



Bernie Higgins  
President

## PRESIDENT'S REPORT Summer 2010

### The Year Ahead

I am conscious that I have assumed the Presidency of the Society at a particularly busy time, with significant regulatory developments underway in key areas such as the prudential supervision of insurance companies and financial adviser legislation. This will inevitably place some demands on the profession, but importantly it will likely present opportunities for our Members. In addition to this, there are many opportunities for our Members to provide sound professional advice in slightly wider fields – such opportunities (and challenges) are an area of special interest to me, as I believe the actuarial profession has plenty to offer.

I want to encourage you, as Members of the Society, to maintain active involvement with your profession. In particular, please ensure that the 2010 NZSA Biennial Conference, to be held in Marlborough, is in your diary:

#### **Sunday 21 November through to Wednesday 24 November 2010 inclusive**

The Conference Committee is chaired by Charmaine Green, and further information will be circulated to Members as arrangements progress. In the meantime, please do start thinking about topical areas that would benefit from professional debate – it is never too early to start drafting a paper!

### Regulatory Developments

#### **Prudential Regulation of Insurance**

The Insurance (Prudential Supervision) Bill was given its first reading in Parliament in December and was referred to the Finance and Expenditure Select Committee. The Select Committee called for submissions by 10 February 2010, with an expectation that they will report back to Parliament in early June.



John Smith  
Secretary



Ian New  
Past President

Paul Rhodes  
Council Member

Ian Perera  
Vice President



Linda Caradus  
Treasurer



Heathcliff Neels  
Council Member

Linda Caradus took the lead in drafting and finalising an NZSA submission and at short notice was able to arrange for interested actuaries to have input to the submission via a videoconference (thanks to Ian New for organising). Linda also welcomed comments from Members by email and phone. A total of about 40 Members contributed to this submission through these various avenues, a great result in terms of member involvement. Special thanks to Linda for her sterling effort in meeting the deadline and for the quality of the submission.

Certainly, the proposed legislation has benefited greatly from the Reserve Bank of New Zealand's initiative to circulate an earlier draft version to interested parties for feedback, prior to the updated version being tabled in Parliament. NZSA will continue to closely track the progress of this legislation, given its importance for actuaries advising in the areas of general, health, and life insurance.

NZSA is also continuing to work with the Reserve Bank around finalising the insurer solvency standards, to be implemented in due course through Regulations to the Act. Members will be aware that there will be a new solvency standard for non-life insurance, and amendments to PS5.01 for life insurance business.

### **Taxation of Life insurance**

As previously noted, the Taxation (International Taxation, Life Insurance and Remedial Matters) Act, together with related Supplementary Order Papers, received Royal Assent on 6 October 2009. However, as the legislation was passed by Parliament in late September, it is deemed to apply for life companies with 30 September 2009 and later balance dates. Practical solutions appear to have been identified to address the potential timing mismatch where "grand-parented" business is reported under Margin on Services. Best estimate tax assumptions for current MoS projections could have required immediate allowance to be made for the additional tax that is expected to be payable beyond 5 years, thereby immediately reducing planned margins and actual reported profits. It now appears that alternative acceptable interpretations of the financial reporting requirements have emerged to avoid this timing mismatch.

Members working in life insurance will have noted that the concept of "actuarially determined" has been introduced through this tax legislation. This new life insurance tax legislation requires a number of items to be "actuarially determined". This approach of allowing professional judgment, rather than setting out the detail of the calculation to be made, is unusual in New Zealand tax legislation and places a professional responsibility upon Members to act and advise appropriately in this area. This development is discussed more fully in the Appendix to this newsletter. I urge Members to consider this aspect and provide feedback on any concerns or thoughts to Council and/or the Life Insurance Committee.

### **Profiles of Council Members**

#### **Ian New**

Ian New is Immediate Past President of NZSA and was a Council member prior to this. One of Ian's particular interests in joining Council was to see the New Zealand actuarial profession develop and maintain stronger relations with a range of key external parties, such as the Reserve Bank. The External Relations Committee is now one of the catalysts for ensuring proactive engagement with strategic partners.

Ian is also keen to see promotion of the application of actuarial techniques and analysis in wider financial areas, such as banking and enterprise risk management. Originally from the

UK, Ian is employed with Westpac where he is closely involved with the life insurance and funds management operations, and has also provided input to the banking business.

Ian lives in Wellington, however he is frequently in Auckland on business. He is married, with a daughter who is currently studying in the United States, and a son who is currently studying at Canterbury University. Ian's interests include tramping, motor sport, and a wide range of music. Ian enjoys interaction with fellow actuaries, and can always find time for a coffee!

### **Ian Perera**

Ian Perera is Vice President of the NZSA. Previous roles within the NZSA include membership of the life and conference committees. Ian's professional interests include financial reporting and risk management. Ian is expecting significant changes for the New Zealand profession in these areas over the next few years and is looking forward to the challenge.

Ian has worked in the life insurance industry for over twenty years with roles in the UK as well as New Zealand. He is Sovereign's Chief Financial Officer. Previous roles with Sovereign include Chief Risk Officer and Head of Actuarial. He enjoys the learning opportunities that his role has given him including experience as a director of an offshore bank, though he sometimes wishes he could spend more time with spreadsheets and less in meetings.

Ian lives on the North Shore of Auckland. He is married with a nine year old daughter. His interests include food, music and reading. He is seldom far from his iPod.

### **John Smith**

John Smith has been the Secretary of New Zealand Society of Actuaries since November 2005 and is the Council delegate to the International Actuarial Association. John has been keen to formalise and expand the role of actuaries as part of prudential supervision of insurers. John is also keen on developing stronger links with the Institute of Actuaries of Australia, given the similarity of actuarial practice and Trans-Tasman economic ties. John was particularly pleased that NZ experience now counts towards eligibility for converting FIA into FIAA.

The Secretary is responsible for keeping a record of meetings, checking membership applications and initiating disciplinary hearings. Fortunately, most of the secretariat work is undertaken by Fran and there have been no professional misconduct complaints in the last five years.

John has born in Zambia and worked in Zambia, UK and Zimbabwe before coming to New Zealand in 2000 to become the Company Actuary for Fidelity Life. John lives in Auckland and is married with three sons, one daughter and three grandchildren. John's interests include films, church and puzzles.

### **Linda Caradus**

Linda Caradus is this year's Treasurer, having spent the previous two years on Council. She is also a member of the NZSA Life Committee and has had stints on the Education and Conference Committees as well as on working groups that have developed the Code of Conduct and PS9 (Communication of Advice).

A Kiwi by birth, Linda spent 15 years in UK before returning to NZ in 1995 to work at Norwich Union. She joined Melville Jessup Weaver in 1998. Linda works mainly in life insurance and has recently been involved in the drafting of NZSA submissions on life insurance tax and insurer regulation.

Linda lives in Wellington, where her family comprises 1 husband and 1 cat. She also has 2 stepsons in UK and on that basis will admit to having 4 (extremely lovely) grandchildren. Linda's interests include gardening and tramping – with an extension to cycling for a short while as she and 2 other actuaries and assorted friends take on the Otago Rail Trail cycle way.

### **Heathcliff Neels**

Heathcliff joined Council in 2006 as Treasurer. At the end of 2009 he stepped down from this role to focus on investment related matters for the Society.

Heathcliff is Mercer's investment consulting business lead specialist for capital markets and asset liability modelling in Asia Pacific. He is based in the Auckland office.

Heathcliff is married with three children at primary school and intermediate. His interests include walking the dogs, coaching / managing children's sport and spending time with friends and family.

### **Paul Rhodes**

Paul Rhodes is new to the Council this year and is currently on the General Insurance and Health Committees. One of Paul's particular interests is for the profession in NZ to respond to the challenges of today and the future. New regulation will place more importance on the role of the actuary, and new opportunities will arise in other non traditional areas. In both cases we must continue to respond with a high degree of professionalism.

Paul leads the actuarial practice at PricewaterhouseCoopers and has been a consultant for the past 15 years. Paul is particularly interested in any creative opportunities for actuaries to add value in wider fields and in Government planning and decision making.

Paul lives in Wellington, has two boisterous sons of 4 and 6 and his interests include sailing, mountain biking, food and wine.

### ***On a lighter note.....***

#### **The best and worst jobs for 2010**

(Published: 1:48PM Wednesday January 06, 2010)

**Source:** Reuters

Being an actuary calculating statistics to determine probability and risk is the best job to have in 2010, while working on an oil rig as a roustabout is the worst position, according to a new study.

Layoffs, bankruptcies and rising unemployment - the past 12 months have been an especially traumatic time to be looking for a new job. Yet when considering the best and worst jobs for 2010, the upheaval that spread across multiple industries last year hasn't altered the old adage: "the more things change, the more they stay the same."

For the second year in a row, job hunters will want to brush up their math, science and computer skills if they want to land a top-ranked, highly rewarding position.

Using five key measurement criteria - stress, working environment, physical demands, income and hiring outlook - the study compares and contrasts careers across many industries, skill levels and salary ranges, sorting them into a definitive list of jobs that can be called "worst" and "best."

The following is a list of the 20 best jobs as well as the 20 worst jobs, with No. 1 on the second list being the worst, according to [CareerCast.com](http://CareerCast.com) , a job search site that analyzed 200 jobs in North America.

<b>Best Jobs in 2010:</b>	<b>Worst Jobs in 2010:</b>
1. Actuary	Roustabout
2. Software engineer	Lumberjack
3. Computer systems analyst	Ironworker
4. Biologist	Dairy farmer
5. Historian	Welder
6. Mathematician	Garbage collector
7. Paralegal assistant	Taxi driver
8. Statistician	Construction worker/labourer
9. Accountant	Meter reader
10. Dental hygienist	Mail carrier
11. Philosopher	Butcher
12. Meteorologist	Photojournalist
13. Technical writer	Firefighter
14. Bank officer	Sheet metal worker
15. Web developer	Emergency medical technician
16. Industrial engineer	Stevedore
17. Financial planner	Reporter (newspaper)
18. Aerospace engineer	Sailor
19. Pharmacist	Machinist
20. Medical records technician	Choreographer

I wonder whether those actuaries specialising in the asset consulting area would endorse the sentiments expressed above given the fragility of financial modelling tools exposed by the Global Financial Crisis.

#### **Asides:**

A timely reminder of our ongoing need to present our message clearly – thanks to Mike Robinson

*[Actuarial projections] as a scientific exercise are almost as pointless as the debate in mediaeval scholasticisms as to the number of angels that can dance on the head of a pin. (Clayton, 2003, p460)*

#### **Committee Appointments:**

Education : Joe Benbow

Experience Investigation: Michael Bartram (Convenor)

External Relations: Mark Weaver

#### **New Members:**

##### **Students:**

Premita Ajodha

Christopher Marston Fergusson

Shirley Li  
Jonathan Nicholls  
Marina Ivanova  
Taryn Royeppen  
Xiaozhou Zhong  
Robert Gibbs

**Fellows:**

Klaas Stijnen  
Keith Tomkins  
Craig Lough  
Jonathan Perkins  
Wendy Little  
Jeremy Weight

Bernie Higgins  
**President**

### “Actuarially determined” items under tax legislation

The concept of “actuarially determined” has been introduced into tax legislation through the Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009. This new life insurance tax legislation requires a number of items to be “actuarially determined”. This approach of allowing professional judgment, rather than setting out the detail of the calculation to be made, is unusual in New Zealand tax legislation and places a professional responsibility upon members to act and advise appropriately in this area.

The following definition is set out in the legislation:

***actuarially determined***, for an amount, means a requirement that is met when an actuary has calculated the amount using relevant actuarial standards and a proper and reasonable calculation methodology.

The concept and definition raise several issues for members, for example:

- should NZSA develop new actuarial Professional Standards?
- what is meant by the words “proper and reasonable”?

Council currently has no plans to issue any new Professional Standards in this regard, but is happy to receive suggestions from Members as to matters which should be covered by Professional Standards. It is understood that the Inland Revenue policymakers intended that the reference to “actuarial standards” would go wider than purely Professional Standards and would encompass recognised actuarial approaches, in the nature of generally accepted actuarial principles.

The NZSA Professional Conduct Committee is the primary group within the profession assigned to taking an active interest in what constitutes a proper and reasonable methodology in the eyes of the profession. Any professional complaint to the NZSA would of course follow the complaints procedure, but it is also possible that action could (alternatively or as well) be taken by a third party through the Courts.

Council cannot comment on the approach that either the PCC or the Court would take in practice should any question arise as to whether an actuary’s work is proper and reasonable. However, Council offers the following thoughts on the questions members might ask themselves in considering their own work.

- What have other actuaries done in making these sorts of calculations?
- Is what I propose to do well within the range of what others have done, or is it an outlier?
- If it is an outlier, what are the reasons?
- Are the reasons sufficient to persuade other actuaries who are experienced in the field that what I propose to do can be justified in the specific circumstances?

There is of course no history of what actuaries have done in this particular context and given the nature of the work it seems unlikely that any details will become publicly available. Council suggests that, if Members are in any doubt at all, they discuss the matter with other actuaries who they know undertake this sort of work and ensure that those discussions are well documented.

Of course, documentation of the approach taken and the reasons for the approach is a key step in each area where actuarial judgment is applied, especially where monetary payments such as tax are involved. Members will be aware that the Commissioner of Inland Revenue has extensive powers of information discovery under the Tax Administration Act. The Commissioner may also seek the advice of the Government Actuary or any other actuary in regard to anything that is required to be “actuarially determined”.