



Ian New  
President

**P R E S I D E N T ' S R E P O R T**  
**J u l y 2 0 0 9**



Linda Page  
Vice President

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## **Busy Times**

There is a strong programme of NZSA events coming up over the remainder of this calendar year. Our volunteer colleagues put a considerable amount of planning and effort into organising these events, but for this programme to be truly successful, they need your attendance and participation. So I strongly encourage you to make use of these occasions for professional development and take the opportunity to interact with your fellow professionals. I set out the schedule of events below.

The other area with a very strong programme currently appears to be legislative development. There seem to be a plethora of weighty consultative papers and Bills on the go at present. For example, the life tax proposals are part of Tax Bill documentation that runs to 854 pages with 4 volumes of feedback on submissions – the life tax feedback runs to 98 pages alone. Then we have half a dozen Officials' papers around aspects of Financial Adviser legislation. Added to all this, we have the new prudential supervision regulation, including solvency standards, for insurance companies.

But please don't get me wrong, the overall objectives of all this legislative reform are sound, and it is very important to consult on the detailed application of legislation as well as the overall thrust. So full consultation is something to support and applaud – but it does raise some challenges in terms of keeping ahead of the game and crafting quality submissions.

## **Upcoming NZSA Events**

### **Sessional Meetings – IAA Response to the Global Financial Crisis**

*Wednesday 29 July in Auckland*

*Thursday 30 July in Wellington*



John Smith  
Secretary



Greg Lee  
Council Member



Peter Brown  
Past President



Linda Caradus  
Council Member



Heathcliff Neels  
Treasurer

Trevor Thompson, President of the Institute of Actuaries of Australia, will speak about the initiatives that the International Actuarial Association has been taking around the global financial crisis. Members of the Australian Institute of Actuaries have been instrumental in developing the international body's response, which has been commended by influential third parties. Trevor will speak to the paper "Dealing with Predictable Irrationality - Actuarial Ideas to Strengthen Global Financial Risk Management" which was published by the International Actuarial Association in February 2009.

### **NZSA Winter Dinners**

***Wednesday 29 July in Auckland***

***Thursday 30 July in Wellington***

To coincide with Trevor Thompson's visit to New Zealand in his capacity as President of the Institute of Actuaries of Australia, we will be holding winter dinners in Auckland and Wellington. At the Auckland dinner we will take the opportunity to acknowledge John Feyter as inaugural winner of the Richard Bruynel Research Prize. At the Wellington dinner, NZSA will be hosting Richard Dean (Manager Insurance Policy, Reserve Bank of New Zealand), Vance Arkinstall (Chief Executive, The Investment Savings & Insurance Association of New Zealand), and Terry Jordan, (Manager Finance & Regulation, Insurance Council of New Zealand).

### **Sessional Meetings – Insurer Solvency**

***Monday 3 August in Auckland***

***Wednesday 5 August in Wellington***

This is an opportunity for the full NZSA membership to discuss the vital issue of standards for insurer solvency. A draft solvency standard for non-life insurers, jointly developed by the RBNZ & NZSA, is now in the public arena for comment by 31 August 2009. The meetings will be facilitated by Paul Rhodes and John Smith. Paul is Convenor of the NZSA working group who provided input into the development of the draft non-life solvency standard. John is leading a review of NZSA's existing life insurer solvency standard (PS5.01) and has suggested some areas where change may be appropriate to align aspects of the life and non-life standards. Health insurance is a further area requiring consideration as this sector spans both life and non-life standards.

### **Seminar - Evaluating New Zealand's financial reporting landscape for insurers**

***Thursday 27 August in Auckland***

Grant Thornton have kindly undertaken to run a seminar for members of the NZ Society of Actuaries at their Auckland offices. Mark Hucklesby will lead the presentation and discussion. Mark has recently joined Grant Thornton New Zealand as their National Technical Director, having spent the last three years in London working full time on IFRS reporting matters. This is an opportunity to hear about an important international arena of change, and will be of particular interest to members involved in insurance. This seminar is open to all NZSA members and will be followed by drinks and nibbles hosted by Grant Thornton. Please RSVP to Lynn Kilby of Grant Thornton on (09) 308 2570.

**Meeting – John Maroney, Institute of Actuaries of Australia**  
***Thursday 27 August in Auckland***

Actuarial trainees and younger actuaries are invited to meet with John Maroney, Chief Executive of the Institute of Actuaries of Australia, on the afternoon of 27 August in Auckland. John will give a talk to Members, and then take questions. Final details of the arrangements will be circulated imminently.

**Professionalism Course**  
***Friday 28 August in Auckland***

This day promises to be a seminal event for NZSA. We have three overseas presenters, including Curtis Huntington who will also act as overall facilitator for the day. Curtis is a member of NZSA based in Boston. He has considerable experience in the USA with facilitating and presenting professionalism courses for actuaries, and also hearing professional complaints.

From Australia we have John Maroney and Chris White, both actuaries who will be known to many of you already. John is Chief Executive of the Institute of Actuaries of Australia and is involved in organising and presenting the Australian professionalism course. Chris also has many years experience of presenting at the Australian Institute's professionalism course. There will also be a session from the NZSA Professional Conduct Committee.

This course has been tailored for experienced actuaries, typically with at least 5 years post-qualification experience. I strongly encourage attendance as this will be a very special opportunity to discuss professional ethics with your actuarial colleagues and highly experienced facilitators.

**General Insurance Seminar**  
***Thursday 22 October in Wellington***

“A Perfect Storm” has been appropriately chosen as the theme for the NZSA General Insurance seminar to be held on 22 October 2009. The new regulatory regime, global financial pressures, and of course climate change, all present current challenges for the general insurance industry. These factors, coupled with significantly enhanced responsibilities for actuaries, have enabled the organisers, Richard Beauchamp and Wayne Anderson, to put together an exciting and topical programme for the day.

Te Papa has been booked as the venue (in my personal opinion an inspired choice by the organisers, given that the “Formula 1 – The Great Design Race” will still be showing at Te Papa).

**Financial Services Seminar**  
***Friday 27 November in Auckland***

NZSA will be holding a Financial Services seminar on 27 November 2009 at a venue in central Auckland. The seminar will be aimed at life insurance and superannuation practitioners, and the programme is shaping up with a diverse range of topics. If you have ideas for the seminar, or would be interested in presenting, please contact Adam Follington (Adam\_Follington@amp.co.nz) in the first instance.

## **Annual General Meeting** *Friday 27 November in Auckland*

Advance notice that we intend to hold NZSA's 2009 AGM immediately following the Financial Services seminar on 27 November. Please note your diaries.

## **NZSA Conference 2010**

I am delighted to announce that Council have endorsed the recommendation of the 2010 Conference Committee to hold the NZSA Biennial Conference in Marlborough from **Sunday 21 November through to Wednesday 24 November 2010**. The conference will be held at the Marlborough Convention Centre situated in the heart of Blenheim. This facility is brand new and state of the art. There is a range of accommodation nearby, catering to the varying preferences of delegates. Blenheim airport is well served with flights from Auckland and Wellington. And of course Marlborough is famed for its sunshine, vineyards, and recreational opportunities.

The Committee carefully considered four potential locations around New Zealand, and Marlborough emerged as the clear winner. If you have ideas for the conference, please contact one of the Committee, comprising Charmaine Green (Convenor), Marinda Dean, Stephen Jeffery, and Ross Simmonds.

## **Regulatory Developments**

### **Prudential Regulation of Insurance**

On 20 April, the Reserve Bank of New Zealand released a draft Insurance (Prudential Supervision) Bill. This is an important piece of proposed legislation for the insurance industry and for actuaries, and it was good to see a draft aired for consultation prior to commencement of the Select Committee process. Linda Caradus and Robert Cole crafted a draft NZSA submission based on Member feedback. This draft was discussed at sessional meetings in mid-June, and further refined following those meetings. It was good to see the meetings were well attended. The end result was a high quality NZSA submission, lodged with the RBNZ by the deadline. Sincere thanks to Linda and Robert, and to all members who contributed, either in writing or verbally at the meetings.

On 6 July, the RBNZ issued a draft solvency standard for non-life insurance. This draft standard has been jointly developed by the RBNZ & NZSA, from an original version compiled by Geoff Atkins under contract from the RBNZ. Thank you to Paul Rhodes and the NZSA group (Jean DeSantis, Robert Cole and Peter Brown) who are working with the RBNZ on this development. As mentioned earlier, sessional meetings have been set for the first week of August to discuss the draft non-life solvency standard and also the potential implications for the life insurance and health insurance solvency requirements.

### **Regulation of Financial Advisers**

The Financial Advisers Act was passed last year and is scheduled to be fully in force by the end of 2010. Several consultation papers have recently been issued, or are being prepared for issue, by various governmental agencies including the Securities Commission, the Ministry of Consumer Affairs, and the Ministry of Economic Development. Greg Lee wrote a note which

was attached to the October 2008 newsletter, and Greg has now written a further note on this legislation - this further note is attached to this newsletter. It is very important that NZSA members individually consider whether they are impacted by this legislation.

### **Taxation: Life insurance, OCR deductibility, KiwiSaver**

The Taxation (International Taxation, Life Insurance and Remedial Matters) Bill has now been reported back to Parliament, with significant re-writes of certain sections of the life insurance tax clauses. Just one example of an improved wording is the streamlining of the definition of the term 'actuarially determined' which is widely used in the legislation.

In conjunction with reporting back, Officials issued reports on submissions on the Bill (available at [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz)). Volume 3 of these reports provides an overview of the submission points and whether they were accepted. It is very pleasing to see that the vast majority of the points raised in our NZSA submission were accepted. We are very grateful to Linda Caradus for coordinating the NZSA submission document back in January, and to all Members who contributed, ensuring a professional submission.

### **Professional Standards Update**

An update on progress with the work on NZSA professional standards:

#### **PS1 (Revised) *Reports and Advice to an Organisation Carrying on Long Term Insurance Business***

The Life Insurance Committee have been working on updating this Professional Standard. A revised version will be exposed for comment in due course.

#### **PS8 (New) *Economic Valuations***

Feedback has been received on the revised exposure draft, and this standard is now with the Professional Standards Committee for review, prior to being sent through to Council for approval.

#### **PS9 (New) *Communication of Professional Advice***

Subsequent to receiving feedback on the revised exposure draft, this Professional Standard was published on 10 June, with an effective date of 1 September 2009. Sincere thanks to the drafting group, comprising Linda Caradus, Paul Rhodes and Charles MacDonald.

#### **PS10 (New) *Financial Reporting for Superannuation Schemes under IAS19***

The Superannuation & Savings Committee has updated this draft standard taking into account feedback received from the membership. The revised draft will be sent to the Professional Standards Committee by 31 July for review prior to re-exposure.

## **PS11 (New) *Investment Advice***

Work is progressing around development of the scope and content of a potential new Professional Standard in respect of Investment Advice provided by Members. Heathcliff Neels is leading the drafting group for this standard.

## **Insurer Solvency Standards**

As mentioned elsewhere in this Newsletter, NZSA is working with the RBNZ on the implementation of a solvency standard for non-life insurers, and updating PS5.01 for life insurers. These Solvency Standards will be given the force of law through Regulations to the anticipated Insurance (Prudential Supervision) Act.

## **IAAust Biennial Convention 2009**

I was privileged to attend the Biennial Convention of the Institute of Actuaries of Australia in Sydney in April 2009. There were 8 NZSA members present. The central Sydney location made it easy for delegates to register for and attend just part of the Convention. This enabled twice as many delegates as normal to attend at least part of the proceedings. The Institute also targeted a wider audience of professionals than just actuaries.

The Plenary speakers were generally non-actuarial and were selected to provide a wider view and generate thought. There was a great range of concurrent papers and sessions, running 6 choices each session.

Both Linda Caradus & I attended a breakfast session with Bob Morand, where we were introduced to theatre sports as an exercise in freeing up communication. Bob regularly runs such courses with groups of actuaries around the USA. It was great fun and I would like to think we could run such a course for NZSA members at some point. But it does require active audience participation, because that is how the real value is generated.

David Benison and I attended a special session following the Convention, where the actuarial profession's international response to the Global Financial Crisis was discussed. The Reserve Bank of Australia and APRA were also represented and this was a very interesting session.

The Institute of Actuaries of Australia has a strong track record for organising high quality, stimulating seminars and conventions. I would certainly recommend NZSA Members to take advantage of participation in such events where possible.

## **Changes on Council**

Linda Page has decided to step down from Council after nearly 5 years of service on Council, including 4 years as Vice-President of the New Zealand Society of Actuaries. Linda has made a major contribution and her presence on Council will be missed. Nevertheless, Linda will continue to contribute to the profession in her other role as Convenor of the NZSA Experience Investigation Committee. We will acknowledge Linda's contribution further at the NZSA AGM later in the year.

Linda's resignation from Council has created a vacancy, and in order to ensure a full complement of Council members, Council has resolved to co-opt Bernie Higgins to join Council. Bernie is a Wellingtonian born and bred, but his actuarial career with National Mutual (AXA) enabled him to also work in the United Kingdom and Australia. In more recent

years, Bernie has been consulting in the areas of superannuation and funds management through AON Consulting. He has also maintained a small private consultancy practice. Please welcome Bernie to Council.

Council's next meeting is scheduled for Monday 10 August 2009. 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.

## **Committee Appointments**

The following appointments to the Society's Committees have been approved at recent Council meetings:

**Conference 2010 :** Charmaine Green (Convenor)  
Marinda Dean  
Stephen Jeffery  
Ross Simmonds

**Superannuation :** Margaret Cantwell

## **New Members**

We welcome the following new members of the New Zealand Society of Actuaries:

### **Students**

Huaning Yang  
Roanna Adams  
Luke Fieldes  
Jinning Zhao  
Matthew Clere

### **Fellows**

Susan Macaulay  
Geoffrey Atkins

## **The Last Word .....** (apart from the Appendix)

I have always found actuaries to be an over-achieving bunch in their field, but our former NZSA President (2000-2001) Peter Davies has been over-achieving in a completely different field. Peter finished first in his age group in the recent Takapuna half-marathon. Full statistics are available at:

<http://www.runpix.info/rak09/00/finord.php?LastName=davies&lan=&aset=0&dist=72>

Makes me feel exhausted just thinking about it!

Ian New  
**President**

## Financial Advisers Act Update

Our October 2008 Newsletter included a short paper on the Financial Advisers Act 2008 that came into force in September 2008. We now provide further background on the Act and alert our members to the various discussion documents that are available for public comment.

The Securities Commission, the Ministry of Consumer Affairs and the Ministry of Economic Development (MED) have all recently issued discussion documents in relation to the Financial Advisers Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (jointly referred to as the **Act**), both of which are scheduled to be fully in force by the end of 2010.

Broadly, the aim of the Act is to restore public confidence and to facilitate investment growth by subjecting financial advisers to higher standards of competency and accountability than previously and to supervision by the Securities Commission.

### Overview

The following is an overview of the regulatory framework.

The Act is concerned with the occupational regulation of individual financial advisers and will impact those whose business involves:

1. Giving financial advice – making recommendations or giving opinions or guidance – in relation to acquiring or disposing of investments, insurance or credit contracts;
2. Making investment transactions; or
3. Providing a financial planning service.

Financial advice, financial advisers, and the QFE (Qualifying Financial Entity) regime are defined by reference to financial products, which the Act divides into two categories:

- **Category 1** (higher risk or more complex products) – securities (other than those listed in category 2), real estate and futures contracts.
- **Category 2** (lower risk or less complex products) – call debt securities, bank term deposits, insurance products (other than life insurance issued after 31 December 2008), and consumer credit contracts.

Generally, an individual who advises on or undertakes investment transactions in respect of **category 1** products or who provides a financial planning service, will need to be **authorised** by the Securities Commission **and registered** on the financial service providers register. An individual who advises on or undertakes investment transactions in respect of **category 2** products will need to be **registered** on the financial service providers register.

Authorised financial advisers (AFAs) are subject to more obligations than those who are registered and, in particular are subject to the code of professional conduct to be established under the Act. The disciplinary committee to be set up under the Act will be responsible for disciplining AFAs for breaches of the code.

## QFEs

Individual advisers will be supervised either directly by the Securities Commission or indirectly through QFEs.

Because QFEs will be responsible for a number of financial advisers, their frontline compliance role and the effective supervision of QFEs by the Commission are central to the effective implementation of the Act. In particular a QFE is responsible for ensuring that all its advisers who are required to be authorised *are* authorised. The QFE, rather than the individual, is liable if they are not.

Correspondingly, financial advisers not covered by a QFE are subject to conduct and disclosure obligations and are personally liable in respect of them.

Any person who employs someone to perform a financial adviser service in the course of its business must be registered on the financial service providers' register, irrespective of whether it is a QFE.

## Actuaries are Impacted by the Act

The FAA definition of financial product is product related. Actuaries who assist trustees establish and document their investment strategy and long term strategic asset allocations may not be considered financial advisers under the Act. However, if they advise clients on suitable fund managers or investment vehicles (which are products) then it is likely they will be caught up under the Act.

Despite the NZSA's submissions last year to the Select Committee that our members be exempt from the regulations, our members will be subject to the same disclosure requirements as anyone else when providing financial advice to clients. In the past, actuaries who provided investment consulting services to trustees were not deemed to be financial advisers because trustees were not deemed to be "members of the public". We understand that this may not now be the case.

**The NZSA will not become a QFE so NZSA members need to be fully aware of the Act's implications.** As a professional body, and one acting in the best interests of the general public, the actuarial profession, the Society, and its members, the NZSA considers it appropriate to have a professional standard on investment advice. A drafting group has been set up by the Society to draft such a professional standard and a first draft of the new standard is expected later this year.

The Act's application is likely to depend on a range of specific factors specific to each individual or entity. If you are unsure if or how the Financial Advisers Act 2008 will affect you, we encourage you and your employer to seek legal advice.

Greg Lee  
20 July 2009

**This above note has been prepared by the author on behalf of the New Zealand Society of Actuaries for distribution to its members. The note is intended to provide an overview only, and members must seek their own legal advice rather than relying on this as an interpretation of the legislation. Neither the NZSA nor the officers of the Society can accept any liability in relation to any action that may be taken or consequent loss that may occur as a result of this note.**