



Ian New
President

P R E S I D E N T ' S R E P O R T
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Linda Page
Vice President

NZSA Conference 2008

Our 2008 Conference is almost upon us. If you have not yet registered, I encourage you to do so as soon as possible – go to www.nzsa2008.co.nz

The theme of the conference is ‘Catching Opportunities in a changing environment’. Although there was lots of change going on when the theme was set, I doubt that the Conference Committee members of Margaret Cantwell, Ross Simmonds, and Swee Chang truly anticipated the extraordinary global financial events of the past few weeks. However, the conference theme has been confirmed as an inspired choice!

The conference website now has a section with synopses for the concurrent sessions and I encourage you to take a look. I think you will agree that we have a strong line-up of interesting and relevant concurrent sessions, with a mix of external and member presenters. The conference is an excellent CPD opportunity, and represents outstanding value for money in comparison to many other conferences.

I encourage you to attend, and include the Wednesday and Saturday sessions in your schedule. A reminder that the conference will run from the Wednesday afternoon 19 November 2008 through to the Saturday lunchtime 22 November 2008, at the Bayview Wairakei Resort near Taupo.

Annual General Meeting 2008

Members will be aware that our 2008 AGM will be held at 2.15pm on Wednesday 19 November 2008 at the Bayview Wairakei Resort, just prior to the start of our conference. As well as the usual AGM business, I plan to run through Council’s proposed 2009 priorities for



John Smith
Secretary



Greg Lee
Council Member



Peter Brown
Past President



Linda Caradus
Council Member



Heathcliff Neels
Treasurer

the Society. We held a joint meeting of Council and Committee Convenors on 13 October 2008 to discuss and agree this draft set of priorities.

It is important that we focus our limited resources on the right things. A large proportion of our membership voluntarily contribute their time to supporting our profession, be it through committees, or working groups, representing the Society or writing papers. But we need to use this time judiciously and effectively. So I encourage you to come along to the AGM and express your views - are we placing emphasis on, and putting resource into, the right areas, or do you have different ideas?

Regulatory Developments

Prudential Regulation of Insurance

As members will be aware, the NZSA is engaged with the Reserve Bank of New Zealand around their development of the new prudential regulation arrangements for the insurance sector. Paul Rhodes is leading an NZSA working group and has compiled a draft overview of the actuarial standards that will be required in the areas of life, general, and health insurance. This has been tabled in discussions with the RBNZ and Paul is now developing a draft scope and requirements document for the development of a general insurance solvency standard.

This development of the new prudential regulation and supervision regime for the insurance sector is naturally a key area of interest for NZSA and our members. I am delighted to bring to your attention that Richard Dean of the RBNZ will be leading a session at the NZSA conference entitled 'Insurance Prudential Supervision: The Actuarial Role'.

Taxation: Life insurance, OCR deductibility, KiwiSaver

NZSA lodged a submission on the Taxation (International Taxation, Life Insurance and Remedial Matters) Bill in early October. The submission spoke to all three areas of reform of life insurance taxation, clarification of the tax status of general insurance outstanding claims reserves, and KiwiSaver Act amendments.

It is fair to say that the draft life insurance tax legislation is quite complex in places which gives rise to the risk of potentially unintended outcomes. The primary areas of life insurance tax legislation upon which NZSA commented were the need for clarification of the 'Premium Smoothing Reserve' calculations, and the definition of 'actuarially determined'. This definition is used in a number of places within the Bill, but there is a concern as to whether the current definition is practical.

There will be a session at the NZSA conference entitled 'Life Office Tax Workshop', and I am very pleased to see that Anthony Merritt of the IRD will be taking a leading role in this workshop.

Regulation of Financial Advisers

The Financial Advisers Act has now been passed as part of the push to enact key legislation prior to the House going into recession in preparation for the election. Greg Lee has written a brief note on the new legislation and this is attached to this newsletter. It is important that NZSA members individually consider whether they are impacted by this legislation. The Act will be implemented in stages, with a number of regulations yet to be finalised.

Subsequent to the July newsletter, a revised pragmatic approach was canvassed by the Select Committee, on which NZSA made a submission that was generally supportive. At the end of the day, NZSA members do not have an exemption, and the previous draft exemption for lawyers has been pared back to be consistent with the exemption for chartered accountants.

Reverse Mortgage Code

The Office for Senior Citizens issued their Code of Practice for Mortgage Based Home Equity Conversion Products in September 2008. In the end, the OSC decided to issue a voluntary code, pending changes to the CCCF Act expected in 2010. As members will be aware, the reverse mortgage market in New Zealand has become much less active over the last year, driven by market conditions and the global shrinkage of the securitization markets. The OSC code of practice can be found at the following link: <http://www.osc.govt.nz/her/index.html>

Professional Standards Update

Progress continues to be made on developing and updating a number of the NZSA's professional standards. Production of a professional standard entails a significant amount of work, but it is important that our profession has up-to-date and robust standards in place where required. The following is an update on progress, and I am keen to see the work on these standards completed:

PS5 *Solvency Reserving for Life Insurance Business* – feedback closed on 15 August 2008 and the Life Insurance Committee are currently considering any changes needed to the updated exposure draft

PS6 *Actuaries Providing Advice under the Friendly Societies and Credit Unions Act 1982* – feedback on the exposure draft closed on 16 June and the drafting group are assessing the submissions

PS8 *Economic Valuations* – further member feedback has been obtained through a sessional meeting and invitation for written responses; the exposure draft is now being reviewed in the light of this feedback

PS9 *Communication of Professional Advice* – exposure draft was circulated to members on 24 September and has been discussed at a sessional meeting; written responses are due to Linda Caradus by 31 October 2008

PS10 *Financial Reporting for Superannuation Schemes under IAS19*- feedback closed on 29 August 2008 and the Superannuation & Savings Committee are currently considering any changes needed to the exposure draft

As referenced above, sessional meetings were held in Wellington and Auckland in early October to discuss the drafts of PS8 *Economic Valuations* and PS9 *Communication of Professional Advice*. There was a strong attendance by members and a very good level of active participation in the discussions. The lunchtime format seemed to work well, though there were some learnings around the catering for the future!

Graham Reid (1920 - 2008)

It is with sadness that I have to report that Graham Reid died on 29 August 2008. Graham passed the preliminary exam to join the profession as a student in 1939, but had to wait until 1946 to be admitted, following war service with the Royal New Zealand Navy. Graham qualified as a FIA in 1959 and was then one of the very few actuaries in New Zealand and particularly noteworthy for the times in that much of his professional career related to General Insurance during his long career with the South British Group (now part of IAG). Graham went on to become Chairman of the New Zealand Actuarial Society in 1974-1975. It was during Graham's term of office that the New Zealand Superannuation Bill was discussed in Parliament, a major national issue which spawned a couple of high-profile incidents between actuaries and leading politicians.

In 1975 there were fewer than 35 actuaries in New Zealand and almost all were based in Wellington. Graham actually moved from Wellington to Auckland, a shift that has subsequently been made by many of our members over the years. Graham was a man of integrity who will be remembered for his service to his country both as a wartime naval officer and as a senior member of the business community. I have written to Graham's widow on behalf of Council and members, expressing our sympathies.

(thank you to Dick Jessup and Roger Garrett for providing information on Graham's career)

Council Meetings

The next meeting of Council is scheduled for Monday 8 December 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.

New Members

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

Students

David Wild
Daniel Clough

Fellows

Joe Benbow
Peter Scolley
Nerida Seccombe
Jean DeSantis

Richard Harvey honoured

Members may have seen the article about Richard Harvey in the September edition of The Actuary magazine published in the UK. Richard has been awarded Manchester University's Outstanding Alumnus Award for 2008. The award is presented each year to alumni who have achieved distinction in their profession, service to the University or the wider community.

Richard was President of NZSA in 1991-1993, during which time he became chief executive of Norwich Union New Zealand. On returning to the UK, Richard managed the merger of Norwich Union and CGU, and became CEO of Aviva, the world's fifth largest insurer. But in January 2007 he left his high-profile career to support charitable projects in Africa. Richard signed up to spend a year in Africa working for Concern Universal (www.concern-universal.org), a charity that aims to improve the lives of people in some of the world's poorest communities. Taking such a practical step to help the third world is an inspiration to us all.

"Formulae and Tables for Examinations"

Fran Jenkins, our NZSA Secretariat, has over 35 spare copies of "Formulae and Tables for Examinations", as the UK Institute send fresh copies for each set of exams.

If any students want a copy (for free), please let Fran know. Or perhaps some Fellows may like a copy for nostalgia – excellent bedtime reading?!

Conference 2008 that website again: www.nzsa2008.co.nz

Ian New
President

Financial Advisers Act 2008

The Financial Advisers Act (FAA) received Royal Assent on 27 September 2008. The Bill was introduced in December 2007 and had its first reading on 19 February 2008. There were three Finance and Expenditure Select Committee Reports and the Bill had its second reading, passed through the Committee of the Whole, and its third reading in the week of 23-25 September 2008.

The *New Zealand Society of Actuaries* made two written submissions to the Select Committee and Ian New and Peter Cosseboom appeared before the Select Committee in early July in support of our first submission.

The main message we wanted to convey to the Committee was that the NZSA has the full requirements of a profession in place, including a professional code, practice standards, CPD requirements and disciplinary procedures with external representation. Another key element of our submission was that if accountants and lawyers should be exempt from the disclosure requirements when giving advice in connection with their professional practice then actuaries should be exempt also. Unfortunately our request has been overlooked to date although it is possible there could be some form of exemption for actuaries in the forthcoming Regulations. **In the absence of any exemptions actuaries will be subject to the same disclosure requirements as anyone else when providing financial advice to individuals.** This may, for example, now include consulting actuaries who advise trustee groups on their investment strategies, present to groups of employees of a company's superannuation scheme or who make any financial product recommendations in the course of their discussions or emails with individuals. Actuaries will need to be clear as to whether or not they fall within the gambit of the FAA and associated Acts and Regulations.

There are a number of Regulations associated with the Act that are yet to be finalised and in addition, Parliament has enacted the accompanying *Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA)*, which requires all financial service providers to be registered on a public register and to be members of a dispute resolution scheme.

In a Nutshell

Broadly, the aim of the FAA is to restore public confidence and to facilitate investment growth by subjecting financial advisers to higher standards of competency, accountability and supervision of the Securities Commission (Commission). Financial advice is defined as making a recommendation to buy or sell a financial product.

There will be a two-tier approach to the classification of financial advice based on product categories.

Category 1 products Complex products (such as securities or futures contracts) can only be delivered by those who are *registered* under the FSPA and *authorised* by the Commission.

Category 2 products Less complex financial products (such as consumer credit contracts, call debt security, bank term deposits, insurance products (excluding life insurance policies issued after 31 December 2008)) will not require *authorisation* but advisers must be *registered* and comply with the basic conduct and disclosure requirements prescribed by the Act.

Three Categories of Adviser

1. An adviser who is both registered under the FSPA and authorised by the Commission can advise on category 1 and category 2 products.
2. An adviser who is registered but not authorised by the Commission can advise on Category 2 products only.
3. A financial adviser who is neither registered nor authorised but who works for a qualifying financial entity (QFE) can only advise on the QFE's category 2 products. The QFE model allows approved institutions to assume responsibility for any of their employees or agents who provide category 2 product advice. Note that under section 17, an individual (whether registered or not) who is an employee of a QFE may also, in relation to a category 1 product of which the QFE is an issuer, give financial advice (ie recommend, give an opinion or guidance) or make an investment transaction (ie receipt, handling, payment, or investment of money or other property by one person on behalf of another person) in relation to acquiring or disposing of a financial product.

Disclosure Obligations

It is expected that the regulations will prescribe the details of the disclosure requirements for Authorised Financial Advisers. These are likely to be similar to the current disclosure requirements, given the high level list of items the regulations are intended to cover under section 23(2). For example, the section 23(2) list includes the adviser's experience, any criminal convictions, fees, conflicts of interest, indemnity insurance and dispute resolution arrangements.

Timeline

In terms of timeline, the FAA will be implemented in stages, starting with the appointment of the Commissioner for Financial Advisers, the establishment of the Code Committee, and the development of the code and regulations. It is expected that the regime of registration (under the FSPA) and authorisation (under the FAA) will be fully in force by the end of 2010.

We will keep members informed over the next two years as the various regulations are created and their impacts on Members are known.

Greg Lee

13 October 2008

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.