, Beijing defended the zone by declaring that it "will not affect the freedom of overflight, based on international laws."

4. Japan's Pivot to Asia

With a competitive eye on China, expect Tokyo to further reinvigorate its Asian diplomacy in 2014. Just one year into his tenure, Prime Minister Shinzo Abe has

traveled Asia relentlessly, courted India, and pledged $20 billion in new aid and loans to Southeast Asia.

It is too easy to overstate the novelty of this. Tokyo has a long history of vigorous pan-Asian diplomacy. But Abe's effort takes on special resonance in the face of intensifying strategic wariness between Tokyo and Beijing.

Tokyo will look to expand its toolkit, leveraging project finance, trade, aid, people-to-people exchanges, and even security cooperation. How deeply this resonates in Southeast Asian countries, which have long sought to foster balance between Beijing and Tokyo, will be especially telling of whether Abe is getting traction in his effort to use China as a foil to boost Tokyo's ties in Asia.

Japan's approach to investment bears watching in the coming year, particularly if another round of anti-Japan boycotts and protests erupts in China. Thus far, talk of a "hedge" has not led to a serious rethink of China as an investment destination for Japan, Inc. But investments may begin to flow out of China to other destinations in Asia if tensions escalate in 2014.

One challenge will be for Tokyo and Washington to stay coordinated. Each in its own way looks warily at a rising China. Yet Japan's pan-Asian diplomacy, especially on economic ideas like Asian monetary integration, has at times put it at odds with the United States—a trend that could resume in 2014. Japan is a robust U.S. ally with a powerful sense of trans-Pacific identity, yet it has incubated a variety of pan-Asian regional ideas that have unsettled past U.S. administrations.

5. North Korea's Great Unraveling?

The December execution of Jang Song-thaek, the uncle of North Korean leader Kim Jong-un, and the ongoing purge of his patronage network have highlighted internal divisions and raised underlying questions about the stability of the regime. The risk of instability will grow in 2014.

Pyongyang has a penchant for provocations and in recent weeks has begun to hurl new threats and invective at South Korea. Both Seoul and Washington fret that Pyongyang lacks escalation control. And worse, the North has plenty of provocative options, including another nuclear test, long-range missile tests, or conventional attacks around or beyond its disputed maritime border with the South. Conventional attacks would be especially destabilizing because they would raise questions about whether the conventional deterrence that has kept the peace on the peninsula for six decades is eroding under the shadow of Pyongyang's nuclear capability and a reckless young leader.

Such provocations would pose tough choices for everyone in Northeast Asia. For its part, Beijing is Pyongyang's closest partner but would hardly welcome actions that destabilize the region—or bring Seoul, Washington, and Tokyo into closer alignment. China has shown scant appetite for coercing North Korea, while Seoul and Washington have bet that Chinese leverage could limit Pyongyang's behavior and restrain the worst provocations. But many viewed Jang as Beijing's man in Pyongyang, so, in the wake of his execution, China's influence over the North is more questionable than ever.

Meanwhile, the ghosts of history have bedeviled U.S. efforts to encourage security collaboration between South Korea and Japan. China's rise looms in the background, but Seoul has been careful not to lean too far toward Tokyo. In fact, America's Northeast Asian allies, despite a robust trade relationship and a powerful shared interest in countering North Korean threats, could not sign even a straightforward intelligence-sharing agreement in 2012 to enhance cooperation in the face of this common threat. If a more volatile North Korea in 2014 can't bring these two U.S. allies together for security coordination and contingency planning, what will?

Washington will be working hard, mostly behind the scenes, to help its allies overcome their differences. Beijing will likely be looking to forestall this, betting that Seoul's tensions with Tokyo over history and territory will ultimately limit their cooperation.

6. The Future of the U.S. Rebalance

It has been no easy ride for the Obama administration in Asia. First, its critics charged it with paying too little attention to the region while China"ate America's lunch." Then, the administration initiated a supposedly game-changing "pivot," or "rebalance," to Asia that put America back in the game. Finally, in November

President Barack Obama missed a regional summit and the criticism picked up again.

Washington must make choices in 2014 that will test traditional U.S. roles in Asia in new ways. In the postwar period, the United States became the principal provider of security-related public goods in Asia through alliances and forward-deployed military forces that have helped to keep the peace. And the United States has been the principal provider of public goods in the economic realm as well, not least because demand from American consumers has helped to power export-led growth in Asia.

In recent years, the U.S. role as Asia's principal security provider has been reinforced, but Washington's allies in particular will be anxiously watching to see how it reverses the debilitating effects of sequestration on its defense posture and whether it makes long-range investments in new capabilities. Meanwhile, as U.S. economic weight shrinks in relative terms, it is unclear whether the U.S. role is sustainable without a significantly increased American economic profile to balance its enhanced security profile, for instance through the kind of leadership that would help bring global and regional trade agreements to conclusion.

7. A Convergence of Models?

Indeed, a raft of regional preferential trade agreements now compete for attention in Asia. These include, but are not limited to, the U.S.-backed Trans-Pacific Partnership (TPP) and the pan-Asian Regional Comprehensive Economic Partnership (RCEP), which does not include the United States.

Many see the TPP and the RCEP as competitive. And in recent years some in Beijing, in particular, have looked warily at the TPP, viewing it as part of a U.S. containment strategy. But things may change in 2014, as China has begun to take an interest in the TPP. Chinese reformers view external pressure, such as the pressure that the membership requirements of the TPP would provide, as a way to promote change at home, much as membership in the WTO forced economic and institutional changes in the late 1990s.

This does not mean that competition between models will evaporate overnight. For one, the gap between TPP requirements and China's domestic arrangements is huge. And even the current TPP negotiating parties have not forged agreement on tough issues like the treatment of state-owned enterprises.

But if the TPP is concluded in 2014, it will set a new competitive standard in Asia. Major countries, including China, will need to adapt as the agreement begins to affect their economies.

8. China's Economy: To Market?

China's reform efforts have become more vigorous because its growth model, which has depended on the twin pillars of investment in fixed assets and exports, has begun to run out of steam.

To that end, Beijing ends 2013 having adopted a sweeping economic reform agenda that includes new commitments to financial liberalization, the repair of China's social safety net, protections for rural property rights, and greater reliance on market forces. Beijing has committed to increase the role of the market in the economy—for example, by boosting the formalrole of private capital.

But reforms that aim to give the market a more decisive role cannot succeed unless the state begins to shed some of the functions that have made it a pervasive force in the economy. This will be a pivotal reform challenge in 2014. Chinese leaders have declared war on "vested interests" that, they say, are obstructing market reforms. Yet the biggest vested interest in the Chinese economy is the state itself, which plays an outsized role in areas, like price controls, that would be better left to the market. In the coming year, Beijing will debate and struggle with the state's relationship to the economy, especially the way that prices and interest rates are determined.

The biggest changes will likely come through financial reforms, with significant moves toward market-based prices and steps to begin liberalizing deposit interest rates. The biggest struggles, meanwhile, will be over restrictions on internal migration and the subsidies provided to state-owned firms.

9. The Push and Pull Over Reforms

Washington and Beijing won't be the only capitals to face intensified scrutiny of their economic policies in 2014. Antsy global investors and angry domestic voters

will push and pull a number of Asian governments in competing directions.

In India, tax, insurance, and land acquisition reforms have stalled, investor confidence has sunk, and a pending national election seems unlikely to yield anyscenario conducive to bolder initiatives. In the absence of concerted national action, pressure will rise on India's states to enhance their role as local laboratories for growth-conducive reforms.

Tokyo confronts skepticism that the prime minister's economic agenda—Abenomics—can deliver a long-term growth strategy that will return Japan to sustained economic health.

Investor confidence will be tested in Thailand, where political conflict continues, and Indonesia, where slowing growth has been managed primarily through monetary policy, not policy reforms.

In Malaysia, the government's popularity has taken a hit as it cuts subsidies, hikes tariffs, and moves to introduce new consumption taxes to address its fiscal deficit. Although the aim is a stronger economy, the government's efforts will squeeze consumers.

10. Central Asia in Flux

New economic and strategic pressures will also emerge in continental Asia in 2014. Landlocked Central Asian economies will be tested amid the U.S. withdrawal from Afghanistan, new Chinese investment and infrastructure initiatives, Russia's efforts to extend its preferential customs union, and Iran's uncertain trajectory.
To date, enthusiasm for economic cooperation has been far greater outsidethe region than among Central Asian states themselves. Yet cooperation is important because these landlocked economies rely on surrounding powers like Russia and China for the transit of goods and resources, raising transaction and transportation costs.

In 2014, questions about leadership succession and other political risks in Uzbekistan, Kazakhstan, and elsewhere will intensify the pressure on these governments to deliver more enduring economic gains. But with U.S. and European attention on the region likely to recede after the withdrawal from Afghanistan, these governments will have fewer outside partners. So they will increasingly need to look to their own neighborhood if they are to overcome their weak history of cooperation. Macroeconomic fundamentals and enhanced cross-border trade and investment could become more important as governments seek to deliver balanced growth and foster economic opportunity.

A Testing Time

For two decades, Asia has defied the gloomy predictions of those who believed that its future would resemble Europe's conflict-ridden past. Like Europe before 1945, Asia is beset by territorial disputes, powerful nationalisms, and a long history of war and conflict. But Asian countries have managed throughout the post–Cold War period to grow and prosper together while keeping their disputes in check.

The question is how long that positive trajectory will last. Posing tough new tests to this effort to construct a shared future, the year to come will prove a trying one for Asia.

Brainteasers

#1
This past weekend, Dr. Riddler invited a group of friends to a party of puzzles and games. During the night, Dr. Riddler presented a "special riddle" to his guests. Whoever figured it out fastest would win a great prize!

The six guests who attended were Calvin Peterson, Florence Oak, David Gardner, Lester Page, Joel Pastor, and Veronica Andrews. After a lavish dinner and a few more hours of puzzle fun, Dr. Riddler began to announce the name of the person who figured out the "special riddle:"

"OK now everyone...!"
"The winner of..."
"'The Hardest Riddle Ever' Event..."

But before the good doctor could congratulate the winner, a loud noise from outside interrupted him. However, everyone knew who had won.

Who won and how do you know?

#2
What characteristic do these three 12-digit numbers share with each other, but with no other 12-digit number?

100307124369
111824028801
433800063225

Note: If you have a fun brainteaser that you would like to share, please feel free to email Zi at ZiXiang.Low@milliman.com

Answers for last issue's brainteasers:

#1
1 Ring per Year of a Tree's Life.

#2
"Jack, you weren't given any homework!" exclaimed the teacher.