



Ian Perera  
President

**PRESIDENT'S  
NEWSLETTER  
January 2012**



Paul Rhodes  
Vice-President

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**Message from the President**

I am delighted to announce that the date and venue of our next conference have been confirmed as The Copthorne Hotel and Resort, Bay of Islands for 18 -22 November 2012.

My thanks to Daniel Mussett, Anita Samu and Ross Simmonds for their work in selecting the venue.



John Smith  
Secretary



Richard Beauchamp  
Council Member



Linda Caradus  
Treasurer



Anne Lord  
Council Member

## Regulation of insurers

The Reserve Bank of New Zealand has recently issued new regulations on Statutory Funds for Life Insurance (see link below). The Life Committee is preparing a submission to the RBNZ on behalf of the NZSA. If members have any feedback that they wish included please contact Hamish Farrar (hamish\_farrar@bnz.co.nz)

<http://www.rbnz.govt.nz/finstab/insurance/4625466.pdf>

## News from Council

Council has been working with RBNZ to allay concerns regarding incorporation by reference of the Society's standards within the solvency standards attaching to the Insurance (Prudential Supervision) Act 2010. The concern has been that this incorporation by reference may give the Society's standards the force, and sanction, of law. A response from the RBNZ has been received stating:

*The solvency standards incorporate various definitions used in NZSA standards. This means those definitions are part of the solvency standard and have legal effect, for the purposes of the solvency standard. Essentially, this is just a drafting device. The incorporation of those definitions into the standards has no effect on the status of the NZSA standards and no effect on those definitions outside of their reference in the solvency standards. The NZSA standards will not have the force and sanction of law.*

Council approved revisions to the NZSA life insurance solvency standard. The main purpose of the revisions is to transition PS5 out of effect as the RBNZ solvency standard takes force.

Council has been working with the General Insurance Committee to offer the profession's assistance with a review of the Earthquake Commission model. A copy of a letter sent to the Hon Gerry Brownlee is appended to this newsletter.

John Smith, our Secretary, continues to be very active in supporting the international profile of the NZSA. I have attached a country profile that he recently provided for the Actuary India magazine.

## Future events

### Appointed Actuary Workshop

A workshop for actuaries who will, or who already, fill Life or General Insurance Appointed Actuary roles in New Zealand will be held in Auckland close to the airport on 29<sup>th</sup> February. It will feature discussion by industry leaders and senior actuaries.

### Sessional Meetings

The events committee is busy planning for a full programme of sessional meetings for 2012. Details will be available shortly.

## **Reports from Recent Events**

### General Insurance Seminar

This was held in Auckland on the 25<sup>th</sup> of October. Not surprisingly, the main focus was on the very topical issues of earthquakes and regulation. Presentations from the seminar are available on our website filed under “events”.

### Financial Services Forum

59 members attended the Financial Services Forum in Wellington on Friday 25 November. The 5 sessions covered a wide range of topics – retirement income, why companies fail , what Boards want from actuaries, the current state of play in insurance regulation, and the recent court decision in Church vs. Armitage. NZSA is indeed fortunate in being able to attract such excellent presenters, both from within the profession and external.

### Sessional Meeting - Gavin Quigan

Gavin Quigan of the FMA presented on regulatory and industry developments for superannuation and savings. Turnout was strong, at roughly 25 attendees.

### Sessional Meetings - PS12

Sessional meetings to discuss PS12 (Non-Life Insurers - Financial Condition Reports) were held in Auckland (22nd November) and Wellington (29th November). Comments and subsequent responses were collated and incorporated into the exposure draft and a revised exposure draft will be circulated shortly. The PS12 FCR working group would like to thank all those members who provided feedback.

### Sessional Meeting - Peter Neilson

For our eleventh and final sessional meeting of the year, Peter Neilson of the ISI (now the Financial Service Council) presented on his vision for the savings and insurance industries, and the place of the ISI. There was a record turnout of around 35 members.

## **New Members**

We welcome the following members who have joined our Society (or transferred between membership classes) since our last newsletter was issued. If you see any of these new members at sessional meetings, please introduce yourself and welcome them.

### Students:

Sarah Yates  
Christopher Ashburner  
Allan Lo  
Clinton Freeman  
Eun Ji Song  
Abey George  
Jason Pushon  
Joanna Ang  
Emma Watson  
William Nelson

### Associates:

Sandra Chapman

### Fellows:

James Xu  
David Whittle  
Richard Korte  
Emma Brodie  
Brett Gould  
Colin Brigstock  
Noeline Woof  
Greg Bird

I hope you have enjoyed this newsletter. I will try to ensure you have regular updates through the remainder of my term as president. Remember to contact me if there is an issue that you would like to be covered in a future newsletter.

Finally, a reminder that subscriptions for the 2011/12 financial year were approved at the AGM and invoices were sent to all members during December. If you have not already paid, please ensure that payment is made as soon as possible so that we do not have to waste our income on chasing up outstanding subs. Please also check that your contact details on the NZSA website are up to date.

Kind regards

Ian Perera



18 January 2012

Hon Gerry Brownlee  
Minister Responsible for the Earthquake Commission  
Parliament Buildings  
WELLINGTON

Dear Mr Brownlee

**Earthquake Commission**

I write on behalf of the New Zealand Society of Actuaries (NZSA). Our society is eager to contribute more directly to the work and debate generated by the Canterbury Earthquakes of 2010 and 2011. These catastrophic earthquake events have tested our communities, industry and government. They have challenged many New Zealanders' own views on the risk of natural catastrophes and our preparedness for and response to them.

Among other things the earthquakes have called into question the earthquake insurance model that New Zealanders have relied upon for decades. A review of the Earthquake Commission has been signalled in the short-term, which may identify key areas where change is required. In the longer term a broader policy review may provide an opportunity to consider the best means of protecting our society from earthquakes and other disasters. The review could consider fundamental questions concerning, for example:

- Exposure to risk
- Risk appetite
- Coverage
- Risk transfer
- Cost and pricing
- Emergency response and claims management

The actuarial profession is uniquely positioned to provide a wide range of skills that can evaluate the cost and benefit of options and potential outcomes from these fundamental questions. Our members work in many sectors of commerce and industry and work to ensure the long-term solvency and sustainability of the insurance industry in New Zealand. The Society has set up a working group to prepare a position paper on the risk sharing and funding of natural disasters.

The New Zealand Society of Actuaries would welcome the opportunity to meet with you to discuss opportunities where our members can become involved in a review of the EQC and any other future policy development.

Yours sincerely

Ian Perera

## **Appendix 2 - Country Report for Actuary India Magazine**

### **Insurer licensing**

On 7 September 2011, Reserve Bank of New Zealand became the prudential regulator of all insurers in New Zealand. Supervision is risk-based, consistent with supervision of banks, outcome based and minimises compliance costs on Insurers.

The Bank's policy team has issued various guidelines, developed with industry and actuarial consultation. Insurers must have a provisional license before 7 March 2012 and a full license before 7 September 2013.

For the provisional licence, insurers must have:

- Appointed Actuary
- Audited financial statements
- Fit and proper policy for Directors and Officers
- Risk management programme

For the full licence, insurers must also have:

- Financial strength rating for New Zealand
- Financial Condition Report, prepared by Appointed Actuary
- Solvency margin (new basis finalised in August 2011).
- Demonstrate adherence to fit and proper and risk management policies
- Establish statutory fund(s) (draft regulations circulated in December 2011)

Initial applications were lodged by 30 June 2011. As at 11 January 2012, 1 full and 11 provisional licenses were issued. The remaining 120 applications are being processed by a team of 8 people which includes 3 actuaries.

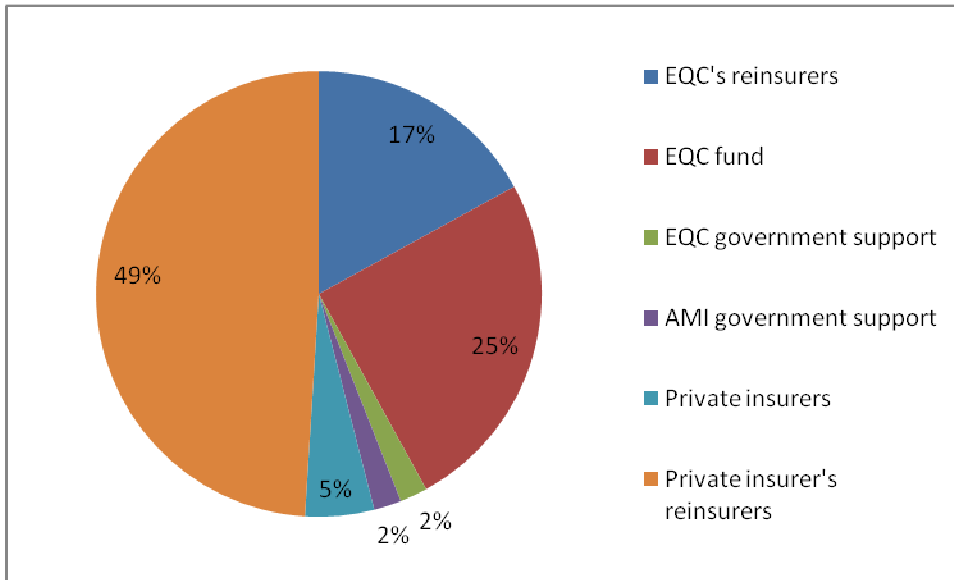
### **Christchurch earthquakes**

New Zealand's second largest city suffered 9,786 earthquakes since 4 September 2010. Around 180 died from the 6.3 magnitude 'quake on 22 February 2012. No fatalities were recorded from other big 'quakes on 4 Sept 10 (7.1), 13 June 11 (6.4) and 23 Dec 11 (6.0). The estimated insured property damage is NZ\$ 30 billion (US\$ 24 bn.), representing about 15% of GDP. Government will also incur \$ 6 billion in infrastructure, social welfare and bail-out costs.

The Earthquake Commission (EQC) was established in 1945 to provide the first slice of cover for natural disasters on insured domestic property. Private insurers cover damage in excess of EQC coverage and include the cost of the EQC levy in their premiums.

EQC had pre-quake assets of \$ 7 billion plus \$ 4.2 billion reinsurance and a government guarantee. EQC covers the first \$ 100,000 property damage, \$ 20,000 contents and land remediation. Up to 22 December 2011, EQC received 420,271 claims and paid \$ 2,765 million on 175,393 claims, with 337,823 open claims.

The cost of insured claims is estimated to be shared:



Source: RBNZ Financial Stability Report, November 2011  
 AMI was a private insurer that the Government bailed out.

An earthquake levy is added to domestic property insurance premiums. On 11 October 2011, the government announced the levy would increase from \$ 69 to \$ 207 per annum.

### **New Zealand Society of Actuaries**

The AGM was held on 25 November 2011. Ian Perera was elected as President for another year. Linda Caradus, Paul Rhodes and John Smith were re-elected and Anne Lord was elected to Council for a two-year term. Richard Beauchamp was elected last year and remains on Council.

#### **Membership of New Zealand Society of Actuaries**

	<b>Total</b>	<b>Assoc</b>	<b>Fellow</b>	<b>Student</b>	<b>Retired</b>
Members on 1 October 2010	288	6	162	107	13
Members on 1 October 2011	297	12	164	105	16
Resident in New Zealand	231	9	109	100	13
Non Resident	66	3	55	5	3