



Ian New
President

P R E S I D E N T ' S R E P O R T
A p r i l 2 0 0 8



Linda Page
Vice President

They say time flies when you are having fun, and although I would not exactly describe being the Society's President as 'fun', I am nevertheless really enjoying the interaction with my fellow professionals – and time is certainly flying!

IAAust ERM CPD Course

Members will be aware of the proactive push by overseas actuarial professions to enhance the recognition of actuaries' involvement and expertise in the area of risk management. I mentioned in the last newsletter the initiative to develop a new global enterprise risk management qualification.

You will also have received the email canvassing whether the Institute of Actuaries of Australia should run their Enterprise Risk Management CPD Course in New Zealand. Well, Andrea Gluyas recently went over to Sydney to attend the IAAust ERM Course and I asked her to write a piece reflecting on the experience. Andrea kindly agreed and her report is attached at the end of this newsletter. I encourage members to read Andrea's report for the insight it provides.

CPD Professional Standard

At its May meeting, Council anticipates approving the implementation of the new Professional Standard on Continuing Professional Development (CPD), to replace the existing Guidance Note. This will be an important step forward and reflects the increased focus globally on ensuring that professionals have up-to-date skills and knowledge for the areas in which they operate.

As you will know, the exposure draft was originally circulated in November 2007. Council was keen to provide plenty of opportunity for member feedback, and a good number of members attended the sessional meetings in early March in each of Wellington and Auckland.



John Smith
Secretary



Greg Lee
Council Member



Peter Brown
Past President



Linda Caradus
Council Member



Heathcliff Neels
Treasurer

These discussions confirmed widespread high-level support for the revised standard, with most of the discussion focussing on the important detail of its practical application. Some written submissions were also received, including concern around application of the Standard to non-Fellow members who have ceased taking the exams but wish to remain within the profession.

There are some aspects of this Standard to be aware of:

- ***it will be effective from 1 January 2008***. Whilst Council would not normally implement a Standard from a date in the past, the Standard has been well signalled, it replaces a Guidance Note which specified a higher number of hours of CPD, and we need this Standard in place from an international perspective.

- ***it applies to all members including student members***. Some concern has been expressed around application of the Standard to non-Fellow members who have ceased taking the examinations but wish to remain within the profession. However, Council feels that CPD should apply to all members, recognising that members have the facility to apply for individual exemption.

- ***study for actuarial examinations counts as CPD***. Student members who are studying for actuarial exams can count their study time as CPD, and could meet their full CPD requirements from this source.

- ***CPD should be tailored to individual circumstances***. For example, if a member is working in a non-technical role, then the appropriate form of CPD should be relevant to the individual and this might be CPD in management, business, or professional areas.

- ***members need to maintain written records of CPD***. This can be in the form of a simple spreadsheet and should not be onerous. An example of the information to record is shown in an appendix to the Standard.

I would like to emphasise that although Council is unanimous in its view of the importance of CPD, there is no desire for this requirement to place members in a situation where they feel they have no option but to resign their membership of NZSA. Where special circumstances apply, Council will have the ability to apply an exemption upon written application from the member.

Council also recognises that we need to promote opportunities for CPD. However, in reality, we are not going to be able to organise fortnightly sessional meetings! Members will need to consider other forms of CPD, such as reading overseas papers and accessing recordings of IAAust meetings. The draft Professional Standard lists a wide range of mainstream CPD activities, and other CPD activities may also be appropriate – have another look at the list to get your thinking going!

I have arranged to meet with Greg Martin and John Maroney in Sydney in late April, and I will discuss with them how they support the CPD needs of their members who are resident in places like Perth and Asia.

Our sincere thanks go to the CPD drafting group, comprising Charmaine Green, David Chamberlain, and the leader of the group, Wayne Hawkyard.

Visit of Greg Martin & Mid-Winter Dinners

Please put the following dates in your diaries:

Wednesday 4 June 2008 in Wellington

Thursday 5 June 2008 in Auckland

These are the confirmed dates for sessional meetings where Greg Martin, President of the Institute of Actuaries of Australia, will speak, to be followed by our traditional mid-winter dinners. Greg will speak on the very topical and interesting subject of his IAAust Presidential address “What is an Actuary?”, with plenty of time for subsequent discussion. As well as being relevant for all of us, this event is also a CPD opportunity, so we look forward to a strong attendance!

The format of the evening will be along the following lines:

5pm : Sessional meeting with address from Greg Martin, followed by discussion,
6.30pm : Pre-dinner drinks
7.30pm : Dinner

Those members who can't stay for dinner are nevertheless welcome to stay for a drink. And if you are unable to attend the sessional meeting, you are nevertheless welcome to attend the dinner. Partners are also welcome to attend the pre-dinner drinks and dinner. A registration form for the dinners will be circulated nearer the time.

NZSA Conference 2008

Our 2008 Conference will be a prime CPD opportunity - please ensure you have the dates in your diary:

Wednesday 19 to Saturday 22 November 2008

The conference will run from the Wednesday afternoon (with the AGM being held immediately prior to the conference) through to the Saturday lunchtime. And as previously announced, it will be held at the Wairakei Resort near Taupo.

The conference committee of Margaret Cantwell, Ross Simmonds, and Swee Chang are working hard to make this conference one to remember. If you have any innovative ideas for the conference or wish to present a paper, please do contact one of the committee members.

International Actuarial Association Presidents' Forum

The International Actuaries Association holds a Presidents' Forum each six months, with Council and IAA Committee meetings also taking place over the four day program. The next Forum is in Quebec from 11 to 14 June. I believe it is important for the New Zealand actuarial profession to keep abreast of international developments and I have decided to attend the Quebec Forum.

In reality, this is likely to be the only IAA Presidents' Forum I shall attend during my term as NZSA President, given the logistics and the time commitment involved. Engagement early in my term as President is likely to generate the most value, and I anticipate being able to encourage overseas attendees to our November conference.

Member Representative for International Actuarial Association

Whilst on the subject of the International Actuaries Association, the IAA has recently expanded the membership of its Member Services Committee to include representatives from all Full Member associations. As a Full Member, NZSA has been invited to nominate a

representative if we wish. Whilst it is not essential that the New Zealand Society of Actuaries has a representative in this role, I nevertheless view it as desirable to maintain strong relationships with the international actuarial community. So if you are interested in representing the NZSA in this role, please contact me or John Smith.

If you would like to know more about being an NZSA representative on an IAA Committee, I am sure that either of our existing two representatives would be happy to discuss this with you:

Ian Perera (NZSA Representative on IAA Insurance Regulation Committee)

Ed Robinson (NZSA Representative on IAA Accreditation Committee)

Regulatory Developments

Prudential Regulation of Insurance

In February, John Smith and I met with the Reserve Bank of New Zealand team who are working on the detailed proposals for the prudential regulation and supervision of the insurance sector, and the legislative powers. The proposals set out in the Cabinet Economic Development Committee document will apply to life, health, and general insurers. This is a key and exciting area of development for the actuarial profession in New Zealand, as the role of the actuary in providing financial advice to insurance companies is set to be strengthened.

It is proposed that “New Zealand actuarial standards relating to insurers’ solvency, liability valuation and other aspects of financial strength, adopted by the Bank for the purposes of its prudential regulations, will be given the force of law”. The RBNZ will look, in the first instance, to the NZSA to provide draft actuarial standards, so this is an area where we will need to work closely with the RBNZ.

Taxation of the life insurance business: proposed new rules

The Life Insurance Committee made a submission in mid-February on the Inland Revenue’s discussion document for the taxation of life insurance business. A copy of the submission is on the NZSA website. The anticipated next step is for the new rules to be included in a tax bill, expected to be introduced in June 2008. There is likely to be a further opportunity for submissions at that stage.

Regulation of Financial Advisers

The Financial Advisers Bill had its first reading in February, and was referred to the Finance and Expenditure Select Committee. Shortly after submissions closed on 4 April 2008, the Minister of Commerce proposed significant changes to the draft Bill. The proposed changes would narrow down the definitions of both financial adviser and financial decision. Institutions could apply to become accredited to operate as a financial adviser. The proposed changes would also dispense with the Approved Professional Body (APB) approach – instead the Securities Commission would undertake all of the regulatory functions. These are significant changes and, as I have previously noted, this legislation is an area where the NZSA needs to clearly understand the potential impact upon the work of our members.

Professional Standards Update

At Doune Connett’s invitation, I recently attended a meeting of the Professional Standards Committee. This Committee oversees the development and maintenance of the NZSA’s professional standards.

There is currently a very significant amount of important work being undertaken by a range of drafting groups, with developments in train in the following areas:

PS5 *Solvency Reserving for Life Insurance Business* – updating of existing Standard under development by the Life Insurance Committee

PS6 *Actuaries Providing Advice under the Friendly Societies and Credit Unions Act 1982* – exposure draft likely to be issued in late May

PS7 *Continuing Professional Development* – Standard expected to be issued in May with application from 1 January 2008

PS8 *Economic Valuations* – responses to exposure draft have been considered and Standard is close to implementation

PS9 *Reporting* – draft is available but the span of application of this proposed standard needs to be agreed

PS10 *Financial Reporting for Superannuation Schemes under IAS19*- exposure draft likely to be issued in late May

An initiative is underway to upgrade PS4 *General Insurance Business* and develop a solvency standard for General Insurance, and also to consider whether the existing Health Funds solvency standard should be integrated into an overall solvency standard for both sectors – this will entail a very significant amount of work.

And we are assessing the need for Professional Standards in the area of Investments with a view to considering how best to approach this.

It is important that we monitor the need to update our Standards on a continuous basis. As a profession we owe a vote of thanks to each of our many members who contribute to the task of maintaining our Professional Standards.

Reverse Mortgage Code

The Banking Group continues to liaise with the Office for Senior Citizens on their development of a Code of Practice for Mortgage Based Home Equity Conversion Products. The primary area where actuarial input is likely to add value is in the presentation and explanation of the potential range of future financial outcomes that a borrower might face. Any member interested in this area is welcome to contact the Convenor of the Banking Group, David Chamberlain.

Council Meetings

In 2008, Council is meeting on the 2nd Monday of each month (except November). The next meeting is scheduled for Monday 12 May 2008.

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

External Relations Committee

As mentioned at the AGM, I believe that it would be of benefit to the Society and its Members to have a group who are focussed on enhancing the profile of the actuarial profession in the eyes of key external parties. I am pleased to say that Andrea Gluyas has accepted the challenge of establishing just such a group. The precise terms of reference are yet to be agreed with Council, but this group will be involved in things like responses to the media, monitoring of submissions, relationships with external organisations, and website design and content. Andrea has secured the support of Ric Geisler and Grant MacKay on this group, which will be known as the External Relations Committee.

Committee Convenors

There have been some recent changes to some of the Society's Committee Convenors:

Neil Christie has taken over as Convenor of the General Insurance Committee, in place of Stephen Jeffery.

Herwig Raubal is taking over as Convenor of the Professional Standards Committee, in place of Doune Connett.

And Paul Rhodes has agreed to lead a group assigned to upgrade our professional standards in the area of General Insurance, and consider how best to integrate these with the existing Health Funds solvency standard.

Both Stephen and Doune had asked to step down owing to increased responsibilities in their 'day-jobs', and we sincerely thank them for their contributions as Convenors. Whilst professionally rewarding, the role of Committee Convenor or Committee Member, can be quite time-consuming, and it is important to spread the workload and refresh Committee membership.

Please support our new Convenors, Neil and Herwig – and also Paul's group. And if you have an interest in contributing to a Committee, please contact me or the Committee Convenor.

Committee Appointments

Life Committee - Jonathan Turner

New Members

Student	Hoi Ming Wan
	Jing Luo
	Mathew Jensen
	Nicholas Poulton
	Yuanjing Ma
	Irene Van Woerden
	Kenneth MacKechnie
	Qian Hou

Fellow Christian Barrington
Aaron Bruhn

Finally.....

So, just to check - did you ensure those dates are in your diary??!!

Visit of Greg Martin & Mid-Winter Dinners

Wednesday 4 June 2008 in Wellington

Thursday 5 June 2008 in Auckland

NZSA Conference 2008

Wednesday 19 to Saturday 22 November 2008

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Andrea Gluyas writes:

Enterprise Risk Management CPD Course

As actuaries, risk and risk management are issues we need to think about and address in nearly everything we do. To further my skills in this area, I recently attended the Institute of Actuaries of Australia's Enterprise Risk Management CPD Course, run in conjunction with Macquarie University Centre for Applied Finance. This was a five day course (in two blocks) in Sydney, with 14 participants.

The Australian profession has clearly identified the importance of Enterprise Risk Management to the profession. The Institute's **Strategic Imperatives and Opportunities** include the following statements:

"Enterprise Risk Management is a clear growth opportunity as well as an imperative to compliment our pre-existing risk management skills and our "brand".

"If we [Actuaries] are going to succeed in delivering high value professional ERM skills to the marketplace and not be "pushed aside" we need to apply serious effort to establish our presence and win a satisfactory place in the marketplace."

ERM is well-developed in Australia; particularly in financial services due to APRA reforms in the post-HIH environment. APRA requires insurance companies to have appropriate risk management frameworks and strategies in place, and actuaries are now required to comment on the ERM within the organisation in their financial condition reports. This CPD course is clearly designed to give actuaries a good grounding in ERM concepts in light of these roles and the Institute's vision.

The course was broken into three parts and covered a number of topics both familiar and unfamiliar to actuaries:

- ERM – What is it and why is it important?
- Theories and Models related to Risk Management
- Tools and Techniques for Managing Risk

The first section touched on and expanded a number of concepts introduced in the Actuarial Control Cycle, such as types of risks an organisation faces. However it quickly moved on to issues such as governance, independence, and regulation, bringing in a number of very interesting real-life case studies, including recent events such as the Societe Generale failure and the sub-prime crisis. These illustrated the range of things that can go wrong if risk is not properly managed.

From this we moved to discussing what it actually takes to put effective risk management processes into an organisation, including the importance of creating a risk management culture. There were a lot of useful suggestions on the position of the risk management function within the firm, including recognition of its importance and the actual practicalities of assessing the organisation's risks. At one point the lecturer mentioned a firm who had approached him looking for help with recruiting a CRO (Chief Risk Officer), wanting to pay a salary of A\$250,000. He told them they were wasting their time, the CRO needed to have higher importance in the firm than that!

After a pretty concept-orientated start to the course, the second section on measuring risk had many participants scratching their heads, remembering back to their university days, once familiar concepts and beyond. Although not a comprehensive coverage of the topic, this section listed many techniques participants can investigate to quantify risks faced. In particular, there was an emphasis on the importance of tail and correlation estimation techniques, the latter of which many people are failing to realise they are not even measuring at all. The lecturer believes that the level of statistics included in the actuarial exams will need to be extended as measurement of risk becomes more and more critical.

The third section of the course covered risk management and mitigation techniques, performance measures, the importance of monitoring key risk indicators for a heads-up on potential upcoming issues. It highlighted that ERM is still a developing discipline, for example, there is still little work available on measuring operational risk. We also looked at the pay-off from a well-developed risk management programme through reduced capital requirements. Some of the examples presented were quite convincing, where a staff overhead of a few million per annum could produce savings on capital usage of many times that. APRA is currently working with a couple of large insurance companies who are developing their own risk based capital models, which, when approved by APRA, will replace statutory capital adequacy requirements and produce (they hope) significant savings.

The lecturers had significant practical experience in banking and insurance. The course concentrated on these industries, although much of the material was relevant to non-financial services organisations as well.

Overall, I thought it was an excellent course, and anyone who attends will find value in a number of aspects of their work. The next course is planned for Melbourne later in the year, and I understand it will be a single five-day block course. Although there is the possibility of this course being run in New Zealand at some stage, I have to say I found attending it in Australia added a huge amount of value. In part this was due to the variety and contribution of the participants; for example, there were three from APRA who were able to comment on the regulator's role and what is happening in the market; a reinsurance consultant who was able to show us the software he uses for fitting copulas (distributions relating to correlation

which many participants had not heard of prior to the course); and a consultant based in South East Asia who could bring developments in those countries to the discussion. There was also an excellent programme of lunchtime speakers including Helen Rowell from APRA, and Tony Coleman who is CRO for IAG. (The shopping wasn't bad either.)

The course notes are excellent and will prove a useful ongoing reference. They don't give all the answers, but they certainly get you thinking about the questions to ask.