



Message from the President



Paul Rhodes, President



Richard Beauchamp, Vice-President

It is mid April 2014 and the festive season seems a distant memory. I hope you all had a pleasant break with family and friends and that the New Year has been profitable so far.

Having a clear picture of the Society's medium- and long-term objectives was a focus for Council as we started the New Year. Council held a strategic planning day on 28 February and took the opportunity to involve practice committee heads in discussions about where we should be directing our efforts. A summary of our strategic priorities appears later in this newsletter.

Regulation is now a distinct feature of New Zealand's insurance landscape. Indeed New Zealand's insurers were required to be fully licenced under the Insurance (Prudential Supervision) Act 2010 by 9 September 2013, and it would now seem a good time for the Society to review industry progress and consider strategies to help our members meet their on-going obligations under the Act.

Council plans on holding an Appointed Actuaries workshop during 2014, with a broader agenda and audience than at the inaugural workshop in 2012. Richard Beauchamp is making initial preparations. Keep an eye out for details, or better still, contact Richard if you would like to play an active part.

On the subject of the Regulator, Toby Fiennes, Head of Prudential Supervision at the Reserve Bank, commented in his December 2013 bulletin that "There have been examples where interaction with the Reserve Bank by the Appointed Actuary has not been as proactive as expected". We have sought clarification from the Bank about the reference and understand it refers to a specific situation. Nevertheless it is

important the Bank maintains its high level of confidence in our profession and we will work closely with it to provide our members with an appropriate level of guidance to ensure they are seen as being proactive.

Providing guidance to our members in a digital age highlights that the Society's website needs significant redesign and development. Council has agreed that a working group should be formed to develop requirements for an appropriate digital solution for members, whatever that might be. Ben Coulter from the External Relations Committee is heading this project. Please contact him if you would like to play a part in this initiative.

Speaking of getting together, please mark your diaries for the Society's flagship event, our biennial conference. This year's conference, entitled Brave New World, will be held in Dunedin from 19 to 22 November. It will address, among other things, issues of Big Data, Longevity and Enterprise Risk.

Plans for the conference are well underway, thanks to a huge effort by the organising committee, ably led by Christian Barrington. The conference is a great opportunity for our profession to engage on issues that impact our society. Keep an eye out for a call for papers and encourage your colleagues and peers to attend.

Enjoy this first edition of the newsletter for 2014 and get in touch if there's anything you want to call out in the next.

All the very best
Paul

Well done to the Society's Secretary, John Smith, who shaved his head for leukaemia in mid-March, earning a whopping \$5,000 in the process.





Update From Council Strategy Day

In late February, Council convened in Auckland for a full day strategy meeting, with Committee Convenors joining for the afternoon.

Although Council meets monthly by teleconference, there is nothing like actually all being in the same room with a decent length of time to discuss issues.

Over the course of the day, Council identified eight priorities for 2014.

Education pipeline

There is currently a lot of demand for actuaries, and Council is concerned to ensure that the best people are being recruited into the profession. To this end we have tasked the Entrants and Education Committee with increasing the level of involvement the profession has with high schools and universities.

If you are interested in speaking to a local school, there is a slide pack available to use as a base for your presentation – please contact the Committee Convenor, Lyndon Johnson Lyndon.johnson@sovereign.co.nz for further details.

Website

Now that we have appointed a secretariat, the website can be updated and additional functionality incorporated.

RBNZ Liaison

The comments about actuaries in the Reserve Bank newsletter were discussed early on, as no one likes this kind of publicity. Council has resolved to try to maintain closer relations with the Reserve Bank to try to avoid issues like this in the future. We will be meeting with the Bank shortly to discuss how this engagement can be optimised. Although we understand the comment arose from an isolated case, it is a timely reminder to all of us who hold Appointed Actuary roles that our duties are continual throughout the year.

Extension of services provided

The transition to the new administration provider, ONZL, appears to be working well, and we have received lots of favourable comments about the changes which are taking place. A permanent, professional secretariat will also give us the ability to extend the Society's offerings to members and support to Committees, and Council is looking at ways to take this up.

First off the rank is the use of professional committee secretary/project manager to assist with running Council Committees. We have identified the Professional Standards Committee as one which would hugely benefit from professional support, and they will be receiving funding to implement this during the year.

Retirement Income Interest Group

The new Retirement Income Interest Group is now underway, under the leadership of David Benison. Council is thrilled with the experience and expertise of those members who have joined this group and we look forward to supporting the group's outputs in the future. These will include submissions in this critical area on behalf of the profession.

If you are interest in helping with this initiative, please contact David on benison@actrix.gen.nz

Conference

The Conference is always a highlight of the Society's calendar and this year's is shaping up to be no exception.

External Relations

Our experience with the Reserve Bank has highlighted again the importance of maintaining good relations with key stakeholders and influencers. We also have some opportunities to meet with politicians and have just met with the Honourable David Parker MP.

Events and Australian Presidential Visit

Council is really happy with the upsurge in Society events in the last few years, following the appointment of a specialist Events Committee. Council is keen to maintain this momentum.

This year we are in talks with the Actuaries Institute (Australia) about bringing their CPD roadshow to New Zealand at the same time as the Australian President visits. This is a significant cost undertaking by the Institute and we would like to see as many members as possible take up the opportunity to receive targeted soft skills development for actuaries – something we have not been in a position to offer before. This is not yet confirmed, and we will advise when dates are booked.



Attendees at the Council and Convenors Strategy Day – from left to right Lyndon Johnson (Convenor Entrants and Education), George Carter (Convenor Investments), Adam Follington (Events), Paul Rhodes (President), John Smeed (Council, Professional Standards), John Smith (Council), Ian New (Council), Andrea Gluyas (Council, Convenor External Relations, ERM), Murray Hilder (Convenor Professional Conduct), Anne Lord (Council, Experience Investigations).

Absent from the photo are: Catherine Johnston (Life Insurance), Ross Simmonds (General Insurance), Christian Barrington (Conference).



Update from Committees

Professional Standards Committee

GN3a

GN3a has been withdrawn with the intention to turn GN3 into a non-mandatory professional standard.

PS11 Investment Advice

On 1 July 2013, PS11 "Investment Advice" became effective. The Standard was introduced to provide a framework within which actuaries should operate when providing Investment Advice. This has given rise to some questions around the degree of overlap and/or applicability in relation to some other Professional Standards, and in particular PS2 (Actuarial Reporting for Superannuation Schemes), PS12 (Non-Life Insurers – Financial Condition Report) and PS13 (Life Insurers – Financial Condition Report).

As it currently stands, however, the position is quite clear. Where a member is providing Investment Advice (as defined in PS11), the requirements of PS11 apply irrespective of whether that advice is given in the context of another Professional Standard or not. However, where a member is not providing advice, but is simply commenting on or stating a position of fact, albeit relating to investment matters, then Investment Advice is not being provided and PS11 does not apply.

PS2 calls for a judgement on whether the investment strategy is appropriate. This judgement meets the definition of Investment Advice and, as such, members are required to abide by PS11.

PS12 and 13 are more specific in their requirements. The strict requirements do not appear to require the provision of Investment Advice and, as such, PS11 would not apply. However, if the member is to go beyond the specific requirements set out, then the member will need to consider whether they have provided Investment Advice - if they have, PS11 will apply. For example, should the member choose to comment on the appropriateness of the investment strategy, this would be considered Investment Advice.

The intention is that PS11 will be reviewed in July 2014. We would expect the degree of overlap and/or applicability in relation to some other Professional Standards, in particular PS2, to be considered as a part of the review.

Definition of Materiality

The PSC has received final reports from Adam Follington following his review of the definitions of materiality contained within our professional standards. Adam has proposed a definition to be adopted by all standards (see below). This will be implemented by altering our standards to include the definition directly. This will be done as each standard is reviewed or amended.

Materiality – In case of omissions, understatements or overstatements, the actuary must assess whether or not the effect is material. The threshold of materiality under which the work is being conducted must be determined by the actuary unless it is imposed by another party, such as an auditor or the party who engages the provider of actuarial services. When determining the threshold of materiality, the actuary must:

- a) Assess materiality from the point of view of the intended user(s), recognising the
 - purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the actuary expects it to affect significantly either the intended user's
 - decision-making or the intended user's reasonable expectations;
- b) Consider the actuarial services and the entity that is the subject of those actuarial services; and
- c) Consult with the party who engages the provider of actuarial services if necessary.

Where materiality has been imposed by another party it should be stated as such.

General Insurance Committee

The Solvency Cat charge working group has been established and comprises Craig Lough, Adam Follington and Clinton Freeman. A strawman of the proposed approach has been developed and work will now begin to complete the group objective to provide alternative methods of calculating a catastrophe charge for solvency purposes. Council will be involved in the final sign off of recommendations and any further discussion with the RBNZ.

The Committee is continuing discussions on the Solvency Standard Section 78 reports and the higher than expected level of responsibility attributable to the appointed actuary in signing this report. Council and the RBNZ may be involved further to resolve this issue.

Life Insurance Committee

Michael Bartram recently joined the Life Insurance Committee in December replacing Jason How, who has moved overseas. Welcome to Michael.

Activity over the last couple of months has focussed on several regulatory and reporting issues:

- A submission to the External Reporting Board on Exposure Draft NZASB 2013-4 in relation to disclosure requirements for statutory funds.
- The Life Committee has written to the Reserve Bank raising a potential issue regarding capital deductions for tax assets that exists within the Solvency Standard for Life Insurance Business.

The Life Committee's programme of work for 2014 will continue with a high level review of PS3. Members are invited to submit their feedback on PS3 as it currently stands to Catherine Johnston (catherine_johnston@amp.co.nz) by May 16th.

Events Update

From the Events Committee

The 2014 events calendar was kicked off on February 25 with a presentation by Robert Cole on the Canterbury Earthquakes. Robert gave us some insights into the development of these claims over time and across the industry.

This event grabbed the interest of 45 members across both Auckland and Wellington. Robert presented in Wellington while those in Auckland were able to attend via video conference. This format proved to be a great success and is something we will look to do more of in the future. If you would like to read Robert's paper, it is now available on the website: <http://www.actuaries.org.nz/events.html>

If you have access to a large video conferencing facility in either Auckland or Wellington and would be willing to host a future event, please let a member of your events committee know.

In March we held our first social events of the year with after work drinks in both Auckland and Wellington. The Auckland event was held on the North Shore. Another excellent turnout of between 20 and 30 members gave everyone plenty of opportunity to catch up with friends and to build and strengthen their professional networks.

Our Wellington members seem slightly less enthusiastic about this type of event, with Linda Caradus failing to locate the one other lonely person in the bar. I know that we said this back in November but... maybe next time?!

The calendar of events for 2014 is filling up quickly and includes the highly anticipated Auckland versus Wellington debating rematch for "The Abacus Award" later in the year. The 2014 calendar of events can be found on the events page of the NZSA website.

Actuaries and IPSA Workshop 2014

New Zealand's insurers were required to be fully licenced under the Insurance (Prudential Supervision) Act 2010 by 9 September 2013, or exit the market. Actuaries should now take the opportunity to review the industry's progress and consider strategies to help them meet their on-going obligations under the Act.

Council is keen to hold a workshop later this year for Appointed Actuaries and all others eager to stay abreast of the Act to work through the issues that may affect them, now and in the future. It will follow on from the inaugural Appointed Actuaries workshop that was held in February 2012, but this time with a broader agenda and intended wider audience.

Members eager to be involved in organising the day, or with ideas for the workshop's agenda, should contact Richard Beauchamp (Tel: 09 357 2317 or email richard_beauchamp@vero.co.nz). Otherwise please keep an eye out for details of the workshop, as they emerge.

Future Pathways

by Cordelia Chen

In March, the NZSA held the annual Future Pathways event, which is a series of presentations by students and newly-qualified actuaries to illustrate the wide range of work that actuaries are involved in. Whilst mostly aimed at those new to the field, a substantial number of qualified and senior actuaries attend to support the students and enjoy a wine or two afterwards. Together there were around 70 attendees across Auckland and Wellington.

This year, we had six presenters across three topics.

Politically incorrect pricing: Gender neutral pricing in insurance, presented by Melissa Sutjipto and Kevin Chou.



Future Pathways presenters: James Roscoe, Isabella Hou, Melissa Sutjipto, Minnie Tian, Anita Samu, Kevin Chou.



Events Update

In this presentation, Melissa and Kevin informed us about the origins of the enforced gender neutral pricing in insurance in the European Union and the impact this has had on insurers and customers. Insurers have had to deal with increased volatility in pricing and increased compliance costs. They have also faced increased risk of adverse selection and moral hazard. Although one might expect that new premiums under the new regime will be the weighted average of the male and female premiums, the combined premium is likely to be more than this to compensate insurers for the increased uncertainty they now face. Insurers are also becoming more creative in how they market their products to target the favourable segments of the population. Is gender neutral pricing likely to reach our shores? So far, there is no indication it will.

Protecting your most valuable asset: Levy setting for ACC, and the design of products in private health insurance, presented by James Roscoe and Minnie Tian.

The Accident Compensation Corporation (ACC) and private health insurance play a vital role in protecting one's health. James took us through the considerations that ACC must make when setting levies. Legislation requires levied accounts (accounts refer to the source of funding) to be fully funded. In layman's terms, this means the levies collected need to cover the lifetime cost of the expected accidents over the period to which the levies relate. James discussed how a balance has to be struck between fairness and stability in the levies from year to year.

Minnie then gave an overview of the private health insurance market in NZ and what it covers, and discussed a key issue that hinders take up; affordability. Claims costs are escalating quickly, which is driving up premiums. Options for improving affordability include ways to control claims costs, such as negotiating fixed rates with service providers and introducing a no claims discount to reduce adverse selection. Changes can also be made to product design to increase its attractiveness such as simple application processes and smaller covers (which will also increase affordability).

Adding value in capital management: Capital management in insurance and a framework for dynamic risk modelling, presented by Anita Samu and Isabella Hou.

Capital management is about helping insurers determine appropriate levels of capital to support their level of business, while at the same time ensuring the return on capital is adequate for shareholders. So how does an insurer determine how much capital to hold? Anita discussed how risk appetite statements might be set which directly determines the capital target. Isabella then took us through the framework for dynamic risk modelling, which is a useful tool to assess how much capital is needed to meet a certain target in the risk appetite statement. At the end of the day, capital management is a balancing act – the more capital that is held, the more likely an insurer will stay solvent, however more profit is required to provide an adequate return on the capital.

Minnie Tian gives us her view of the event:

When I saw the email calling for volunteers, I replied straight away as I have not done a presentation before, especially around a crowd of knowledgeable and experienced people, and I was eager to try something new. Just 30 seconds after my reply, I called Nicola Thompson (a fellow student) for some encouragement because I knew she would tell me it is a great thing to do (as she presented at Future Pathways several years ago). I was thinking at that moment that I should have called her before I replied! Was I going to regret my decision??

Soon after, I received an email that confirmed I was the first volunteer. I teamed up with James Roscoe from ACC in Wellington for the presentation. Such an interesting complementary combination - I was going to talk about private health insurance products and he was going to talk about funding approaches for compulsory ACC.

My preparation went very well with help from my manager, Xiao Zhong, and my colleagues, Lily Yang and Rich Galloway. But I found putting together the presentation with James a bit more challenging than I had expected as he is based at the other end of the Island and did not have

Skype and does not use his phone much. Cordelia organised regular phone catch-ups to make sure we were on the right track and she also gave me some tips to combat the nerves, which was a great help.

One day before the presentation, I had my first rehearsal at Maria McColl's house (another young actuarial analyst) over a lovely lunch of BBQ chicken and roast potato. That evening, James had finally set up his Skype account successfully and we had our first Skype date from 5pm until the late evening. I have to thank James for his huge effort in putting together our synopsis, reviewing my sections of the presentation and generally supporting me.

The first presentation was in Wellington. I flew down with fellow presenters, Kelvin and Melissa, from Sovereign, I have to mention that Kevin's credit card got swallowed by the car park ticket machine but luckily we finally got it back. Hopefully that would be our last hiccup for the day!

During our flight down, the turbulence was strong and the three of us were a bit nervous (although I confess – I was more nervous about having to present in a few hours!). Finally we landed safely and it was a lovely day in Wellington.

James and I were the second team to present that evening and I was going after James. My hands were shaking and I could feel my heart racing. I exercised some of Cordelia's and James' tips to get over fear of public speaking. Success!

The next day, the second presentation was held in Auckland. Another beautiful day. I remember lots of laughter, questions, nice food and drink. People were giving me lots of positive feedback. James actually said "Minnie, you took it to a new plane" and he is now seriously thinking of getting private health insurance!

Overall, Future Pathways was a great experience and I got the chance to learn some new skills such as writing this article and gained new insights from people in different fields such as the use of dynamic capital modelling in general insurance. Most importantly, Future Pathways is a great platform to catch up with old friends and make new ones. No regrets over my decision to put my hand up!



Members' News

Are you a CERA?

The Enterprise Risk Management Committee is keen to build a network of CERAs working in New Zealand. If you have passed (or are studying for) the CERA exam, please let the Convenor of the ERM Committee, Kate Dron, know kathryn.dron@sovereign.co.nz

Newly qualified Fellow

Congratulations to Graeme Lewis, below, who is the most recent candidate to pass his exams and qualify FNZSA.



Graeme has been working in pricing at AMP in Wellington for a little over a year, having previously worked in Auckland. His hobbies include running, rugby and sampling the many craft beers available in the Capital. He is also passionate about travelling and has recently spent time in places such as Japan, Albania and Slovenia.

Graeme says his most memorable exam experience was his last one, the eight hour spreadsheet modelling exam starting at NZT 8pm and finishing at 4am - the greatest challenge being keeping his eyes open!

New members and changes of membership class

Welcome and/or congratulations to the following:

FELLOWS:

- Graeme Lewis - AMP, Wellington
- Joyce Au-Yeung - Sovereign, Auckland
- Michael Playford - PwC, Sydney
- Allison O'Connell - Christchurch
- Richard McPherson - AMP, Auckland

ASSOCIATES:

- William White - Fidelity, Auckland

STUDENTS:

- Kenji Murakami - Auckland
- Tapan Mukeji - nib, Auckland
- Biju Bordoloi - AMP, Auckland
- Milan Li - Lumley, Auckland
- Jason Fu - ACC, Wellington
- Dongxue (Amy) You - Vero, Auckland
- Sarmed Syed - AMP, Auckland
- Kristee Hardacre - Finity, Auckland
- John Prinsloo - Pretoria

NOTE OUR NEW CONTACT DETAILS:

New Zealand Society of Actuaries
PO Box 10087, Wellington
Phone 04 815 8179

The email address is unchanged:
society@actuaries.org.nz

Thanks to our contributors...

Thanks to this month's contributors:
Cordelia Chen and Minnie Tian

If you have any thoughts on a newsworthy item for next year or feedback on this year's newsletters, please contact the **editor**, **Andrea Gluyas** andrea.m.gluyas@nz.pwc.com.

Thanks for reading