

1 August 2008



ACTUARIAL SOCIETY
of
H O N G K O N G
香 港 精 算 學 會

Dear Members,

Actuarial Society of Hong Kong – Revised AGN7 Exposure Draft

The Actuarial Guidance Note 7 (“AGN7”) on Dynamic Solvency Testing, which was first issued by the Actuarial Society of Hong Kong (“ASHK”) in December 2004, required Appointed Actuaries of Long Term Insurance Companies to include an assessment of the effect of adverse scenarios on the Insurer’s future capital adequacy as part of the annual financial condition review. Subsequently, in March 2005, the Office of the Commissioner of Insurance issued a circular to the Chief Executives of Insurers requiring the actuarial opinion on the DST assessment to be submitted to the OCI starting from the financial year ended 31 December 2005.

To evaluate the practicality of this actuarial guidance note, the ASHK conducted a survey gauging appointed actuaries’ views in 2005. It revealed that there are different interpretations of wordings and considerable divergence in practical application. To enhance the clarity of the guidelines and facilitate more consistent practice as well as to expand the scenarios covering wider scope and inner depth, the first Exposure Draft on revisions to the existing AGN7, which was prepared by the AGN7 Working Party of the ASHK Life Insurance Committee, had been circulated and reviewed by appointed actuaries in the 2007 Appointed Actuaries Symposium. After careful consideration of comments received, the AGN7 Working Party incorporated appropriate feedback into the attached revised version of the Exposure Draft, addressing changes to be made in seven aspects: 1) Disclaimer Statement; 2) Purpose of Report; 3) Actuarial Guidance Note Structure; 4) Expansion of Scenarios; 5) Actuarial Assumptions; 6) Recommended Action; and 7) Reporting Guideline.

Pursuant to the ASHK By-law on the Due Process for the Development of Professional Standards/Guidance Notes, members of the ASHK are now being given one month to provide any written comments to Council on the enclosed exposure draft. The AGN7 Working Party will present a summary of the resulting comments and a subsequent version of the exposure draft in September. Final recommendations will be submitted in October to the ASHK Professional Matters and Life Insurance Committees for approval and thereafter to the ASHK Council for final decision.

Please address all feedback to Ms. Pat Kum (email: patkum@netvigator.com) by close of business on **Monday, 1 September 2008**.

Thank you for your time and support.

Yours sincerely,

Foong Sai-Cheong
Co-Chairperson
Life Insurance Committee

Simon Walpole
Co-Chairperson
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Encl.