



Peter Brown
President

NEW ZEALAND SOCIETY OF ACTUARIES

PRESIDENT'S REPORT

JULY 2006



Linda Page
Vice President

Code of Professional Conduct Review

Voting Fellows will have received ballot papers to approve the new Code of Professional Conduct. The Task Force of Charlie Cahn (Convenor), Linda Caradus and Richard Bruynel have done excellent work in developing the new Code. Thank you very much.

I encourage all Voting Fellows to exercise their vote by the closing date of 11 August.

Assuming the Code of Professional Conduct is approved by Voting Fellows it will come into force on 1 October 2006. All members will need to make themselves familiar with their obligations under the new Code. Nominated Members will need to be appointed by the Actuaries in each firm (or Members if there is no Actuary). The role of the Nominated Members is to ensure all Members in that Firm understand those obligations and that the Firm is aware of the position. We plan to arrange meetings of Nominated Members to provide them with additional information to assist them in this role.

Winter Dinners

You will have received a formal invite to this year's Winter Dinners

Wellington – Thursday August 17 – The Wellington Club, The Terrace

Auckland – Friday August 18 – The Wine Chambers, 33 Shortland Street

Once again we will be joined by the President of the Institute of Actuaries of Australia – Martin Stevenson. We successfully invited a number of other guests last year and plan to do the same again this year.

Also based on feedback received from some attendees at last year's Auckland dinner, we will keep formal speeches to a minimum with just a welcome from myself and an opportunity for Martin Stevenson to speak.

Please RSVP to fran@actuaries.org.nz

Standards Review

The revised process and format for Professional Standards was circulated to members on 2 May 2006. These are also available on our website at <http://www.actuaries.org.nz/publications.html>

The Professional Standards Committee is now looking to appoint drafting committees to work on priority areas detailed in the Roadmap.

PS 3 has been reviewed by the Professional Standards Committee and an Exposure Draft was circulated to members for feedback by June 16. They are also now working with the Life Insurance Practice Committee on the conversion of GN 5 to PS 5.



John Smith
Secretary



Greg Lee
Council Member



Ric Geisler
Past President



Ian New
Council Member



Heathcliff Neels
Treasurer

Conference 2006



The programme for the November conference is shaping up well, with an interesting and varied presentation line-up and some great social events. Thanks to all those who have offered to put together presentations. The conference wouldn't happen without you.

We are also grateful to all those companies who have come on board with us as sponsors. Their contribution makes a big difference.

The conference web-site is your first port of call for up to date information on the conference. www.conference.co.nz/actuaries06 Look out for registration details in late August.

NZ Herald Article

As part of our continuing response to the Gareth Morgan article in the Dominion Post in late March, I was able to contribute an article published in The Business, New Zealand Herald on 1 May 2006 that was titled "Being an actuary is a risky business". This told a more accurate picture of what we do and how. I have received quite a lot of feedback about the article both from Members and others. All of it was positive. A copy of the article is available on our website.

MED review of Financial Products and Providers

This important review of the regulation of financial products and providers being undertaken by the Ministry of Economic Development (MED) will shortly be moving to its next phase. In July a number of position papers will be published and there will be an opportunity to make formal submissions. John Smith has agreed to co-ordinate our responses in this phase and he will work with Council and Practice Committees to achieve this.

I would encourage all members to read the papers published and to consider making their own submissions and also to encourage their employers and clients to make submissions. Remember that submissions on changes that you agree with and well as changes you do not agree with are just as important.

Thanks to Herwig Raubal and Brian Lenehan who have represented the Society on the advisory groups.

Council Meetings

Council generally meets on the 2nd Wednesday of every month (except January and November). Note however the August meeting will be on Friday August 18 so the Australian President, Martin Stevenson, can join us.

If you have an issue you would like Council to consider please do not hesitate to contact either me or Fran Jenkins and we will arrange for it to be placed on the agenda of the next meeting.

50th Anniversary 2007

A working group consisting of Wayne Hawkyard (Convenor), Ivan Hoshek, Charles Macdonald and David Chamberlain has met to consider options for celebrating our 50th Anniversary in 2007. They are now preparing a survey that will be sent to members with a number of options for you to consider. You can expect to receive this survey in the not too distant future

Banking Interest Group

Council have decided to support the establishment of an interest group for those members who take an active interest in banking businesses. Council believes that there is significant potential for the application of actuarial techniques within banking businesses and that this is a future area of opportunity. Ian New has been tasked with convening this group and will shortly issue an invitation to participate. The intention is to allow open participation to all NZSA members who take an active interest in this area.

Institute of Actuaries of Australia Biennial Convention 2007

The Institute of Actuaries of Australia has announced that their next Biennial Convention will be held in Christchurch, New Zealand, from Sunday 23 to Wednesday 26 September, 2007. Members may wish to note these dates in their diaries.

John Eriksen

John Erik Eriksen passed away on May 10 2006. I passed on condolences from the Society to his family and Ric Geisler represented the Society at his funeral. I understand this was well attended by a large number of members of the Society. We hope to publish a full obituary in a future newsletter.

Committee Appointments

The following appointments to committees have been approved at recent Council meetings.

Health Committee – Paul Dalebroux
Superannuation & Savings Committee – Janet Hayden (Convenor), Shelley Crosby.

New Members

Fellow

Jefferson Gibbs

Ordinary

Angela Cooper
Christopher Barry
Jamie Pou
Lourens Fourie
Chen Liu
Jia Jia
Simon Young
Alethea Rea

Fran Jenkins is away

Fran will be away from 18 July to 11 August inclusive. Telephone and email will be diverted to John Smith during this period.

Peter Brown
President

Special Supplement – International Actuarial Meetings Paris May 2006

International Actuarial Association Meetings

John Smith, our Secretary, attended IAA meetings in Paris on 26, 27 and 28 May and writes:

SOLVENCY

The new guidelines for Solvency allow for the use of internal models that can produce slightly lower capital requirements. This is akin to Basel II for banks.

The regulator will verify that the internal controls are robust and that the actions modelled in adverse scenarios are approved in advance and are implemented as required. It was agreed that large insurers would not be allowed to cherry pick what parts of the business they would model and what parts they would use factors.

A robust internal control environment is the first line of defence for maintaining high solvency. The capital buffer should not be a fail safe not a first line of defence.

A proposal was made to allow the host regulator to permit the inclusion of a diversification factor, so that the sum of individual branch solvency is less than the total that the group would be required to hold. The implication for New Zealand is that we should make sure branch solvency is not watered down.

The European regulator is modelling the new proposed standards and is likely to modify the requirements if they are too onerous for the big players. The implication is that after a market collapse, the resilience

requirements can be relaxed to foster market confidence.

Solvency is more about individual companies meeting generally accepted levels of strength rather than providing an absolute guarantee. It is essential that an appropriate rate of return on capital is provided. Extremely conservative capital requirements could hinder the deployment of insurer capital.

The French were worried about the impact of rising interest rates on cash values on policies if they have to invest in bonds. Meanwhile, the Dutch were worried about falling interest rates on their policies with minimum cash accumulation rates. It was observed that it is not the change in interest rates that is problematic, but the inclusion of options and guarantees in product design.

The bench-mark solvency in Europe for an AA- insurer is 75% sufficiency on a best estimate basis and coverage for up to 99.5% tail variation over the next year for their prudential reserves.

The same principles will apply to both general and life insurance. The implication for us is that over the next few years we will need to develop appropriate standards to fill any gaps.

GLOBAL EDUCATION

At the IAA President's forum, there was a proposal by Chris Daykin for the IAA to create the syllabus, tuition material and exams in several languages as an alternative to the examination systems run by national associations. There would be funding from the World Bank for the first 5 years after which IAA would have to make the system work without further resources. The objective of the proposal was to provide a cost-effective way to help create a path for new actuaries in emerging market economies. The development of an actuarial

profession in countries without many actuaries is seen as part of the desire to build free market institutions and social security systems.

There was opposition to the proposed method proposed for attaining these goals. The reasons for not supporting the proposal included: (1) loss of control by national associations to the international body over the admission and examination process; (2) entrenching one specific set of exams which could be more difficult to modify if the established practice needs to change; (3) expanding the scope of IAA into areas outside its core competency; (4) financial burden that could be imposed to continue providing the alternative education system once initial funding is over; and (5) removing some volunteers from national associations who would instead work as contractors to produce material for IAA.

The concerns expressed were of a practical nature. Everyone was supportive of affordable education for less developed and ex-communist countries.

Accordingly the New Zealand Society of Actuaries supports a compromise proposal that IAA uses the funding from World Bank and other sources to subsidise and translate the courses already offered by national associations.

BRANDING

The Society of Actuaries presented a paper on branding with six key findings:

1. Actuaries use deep knowledge of the dynamics of risk and its financial impact to create social and economic value.
2. Actuaries believe in five core values that collectively define their business and social ethics: Insight, Integrity, Creativity, Professionalism and Public Interest.

3. Actuaries are integral to the success of the enterprise, applying rigorous training, high professional standards and a deep understanding of the relationship between risk and opportunity.
4. Actuaries possess the unique ability to anticipate, identify, quantify and optimise risk to bring about creative solutions to complex financial challenges facing business and society.
5. Actuaries bring a comprehensive approach to problem solving that combines excellent analytical skills, deep risk expertise and an unswerving commitment to professional standards.
6. The actuary brand possesses human like characteristics that make it distinct and special. Actuaries are intelligent, unbiased, creative and inquisitive people.

ENTERPRISE RISK MANAGEMENT

Tony Coleman from Australia presented a paper on managing risks holistically to achieve the desired balance between achieving stakeholder value and managing risk exposure. Basel II requires banks to model and hold capital for operational risk. Insurance regulators are planning to introduce similar capital requirements. The third pillar of solvency involves more disclosure which will make robust risk management a critical factor that has to be embedded at all levels in an organisation.

IAA GOVERNANCE

Martin Stephenson from Australia presented a paper on the governance and structure of the International Actuarial Association. There is a need to clarify the overlapping roles of the President's forum and Council. A small working party was established to look at improving the structures in an efficient manner. This group will report back

at the next IAA meeting in Edinburgh the week before the NZSA conference, to coincide with the 150th anniversary celebrations for the Faculty, which will be attended by our President.

SECTIONS

The IAA has several sections including AFIR and ASTIN that run colloquiums, seminars and publish journals in their specialist areas. Interested individuals are encouraged to join IAA sections.

A new section was formed for Life Insurance and will hold its first colloquium in Stockholm in June 2007.

International Congress of Actuaries

The 28th International Congress was held from 29 May to 2 June. There were 1,470 actuaries of whom nearly 1,000 were from outside France including 4 from New Zealand (David Benison, Louis Boulanger, Ian Perera and John Smith). There were about 250 accompanying persons including 3 from New Zealand. Europe was expensive, with reports of beer costing NZ\$42 in a night club frequented by one of our number. Nevertheless, a good time was had by all. The next Congress will be held in Capetown in March 2010.

New Zealand was mentioned in at least six sessions covering a wide range of issues including: partial pre-funding of NZ Super, Kiwisaver, low demand for annuities, Disability Income experience, solvency regimes and role of migration in alleviating dependency ratio.