

3 February 2004

Cindy O'Brien
Ministry of Consumer Affairs
P.O. Box 1473
Wellington

Dear Sirs,

**CREDIT CONTRACTS ACT AND CONSUMER FINANCE ACT 2003
PROPOSED REGULATIONS**

- 1 This document is a submission by the New Zealand Society of Actuaries (hereinafter the "Society") in relation to the Ministry of Consumer Affairs' discussion document "Credit Contracts and Consumer Finance Act 2003".
- 2 This submission may not represent the individual views of all members of the actuarial profession in New Zealand. The Society is the professional body for actuaries in New Zealand. The Society provides a source of reference on actuarial matters for government and various official and interested bodies.

General

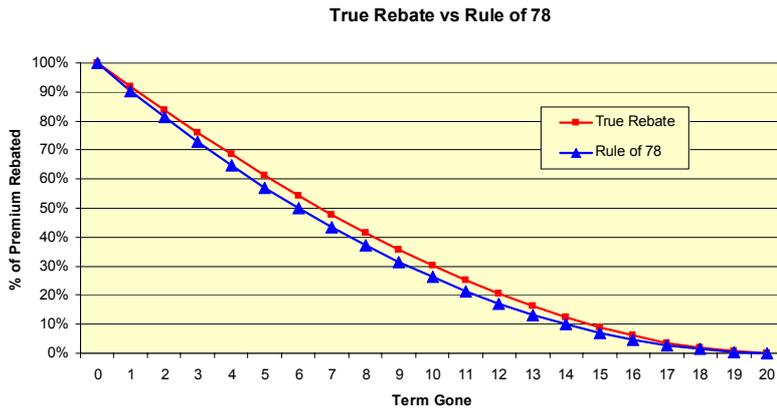
- 3 Actuaries often provide financial advice, and in many cases provide specific investment advice. Qualification as an actuary requires evidence of competence in a range of disciplines including investment matters, and through a Code of Professional Practice actuaries are required to ensure that they are adequately experienced in any particular area before providing advice.

Repayment Formula

- 4 We agree that the formula given correctly calculates the present value of an outstanding contract and, therefore, the lender's loss.

Rebate of Insurance

- 5 We note that the risk of a claim being made does not necessarily diminish with time. However, the outstanding amount (i.e., the amount that the insurance covers) is much higher in the earlier years. The use of the "Rule of 78" as proposed is suitable in the vast majority of cases.
- 6 The difference in the true rebate and that calculated by the Rule of 78 for a 20 year contract is depicted in the following graph:



The true rebate is calculated using a standard compound interest formula.

- 7 The proposed regulations suggest making the use of the Rule of 78 compulsory. We believe that the Act would not be less effective if this is made a minimum level of rebate. Where the risk of a claim being made increases over the term of the contract, the true rebate may be linear.

Please do not hesitate to contact either Brian Lenehan (Brian_Lenehan@asteron.co.nz) or Peter Cosseboom (jpcosse@xtra.co.nz) should you require anything further.

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