



Ian Perera
President

**PRESIDENT'S
NEWSLETTER
SEPTEMBER 2011**



Paul Rhodes
Vice-President

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Message from the President

In the last year or so my formal work role has changed from being a producer of actuarial assumptions to being a consumer. That transition has caused me to reflect on the process of communicating assumptions. My experience was that I generally focussed on explaining the key assumptions and how they were derived from past experience. What may have been more interesting (and useful to the recipients) was to have spent more time on explaining what underlying assumptions made the past a good guide to the future and what future information may cause me to significantly change assumptions.

Regulation is going to increase the work load of actuaries in the insurance sector. Hopefully we will still have time to think about our work as well as meeting our professional and regulatory requirements.



John Smith
Secretary



Bernie Higgins
Past President



Richard Beauchamp
Council Member



Linda Caradus
Treasurer



Heathcliff Neels
Council Member

Regulation of insurers

The Reserve Bank has finalised the life insurance solvency standard which became a regulation on 4th August 2011. A further draft of the non-life solvency standard was issued in April with consultation until 8th July. The Society submitted on this latest version. The main point of contention is the earthquake catastrophe requirement and whether it should cover a 1 in 250 or a 1 in 1000 year event and from an actuary's point of view how we would determine this number in practice.

Representatives of the Society together with Barry Rafe the Australian president met with the Reserve Bank at the end of July. Richard Dean reiterated how helpful and essential the continuing engagement between the Reserve Bank and members of the profession has been.

The licensing process is well underway with the deadline for licensing being 7 March 2012. Existing insurers who have correctly notified the Reserve Bank of their intentions and met the deadlines can operate under a provisional license for a further 18 months until 7 September 2013. As at August there were still applications outstanding and approximately 50 insurance companies were expected to wind up their operations.

Future events

General Insurance Seminar

This will be held in Auckland on the 25th of October. New Zealand's general insurers have faced a challenging 12 months. Besides going through the RBNZ licensing process, insurers have faced unprecedented challenges from the Canterbury earthquakes. What have we learnt and how will it affect the decisions we make in the future? Such a tremendous series of events presents technical and professional challenges for those working in General Insurance. This one-day workshop will bring together a range of industry experts to discuss the earthquakes.

An on-line registration form can be accessed from our website - <http://www.actuaries.org.nz/events.html>

Financial Services Forum and NZSA Annual General Meeting

This will be held in Wellington on the 25th of November.

Appointed Actuary Workshop

Catherine Johnston, Jeremy Weight and Richard Beauchamp have kindly agreed to form the planning committee for this workshop. The workshop will be aimed specifically at actuaries who are or will be Appointed Actuaries under the New Zealand regulations.

Plans are at an early stage. The intention is to hold a one-day workshop at an Auckland venue on 29 February 2012. The workshop will be advertised in early October, once key details are confirmed.

Reports from Recent Events

Professor Natalie Jackson, University of Waikato (Report by Jonathan Nicholls)

The NZ Society of Actuaries was delighted to hear Professor Natalie Jackson at a sessional meeting held at PwC's Wellington office on 26th May 2011. Professor Jackson is the Professor of Demographics at the University of Waikato, and is also the Director of the National Institute of Demographic and Economic Analysis. She gave the audience a fascinating glimpse into the impact of demographic changes.

We were informed that despite NZ having the highest and longest baby boom, we face an ageing population that will cause many issues in the not too distant future. A 61% increase in the number of over 65's will drastically increase the cost of superannuation, while the number of young people forming the tax base will increase by less than 6% - due to both falling births and out-migration to the West Island. This requires government action, but unfortunately to date there has been little progress.

Meanwhile, ageing is compounding the ongoing urbanisation issue, meaning a large number of rural regions are experiencing reductions in absolute population levels. The age pyramid for farmers is upside down, raising the question: who will buy the farms when the current generation retire?

The younger members of the audience were delighted to hear that there was some good news coming out of the demographic trends. Their diminished supply, and increased demand for their services, would lead to fantastic employment and promotion prospects, while they should be able to buy houses cheaply when the 'Baby Boomer' generation all sell up to move into a retirement village.

Once the formal part of the session was concluded, there was a chance for members to solve the population dilemma by discussing the issues over drinks and nibbles. We thank Professor Jackson for her insights, and hope that her continued push to inform and warn will have an impact on government policy.

Actuarial Drinks

It's great to see that one of our Auckland members has arranged some purely social get-togethers. While it's not an NZSA-owned event, one of the Society's objectives is to promote fellowship amongst the profession and Fran can provide lists of members' email addresses if anyone else wants to invite their fellow members to, for example, a lunch or drinks-on-the-way-home.

Anita reports "We had another great turnout of around 30 people. It was a great chance for everyone to catch up over a few beers and pizzas at the Carpark bar. I am pleased to report that there is nothing that I could tell you that would cause permanent damage to any attendee's reputation and/or career prospects."

Winter Dinners

As customary, dinners were held in Wellington and Auckland to coincide with a visit to New Zealand of Barry Rafe, President of the Institute of Actuaries of Australia. Barry was a thought provoking speaker and there was a good attendance at both events.

Current Committee work

Life Committee

The Committee prepared a submission to RBNZ on the second draft of the life solvency standard. Now that the final solvency standard has been issued, the Committee has begun work on polishing its initial draft of a replacement for NZSA standard PS1 *Reports and Advice to an Organisation carrying on Long Term Insurance Business*. An Exposure Draft will be circulated to members later this year.

Wellington members of the Committee have been working to organise the Financial Services seminar, to be held on Friday 25 November.

General Insurance Committee

The Committee drafted a comprehensive response from NZSA to the third draft of the RBNZ Non-Life Solvency Standard. The catastrophe risk charge, premium liabilities assessment and what constitutes “actuarial information” were considered to be the most important issues.

June sessional meetings in both Auckland and Wellington to discuss the Exposure Draft of PS4 General Insurance Business were reasonably well attended. A revised draft, amended after consideration of members’ feedback, has been submitted to the Professional Standards Committee.

Work is continuing on drafting a new standard to cover Financial Condition Reports on non-life insurance business.

The Committee is busy organising the GI seminar *Seismic Events* to be held in Auckland on Tuesday 25 October.

Health Committee

The Health Committee has also been turning its collective mind to various aspects of the RBNZ insurer solvency standards, as well as the update of PS4 and the draft FCR standards.

Investment Committee

Proposed new professional standard PS11 *Investment Advice* covers the provision of wholesale investment advice to fiduciaries, detailing the professional considerations a member must take into account in giving the types of investment advice typically associated with the actuarial profession.

The initial draft of the standard has now been considered by the Professional Standards Committee and an updated draft prepared. An Exposure Draft will be circulated to members once the Committee has considered PSC’s further comments.

Experience Investigation Committee

The Committee has had wholly positive feedback from potential participating companies for an updated mortality investigation and is now working to progress the next study. No strong interest in an investigation of other types of experience was found in the market.

External Relations Committee

The ER Committee has assisted me with co-ordinating the arrangements for Barry Rafe's visit in July.

The Committee is working on a redesign of the NZSA website, and members have produced some initial drafts of information on actuaries ("Actuaries 101") for people searching for such material.

Since the last newsletter in May, our PR consultant Four Winds Communications has, as well as contributing to Committee meetings:

- organised media coverage relating to Barry Rafe's visit, particularly his views on retirement age (a copy of an article he prepared for media distribution is appended to this newsletter),
- produced a list of questions the website should try to address (including in Actuaries 101), and
- suggested names of relevant journalists and advisers to invite to an NZSA cocktail function later in the year, providing contact opportunities with a number of the key stakeholders that Council and the Committee have identified.

Both Council and the External Relations Committee continue to support PR involvement to increase the professionalism, preparedness and profile of the NZSA.

Charles Hett has written a piece on the Social Welfare Working Group for the NZ slot in the August issue of the Actuary Australia magazine. Articles for future issues would be welcomed.

The ER Committee has set up a team of members from the other practice Committees to organise an Appointed Actuary workshop, to be held early next year.

Enterprise Risk Management Committee

The first meeting of this Committee was held in May. Members are Kate Dron (Convenor), Klaas Stijnen, Bronwyn Lusby and Andrea Gluyas.

The initial actions planned are to:

- draft terms of reference,
- progress NZSA involvement with the CERA treaty,
- assess our commitments under the treaty and how to comply with them,
- create visibility for members of ways they can be involved and up skill in ERM, and support members seeking the CERA designation.

Professional Standards Committee

Charlie Cahn has joined the Committee

The PSC has encouraged both Life and General Committees to progress their FCR standards with a view to having them available to members who will have to prepare FCRs as of early 2012.

A questionnaire was sent to all members regarding their use of the standards PS6, PS8 and PS9. The Committee was disappointed, to put it mildly, that only 6 members (other than the PSC themselves) responded. However, a number of interesting points were raised and PSC will be considering those in due course.

Events Committee

The Events Committee continues to progress the early stage preparation for our 2012 conference.

A number of sessional meetings are being considered for the next few months.

NZSA finances (to the end of August 2011)

Our budget for the year included subscription income of almost \$43,000. Actual subscription income has been \$176 below budget.

The budget allowed for about \$30,000 of regular and administration costs to be incurred by this stage of the financial year. Actual has been slightly higher.

Our financial year ends on 30 September. The Treasurer's best estimate of the final result is an operating deficit for the year of around \$9,000, which can be compared to a budgeted deficit of \$30,000. About one-third of the difference will be spent next year, e.g. website redesign, one-third is unspent Council and President's budget, and the remainder is various minor differences.

The expected final result would mean that total funds as at 30 September 2011 of around \$275,000. If we exclude the amounts set aside in the Richard Bruynel Prize Fund and as seed money for our next biennial conference, we will have an excess of \$80,000 above 'target surplus.'

Council has already begun working on the budget for next year. Our intention is to recommend subscriptions at a level that will at least cover the things we need to do to continue 'business as usual', including continued use of professional PR resources at the same level as in the past twelve months. We currently expect that will mean an increase in subscriptions of around 10% to 15%.

The excess funds may then be considered as available for projects supported by members. We envisage this will be mainly discretionary spending such as subsidies for sessional meetings and winter dinners. Some one-off costs may also arise, which in the normal course of events will also be met from the excess funds.

As in the past, it is intended that the biennial conference and the seminars in the alternate years will be self-funding.

ACC Submission

The Society made a submission to the Department of Labour discussion document "Increasing choice in workplace accident compensation". A copy of the submission has been posted on our website.

Thanks to Mark Weaver, Charles Hett and Marcelo Lardies for their assistance in preparing our response.

IASB Insurance Contracts Project - revised Work Plan

IASB has announced a change in the timetable for the insurance contracts project.

The previous timeline, published in May, indicated that the future standard would be released in the fourth quarter of 2011. A revised Work Plan has been published, setting out projected targets as at 30 June 2011. This shows that Q4 2011 is now a target for a re-exposure or a review of a draft standard with H1 2012 being a target date for an IFRS.

Meetings with Treasury and RBNZ

Barry Rafe's visit to Wellington proved an excellent opportunity to improve our profile with Treasury and RBNZ. Ian Perera, Paul Rhodes and Charles Hett introduced Barry to representatives of these two key stakeholders. Our working relationship with RBNZ continues to be excellent. We believe that actuarial techniques could be more widely used by Treasury for monitoring aspects of economic performance and for policy development.

Actuaries in the Community

Joe Benbow spoke to the Rotary Club of Karori on the subject of "The role of an actuary: at work and in the community". The presentation was very well received and they appreciated the time he took to prepare and to speak to the Club.

Actuaries in the News

"According to Taylor Fry - who last year predicted the Soccer World Cup winners (but then so did an octopus) - the All Blacks actually have only a 25 per cent chance of winning the Webb Ellis Cup and that's only 4 per cent ahead of the Wallabies."

<http://www.theaustralian.com.au/news/sport/numbers-crunch-blacks-chances/story-e6frg7t6-1226133453280>

Want to up-skill in Enterprise Risk Management? (Contributed by Bronwyn Lusby)

The Australian Institute now runs an Enterprise Risk Management (ERM) course, which covers risk culture and governance issues as well as quantitative and qualitative measures and methodology.

A few basic facts:

- The course comprises of the UK ST9 (ERM) exam, as well as a two-day workshop. There is also a five-day workshop option. The workshop is not assessed.
- The Australian Part III Module 1 now offers this ERM course, 7A, as an alternative to the previously compulsory Investments paper.
- It runs every 6 months and has a similar course-load to the core Part III papers, although the reading requirements are more extensive.
- Students who took the Part II exams prior to 2011 may need to complete an online investment bridging course – check online or with the Australian Institute!
- The course meets requirements for the Chartered Enterprise Risk Actuary (CERA) qualification, which members can apply for once they have attained at least AIAA status.

The ERM paper can also be taken as a stand alone course to achieve the CERA qualification by Associates or Fellows. You can attend the workshop without enrolling in ST9, but parts of the workshop are closely related to the course material.

But what does it cover?

Managing risk is not a new concept to actuaries and actuarial students; we are clearly specialists in insurance risk, but there is a lot of value to be added by considering the other risks faced by financial services companies. The ERM course instills the importance of a holistic approach to managing risk by considering governance issues, the elements and structure of a successful risk management function, how risks influence strategy, the importance of a strong risk culture, and the application of the risk management control cycle.

On the quantitative front, scenario analysis and stress testing, risk measures and models, tools and techniques and the application of economic capital are covered. Unlike insurance risk models, many areas of ERM don't naturally lend themselves to traditional modelling techniques. Measurement of unquantifiable risks, including operational risks, is considered.

Check the Australian Institute website Education section for details:

http://www.actuaries.asn.au/Libraries/Education_ProfessionalDevelopment/UK_ST9_Syllabus_2011.sflb.ashx

The workshop contains a mixture of guest speakers, case studies, and lectures on the more complex material from ST9 itself.

So why take this course?

Actuaries have shown themselves to be specialists in the insurance risk area, so are natural contenders for the role of risk advisers to organisations in the more general sense, be it an insurance company or otherwise.

From a business perspective, ERM enables risk based pricing, contingency planning, risk based performance metrics to aid in strategic decision making, and alignment of the investment mandate, risk appetite and ERM framework of a company.

The new RBNZ requirements are likely to force companies to get more involved in ERM. The Prudential Supervision Act and IFRS requirements will require a greater focus on risk and value based accounting metrics.

Check out the value of the CERA qualification here:

<http://www.actuaries.asn.au/EducationandProfessional/CERA.aspx>

New Members

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

Students:

Maggie Leonardo
Audrey Feng

Michael Clarke
Jo Ann Shum

Associates:

Fellows:

Warwick Gard
Matthew Burgess
Murray Glase
Kitty Ho
Fintan Thornton
Andrew Matthews
Jim O'Donnell
Karl Marshall
Jason How
Jonathan Nicholls

I hope you have enjoyed this newsletter. Special thanks to all who have contributed to the contents. Remember to contact me if there is an issue that you would like to be covered in a future newsletter.

Kind regards

Ian Perera

Appendix - Barry Rafe Article

Younger generations need help to find smarter ways of managing longevity risk

The good news is that most of us will be living longer and more active lives than we think. The bad news, for our grandchildren at least, is that we will be living a lot longer.

So why is living longer a problem? Well, it's not just that younger generations will have to put up with us demanding attention for longer, but because they will be expected to help support us.

In summary, our longevity has the potential to spark an inter-generational war between a large, politically powerful older generation and younger perhaps yet to be born generations. Commentators commonly quote life expectancies of around 80 for men and 83 for women. These are misleading however because these reflect the mortality rates of people who were born 80 years ago!

Based on anticipated medical advances, it's feasible that the first New Zealander to live past 200 has already been born! Further, a 65 year old healthy male could have a 50% chance of living past 100.

Research on mortality rates has revealed that the key drivers of mortality include, health, wealth and where you live as well as your family heritage. Your postcode may be good for your health!

Now before you move to a healthy suburb it is likely that the key contributor to longevity is your own health. There appears to be a strong link between wealth and health. In developed countries like NZ where high quality healthcare is available to all, the correlation between health and wealth is more likely a reflection of the fact that wealthy people generally seem to have healthier lifestyles.

Knowing all this, I was intrigued by news footage of people rioting in the streets of Europe because their retirement age had risen from, in some cases 55 to 58!

It is understandable that people object to cuts in previously guaranteed entitlements and, in this case, the protestors' argument is that the Government is breaking a social contract and renegeing on promises because bankers have behaved badly.

However, a more fundamental issue is emerging in the developed world which could result in some countries facing with bankruptcy and with ever increasing debt levels increase the risk of an intergenerational war.

The fact that we pay taxes during our working life, for example, should not *automatically* create an entitlement to everything, to a guaranteed government-provided income plus other benefits in retirement.

The government fund being accumulated from our taxes to pay for our non-taxpaying years is a small one. The aged pension is basically paid for out of current tax revenue paid by the working population.

All that exists is a hope that future generations will keep working productively and paying. Right now, two generations, that is, us and our children, pay for our parents' aged pensions.

In our lifetime, it's likely that two new generations will be paying for the current generation of retirees, plus us. As the proportion of retirees grows, so will their political power. Retirees risk sucking the yet-to-be born generations dry of savings.

A feature of the longevity problem is that people who are causing the problem, that is us, are alive now and in control of the political agenda, and that people who will have to pay for it are not yet born.

The challenge for Governments is to start to change mindsets and to make sure people are encouraged to fund for their own retirement – Kiwisaver is a significant step to help boost funds available in our later years.

Another way is to stay productive and stay healthy in later life, many countries place restrictions and disincentives for people to work past an arbitrary retirement age and studies have shown that a sudden change in working patterns can be bad for your health – even if the change is retiring.

I may sound like the Christmas Grinch promoting the idea that people should 'work till they drop' but the reality is that there are many people who are active, healthy and optimistic about working later and would choose flexibility and prefer to time their own retirement without worrying about artificial barriers and the affect on our younger generations.

These are the people who will be driving our productive society forward in 40 years time.

The President of the NZ Society of Actuaries, Ian Perera, echoes Mr Rafe's comments about the looming longevity issue on this side of the Tasman.

He says the challenge of an ageing population is one of New Zealand's biggest economic risks.

“To meet it we will need to become a nation of savers. We need New Zealanders to become educated about the effects of longer lifespans on our society and how we can manage the impact.

“We will need to make different choices about how we trade off spending, saving and borrowing. As a first step we need to have a wider debate about the recommendations of the Savings Working Group.”

Mr Perera urged the government to instigate that debate as a priority after the election.