THE MAGAZINE OF THE ACTUARIES INSTITUTE MAY 2012 ISSUE 169

# Actuaries



## Managing Risk

### Improving risk and capital management

# Contents

MAY 2012 ISSUE 169





# Actuaries

**CONTRIBUTIONS**
Contributions should be sent to the Actuaries Institute, marked to the attention of Katrina McFadyen (Communications and Marketing Manager) at:
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All contributions must conform to our submission guidelines which are available from the Communications and Marketing Manager.

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# Coming up

## May

Insights
**CPD event with APRA's Ian Laughlin**
Thursday 24 May 2012, Brisbane

Insights
**Risk of obsession with peer risk - LWMPC Sub Committee**
Tuesday 29 May 2012, Sydney

## June / July

Insights
**Energy Markets – A View from the Wider Field**
Wednesday 13 June 2012, Brisbane

**Joint CFA (Sydney) and Actuaries Institute networking event**
Thursday 21 June 2012, Sydney

**Joint Regional Seminars Asia**
16 – 23 July 2012, Asia

**Professionalism Course**
Monday 16 – Tuesday 17 July 2012, Melbourne

**Fellowship and Presidential Dinner**
Tuesday 17 July 2012, Melbourne

## Aug / Sept

Insights
**GIPC**
Tuesday 7 August 2012, Sydney

**Professionalism Course**
Monday 13 – Tuesday 14 August 2012, Sydney

**Fellowship and Presidential Dinner**
Tuesday 14 August 2012, Sydney

**Interactive CPD Session with David C Miller – National Tour**
Monday 10 – Friday 21 September 2012 – Brisbane, Canberra, Sydney, Melbourne, Adelaide and Perth

## Oct / Nov

**General Insurance Seminar 2012**
Monday 12 – Tuesday 13 November 2012, Sydney

**ERM Seminar 2012**
Wednesday 14 November 2012, Sydney

**Ben Ooi**
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# Word of the week – Ouroboros



According to the student's bible, Wikipedia, the Ouroboros is an ancient symbol depicting a serpent or dragon eating its own tail. While there are many interpretations of this symbol, it reminds me, not of the control cycle, but more of a vicious cycle.

I bring this up because I started thinking about a vicious cycle when a client recently asked me how much capital an insurer should target in the highly regulated world of private health insurance.

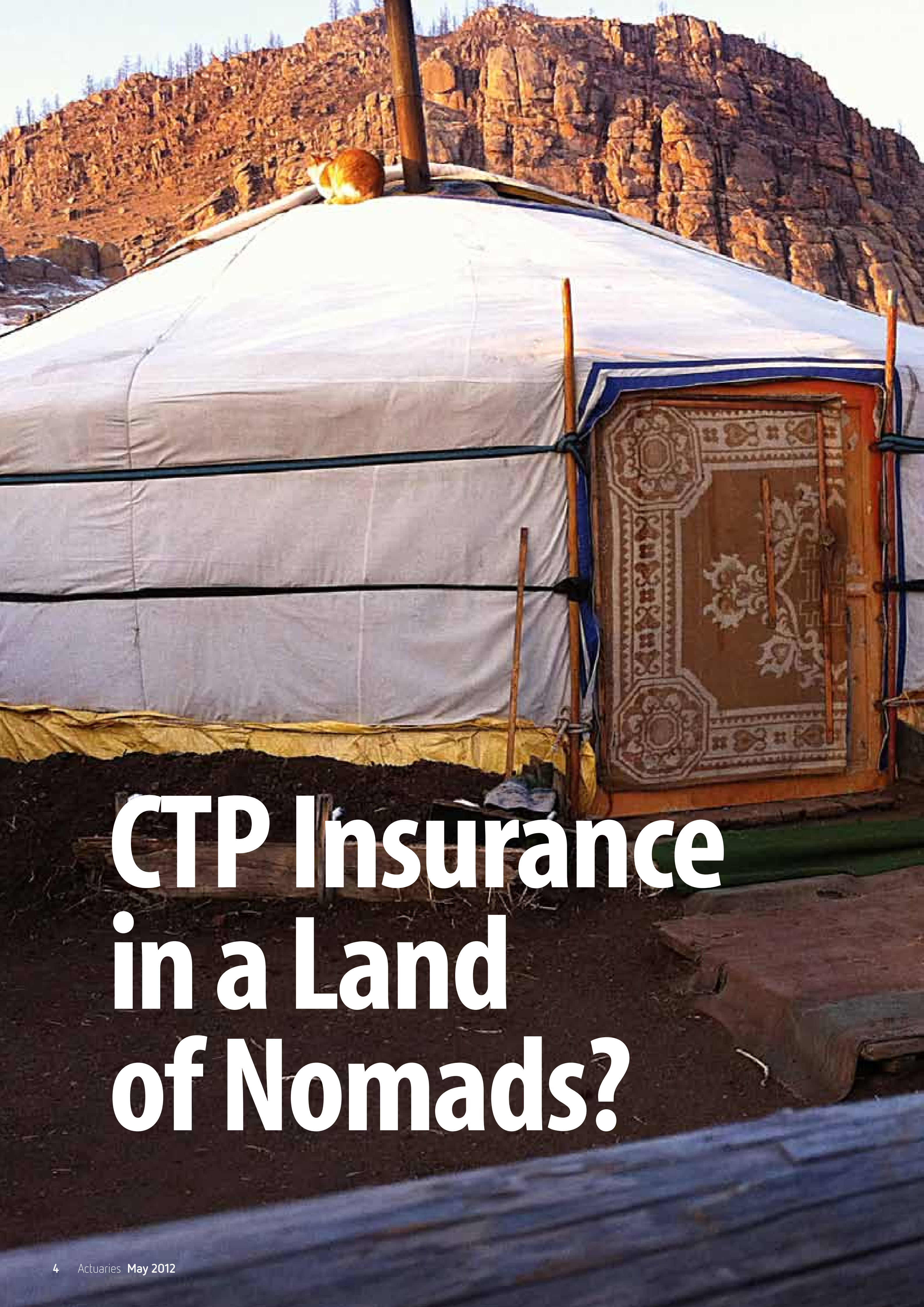
It is no secret that one of the biggest risks for a private health insurer is sovereign risk. Governments (federal and state) run and/or fund a large portion of the health sector (including Medicare, public hospitals and GPs) and as such, policies impacting these areas of direct government responsibility can have a significant impact on private health insurance, which both compliments and competes with the public sector. In addition, there is specific regulation of the private health insurance sector, which includes approval for premium increases, product design, how insurers run their business (e.g. outsourcing), prudential capital requirements... you name it!

Insurers need to hold capital to mitigate risk, including the risk of breaching prudential capital requirements. For most private health insurers, the largest component of the prudential capital requirement relates to pricing risk, which requires an assumption about future premium rate increases, which require Ministerial approval. However, insurers need to hold capital to not only avoid breaching this prudential capital requirement, but also to mitigate the risk of the premium rate increase not being allowed, which would increase the prudential capital requirement and the capital required to not breach the requirement. Issues with the premium approval process have been aired recently by both Paul McClintock, Chair of Medibank Private and Mark Fitzgibbon, MD of nib.

Therefore, like the Ouroboros, we have a cycle; one where government policy, regulation and uncertainty may contribute to insurers holding increasing levels of capital.

Please write in and let us know what you think.

Editor



# CTP Insurance in a Land of Nomads?

**Kirsten Armstrong** Director, Three Rivers
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Traditional encampment

When most people think of Mongolia, it's of an ancient nomadic lifestyle, horses galloping across endless, empty plains, vast open skies and a culture little changed since the days of Genghis Khan. That vision is still true, at least in part. More than half the population live in gers, large felt tents moved from pasture to pasture, containing the worldly possessions of the nomadic families they house. Apart from the rooftop solar panel many nomads now use to charge their mobile phone, Genghis would probably feel right at home, drinking salted milk tea, snacking on mutton and discussing the state of his herd.

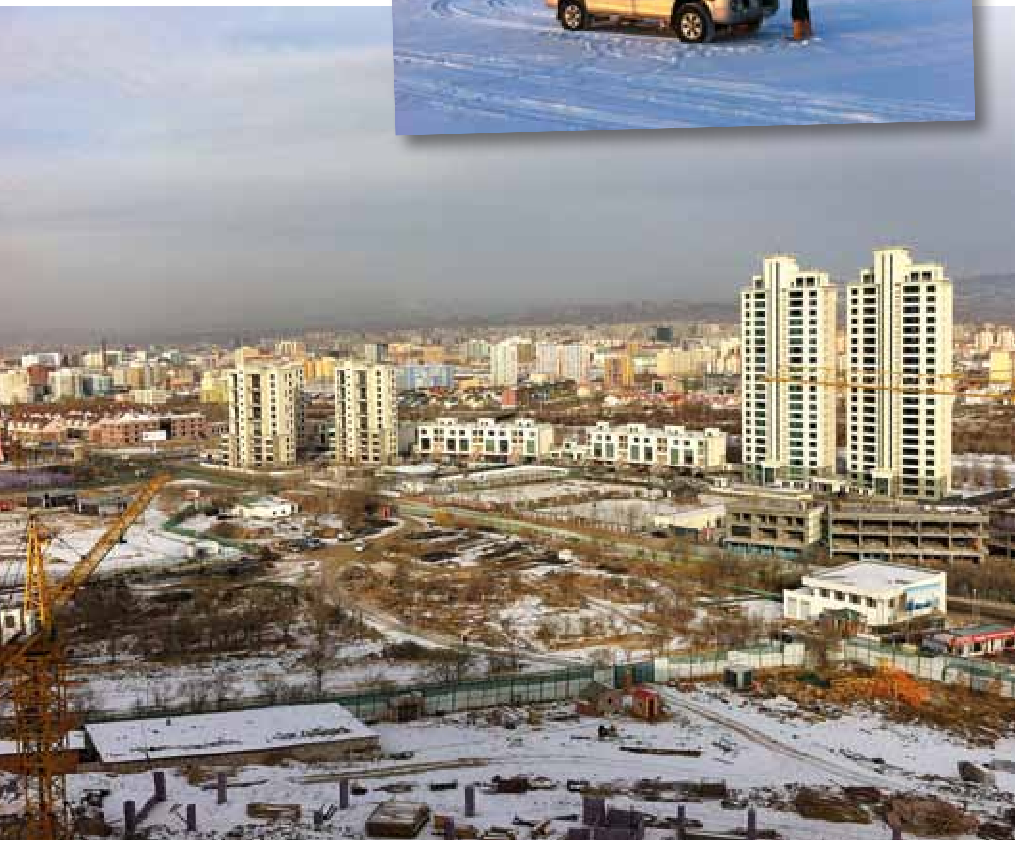
There is, however, another side to Mongolia. In Ulan Bator (UB to the locals), a major economic transformation is underway. Mongolia's extensive mineral deposits – copper, gold, coal, uranium and tin – are attracting significant foreign investment. The Oyu Tolgoi mine, the world's largest undeveloped copper gold project, will be operating commercially next year and will account for one-third of Mongolia's economy. Rio Tinto is managing the project's development. Australians (and Coopers) can be found all over the country.

## RAPID GROWTH FUELS RAPID CHANGE

Strong economic growth – 17% in 2011 – is fuelling strong demand for consumer goods. Car ownership is growing dramatically – 10% each year between 2005 and 2010, and a massive 20% in 2011. But with growth in car ownership comes the road injuries and deaths with which we are all too familiar. Driving norms are only developing in Mongolia and crossing the road in UB feels a little like a game of Frogger. Between 300 and 500 people were killed on the roads in 2010 - up to 18 times the rate of deaths per vehicle in Australia - and many more injured. With car numbers set to grow further, the Mongolian Government voted to introduce Mandatory Drivers Insurance to protect the growing number of victims of road accidents.

Earlier this year, I was invited to Mongolia to work with the Financial Regulatory Commission (FRC) to support implementation of this new law. As the Mongolian Airlines flight landed, the pilot rather perfunctorily announced that the temperature was -38°C. February's cold snap across Europe made headlines globally, but in UB, the coldest capital in the world, -38°C isn't unusual.

Left: Cars are replacing horses in Mongolia's vast steppe
Below: Construction on the outskirts of UB as the mining boom fuels growth



In a rapidly transforming country, change can occur quickly. The law was passed in October 2011, with the first insurance policies available from 1 January 2012. Coverage will be fully compulsory by October this year and by January 2013, a guarantee fund will be established to provide coverage for uninsured or unidentifiable drivers. Contrast this with six years to fully implement Australia's National Disability Insurance Scheme, and four years to implement Obama's healthcare reforms, on top of the many years of analysis and planning which came before.

Remarkable progress has been made by the FRC, the guarantee fund, insurers and other stakeholders to support the implementation of the Law. In the two months after the law was passed, 12 of 16 general insurance companies in Mongolia had been licensed to offer mandatory drivers insurance, 12 regulations had been approved, leadership positions in the guarantee fund had been filled and a public education campaign was well underway. Nevertheless, many details need to be completed. How will 'fault' be determined? What benefits should be paid to people who are injured? Will premiums be adequate?

## SMALL BENEFITS, BUT GRAND PLANS

Quite sensibly, the Mongolians are starting small with their insurance scheme, with maximum benefits of 5 million Mongolian tugriks (about AUD $3,700), 80% of which is intended to go toward personal injury, rather than property damage benefits. That may sound small, but it would cover almost three years income replacement at the minimum wage. Low benefits give all stakeholders in the system time to come to terms with the challenges of personal injury insurance, establish proper regulatory systems, and allow a gradual increase in premiums for drivers.

Longer term plans are to increase benefit limits gradually and perhaps one day join the European Green Card system to gain reciprocal cover for drivers in Europe and Russia. To do this, however, would require benefit limits almost 350 times the current level.

## GAINING PUBLIC ACCEPTANCE

The Mongolian public (or at least those who drive) have been less than impressed by what is perceived as a 'new tax'. Interestingly, many people I've spoken to outside Mongolia have also questioned the need for such insurance. And yet, almost every country in the world has mandatory drivers insurance, and it comes recommended by the World Bank, the United Nations, the European Union, and the World Health Organisation (WHO). Part of my role in Mongolia was to support the Government's public education campaign to inform drivers of their responsibilities and gain public support. Thankfully I am a huge supporter of insurances like this as, in developing and transition countries, they can do much to support the health and social protection systems. *See the shaded box on the following page for more details.*

## ADAPTING ACTUARIAL ADVICE

Poor and conflicting data is a constant gripe for actuaries and Mongolia was particularly challenging. The types of sophisticated data mining tools used to price CTP insurance in Australia simply aren't relevant in a country where estimates of road deaths – usually a fairly reliable fact – vary between 300 between 500 in one year. That changes the nature of actuarial advice substantially, to focus on principles of good product design, risk and moral hazard identification, risk management, sound pricing, pragmatic reserving and, most importantly, good monitoring systems and levers for when experience starts to vary from that expected. The control cycle never seemed so relevant.

To deal with the lack of data, we 'borrowed' ratings factors from neighbouring countries, and set up a process to monitor their appropriateness. Supporting the FRC and insurers to implement appropriate data collection systems has been a critical part of my advice. We identified major gaps in insurers' capability to manage personal injury claims and negotiate issues of fault. Guidelines and examples from several other countries are filling the gap, until Mongolia is ready to set its own terms.

## CHALLENGES AHEAD

Mongolia has a small actuarial association grappling to develop the skills needed to support the insurance industry. English has only recently taken off in Mongolia and, with translation of actuarial texts into Mongolian prohibitively expensive, many students will need to first learn English to pass the UK exams. Nevertheless, the association is led by an enthusiastic team, and support from the International Actuarial Association as well as opportunities to study abroad, should see their students eventually join the one actuarial Associate in Mongolia.

## WHY CTP MATTERS IN DEVELOPING COUNTRIES

**Road traffic accidents are a major public health problem.**
The WHO estimates that road traffic accidents kill 1.3 million people a year and injure between 20 million and 50 million more. By 2030, road traffic accidents will be the 5th highest cause of deaths in the world, as a result of the growing number of cars on the road. WHO is so concerned about the issue, they have called for a "Decade of Action for Road Safety 2011-2020". Because they affect young people disproportionately, road traffic accidents are also a major drain on the economy, costing countries between 1% and 2% of their gross national product.

**Road traffic injuries disproportionately affect poorer countries.**
Over 90% of the world's fatalities on the roads occur in low-income and middle-income countries, which have only 48% of the world's registered vehicles. World Bank studies have shown that motor accidents causing deaths and injuries occur in developing countries at up to eight times the rate in industrial countries.

**Road traffic injuries disproportionately affect poorer people.**
Studies in both developed (e.g. Australia) and developing countries (e.g. Bangalore in India) have shown that people from low socio-economic backgrounds have a much higher risk of road traffic injury. They are often 'vulnerable' road users, like pedestrians and cyclists. Poorer families are less able to deal with the costs of injury and disability, and so without a proper compensation scheme, are driven further into poverty.

**Drivers insurance helps deliver equitable compensation to injured parties.**
Evidence shows that without a proper insurance system, many people who suffer a road traffic injury do not get proper compensation – either they do not know their rights, it is too difficult or too expensive to pursue, the negligent driver does not have enough money to pay, or the negligent driver cannot be identified. Evidence from developed countries shows that if people need to use the court system to prove negligence, then less than 40% of injuries are compensated. In developing countries, it can be worse, because poor systems and corruption mean 'at fault' drivers often can't be identified. Even in developed countries, around 2.5% to 5% of motor injuries involve drivers who are uninsured or unidentifiable.

**Drivers insurance is an important source of funding for health and social systems.**
Particularly in developing countries, a very large proportion of health care costs arise because of road traffic injuries. A study in Kenya demonstrated that 45-60% of admissions to surgical wards were road traffic injury patients. A study in India showed that 20-50% of emergency department presentations, 10-30% of hospital admissions and 60-70% of people hospitalized with traumatic brain injury were all due to road traffic injuries. Many developing countries consider it unfair to ask the significant majority of people who don't drive to finance the healthcare costs brought about by the (usually wealthier) minority of the population who do drive.

**Drivers insurance spurs on the insurance sector and can help boost economic activity.**
In developing countries, motor insurance premiums represent around 50% of non-life premium income. World Bank studies in Africa, Central Asia, and Europe have shown that motor insurance has been critical in early development of a strong insurance sector.

**Drivers insurance contributes to improved road safety.**
Organizations funded by the insurance industry have been shown to make a valuable contribution to road safety, by collecting valuable statistics to better understand road traffic risks. Folksam in Sweden, the Insurance Institute for Highway Safety in the US provide, the Finnish Insurers' Fund and TRAMER in Turkey, are just a few examples. There is also some evidence, albeit weak, that good design of insurance and premium loadings can encourage better drivers and reduce road risks. Victoria has ten times as many registered vehicles as Mongolia, but fewer road deaths. The scope for improvement in Mongolia is significant.

However, the insurance scheme's biggest challenge is probably its 16 insurance companies. 16 is far too many for such a small country and, with low membership and premium income, they have little opportunity to invest in the systems, processes and management needed to provide cost effective and efficient insurance. Systems are poor – most insurance companies use Microsoft Excel to record insurance policies and claims – and administration costs are high. A recent report noted that insurers thought claims ratios of 25% to 30% were appropriate, despite the poor value this clearly offers to policyholders. Consolidation, a well-worn path in countries in transition, is inevitable. A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Traditional gers housing: Ghengis would feel right at home

# Let the games begin...

**NEW SURVEY QUESTIONS WILL BE AVAILABLE IN MAY 2012. WHAT WOULD YOU LIKE TO KNOW? IF YOU HAVE A QUESTION YOU WOULD LIKE TO PUT TO THE MEMBERSHIP, EMAIL IT TO EDITOR@ACTUARIES.ASN.AU**

**RESULTS: REPORT GENERATED ON 28 APRIL 2012. 377 RESPONSES.**

For many of our respondents, it looks like this winter will be a busy time. Couple the usual football codes, European tennis grand slams and the Tour de France with the Summer Olympic Games in London and employers will be dealing with some very sleep deprived employees.

This month's Actuarial Pulse looks at the membership's opinions about the Olympic Games; their interests, memories, favourite events and those they can't stand watching.

## QUESTION 1: ARE YOU LOOKING FORWARD TO THE OLYMPIC GAMES IN LONDON?

| Age | Sex | Yes – can't wait | Yes – should be good | No – not that interested |
|---|---|---|---|---|
| Under 30 | Male | 16% | 51% | 31% |
| | Female | 17% | 55% | 28% |
| 30 to 45 | Male | 16% | 50% | 34% |
| | Female | 9% | 51% | 40% |
| Over 45 | Male | 12% | 58% | 29% |
| | Female | 13% | 56% | 31% |

It seems that regardless of your age or sex, over two-thirds of respondents are looking forward to the latest instalment of the Summer Olympic Games. After an incredibly successful event in Sydney (now 12 years ago!), then a typically Greek event, followed by an insight into how China controls the event, over 15% of people can't wait for the London edition.

Our '30 to 45' female respondents were the least likely to be interested in the upcoming games, perhaps due to their location and subsequent time they will be on, which will complete with ever-precious sleep!

## QUESTION 2: ARE YOU GOING TO THE GAMES?

5% of our respondents will be attending the games, with two-thirds of these already being in London. Impressively, there are nearly 10 people making the journey over there to attend the events. Let's hope it's a fantastic experience for them all.

As for the rest of them, 85% of respondents never considered attending the games, whilst at some point in time, the remaining 10% considered heading over to the British Isles.

## QUESTION 3: WILL YOU BE WATCHING THE GAMES ON THE TV?

| Age | Sex | Yes – I'll be up late | Yes – only for particular events | No – won't be making an effort |
|---|---|---|---|---|
| Under 30 | Male | 10% | 63% | 27% |
| | Female | 10% | 86% | 3% |
| 30 to 45 | Male | 18% | 62% | 19% |
| | Female | 5% | 70% | 26% |
| Over 45 | Male | 18% | 65% | 17% |
| | Female | 13% | 63% | 25% |

**Dave Millar**
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The Actuarial Pulse is an anonymous, web-based survey of Institute members, run on a monthly basis, giving members an opportunity to express their opinions on a mixture of serious and not-so-serious issues.

For all of us staying at home, 20% of respondents won't be making an effort to tune into the games but the rest of us will in varying degrees. The older generations are more likely to be watching the games and following them deep into the night. Interestingly, the younger female respondents must have a few specific events in mind which they are keen to watch, with almost all of them will be tuning in at particular times.

## QUESTION 4: WHAT IS (/ARE) YOUR MOST FAVOURITE OLYMPIC MOMENT(S)?

What an amazing collection of Olympic moments we received in response to the question, albeit with an Australian bent. This first list contains the most popular sporting responses, as well as some of the most interesting:

- Cathy Freeman's 400m gold medal in Sydney, carrying the weight of a nation on her shoulders
- Men's 4x100m medley relay in Sydney, followed by the 'smash them like guitars' routine
- Kieren Perkins' 1500m gold medal in Atlanta, coming from the outside lane to go back-to-back
- 'Oarsome Foursome' gold medal in Barcelona and British rower Steve Redgrave's 5 gold medals
- Stephen Bradbury winning our first Winter Olympic gold medal in dramatic fashion
- Matthew Mitcham's gold medal in Beijing, with the highest-ever points score
- Betty Cuthbert, Dawn Fraser, Murray Rose in 1956
- Herb Elliott winning the 1500 metres at Rome, 1960, with his coach Percy Cerutty carrying on
- Usain Bolt's bag of gold medals and world records in the sprints in Beijing
- Romania's Nadia Comaneci scoring 10's in the Gymnastics
- Kelly Holmes winning 2 golds for UK in Athens

This second list contains the most popular non-sporting moments, as well as some of the most powerful:

- Opening and closing ceremonies, especially lighting the cauldrons
- Jesse Owens 4 Golds in Berlin in 1936 in front of Hitler; Black Power salute on the Podium
- Eric the Eel and other admirable performers
- Fatso the wombat and all that was Roy & HG in Sydney 2000
- Ric Disnick, running full speed into the pommel horse, then immortalised by the 12th Man

This final list contains respondents' personal moments:

- Being a volunteer at the gymnastics in Sydney, meeting the competitors
- Attending the live sites for an Aussie gold medal at Sydney 2000
- Being trackside at Barcelona, staring Gary Neiwand in the eye as his brother whispered in my ear how the upcoming race was going to unfold
- Watching the Sydney marathon start at Percy's North Sydney
- My father coaching in Tokyo
- Hearing your national anthem played and seeing the flag rise behind the podium

Finally, it is worth mentioning that we received a number of responses that were simply 'whenever New Zealand beats Australia'. Fortunately for Australians, this is as rare as hens' teeth. However, when it comes to rugby union, disappointingly, the shoe is on the other foot!

## QUESTION 5: DO YOU THINK THAT THE OLYMPICS SHOULD CONTINUE INTO THE FUTURE?

Yes (94%) No (6%)

## QUESTION 6: DO YOU THINK THAT THE OLYMPICS BENEFITS THE HOST CITY/NATION?

Yes (81%) No (19%)

Nearly all of our respondents were overly positive about the Olympic Games continuing into the future. Some of the most common responses were to the point, simply asking 'seriously?', 'why not?', or stating 'of course!'

For those in the 'yes' camp, the following suggestions were put forward to support their case • It is a historic tradition and expression of human spirit • It's a fantastic spectacle • It's something to look forward to and brings the world together to showcase their good citizens • It's international friendship at its best.

For most of the sports at the Olympics, "it's the pinnacle of achievement for competitors to compete for and win Olympic gold," showcasing an "excellent combination of sporting competition/achievement and global co-operation/togetherness."

One respondent picked up on "the original ancient Greek tradition of ceasing all fighting for the duration of the games" and wished that this was re-established in the modern Olympics. Whilst another was a little more cynical of whom it now benefits suggesting it was for "the sake of global advertising budgets." It was also "disturbing to see that there are more 'accredited press' attending than athletes."

The few respondents in the 'no' camp were vocal in their disapproval of the games, stating that it cost "too much money"; "most sports are neglected elsewhere for the other three years and it is not a true representation of population's interests." Others have gone further saying that "it's a total waste of billions of dollars and has become overhyped". Going further still, "the money could be better spent on health or education or the disadvantaged", especially with the officials on the IOC being under corruption clouds from time-to-time.

Countdown clock , Trafalgar Square, London

Less people believed that the games benefited the host city than wished to see it go forwards. I can only assume that many people enjoyed watching the Games but were happy for them to be located anywhere but 'not in my backyard.'

Lots of people cited specific cases where the Olympics genuinely benefited the host nations, particularly the UK in 1948, where the UK was recovering from World War II and spending was kept within budget. The jury was out on the Sydney Games, with just as many people suggesting the city had benefited as those claiming we were still experiencing an 'Olympic hangover' 12 years later.

People tended to agree that if spending was kept on track, and 're-usable facilities are built' then the specific sporting infrastructure had the potential to provide benefits long into the future.

The improvements in the general transport infrastructure were something that Sydney experienced first-hand as a result of the Olympics and this was an oft-cited example of the benefits a host nation receives. However, others were less sure that these benefits couldn't have been achieved at a lower cost.

Equally from a financial perspective, the boost in short- and medium-term tourism is significant; especially for a nation like Australia which is so far away from most other places in the world.

Proponents of the Olympics pointed out that "it's important to remember that many of the benefits are unquantifiable, such as city/national pride and unity." It is a "great experience for volunteers, international repute and is arguably 'priceless'". I certainly felt the great vibe in Sydney during the Olympics, whether it was at the live sites in the city or out at the Olympic precinct.

For those believing the Games didn't benefit the host nation, it basically boiled down to cost – financial and reputational. For example one respondent wrote "It's expensive (the Greek debt burden was/is a problem), and carries enormous reputational risks (publicity around China's reneging on their commitment to openness & transparency)."

"On a cost-benefit basis, a lot of money goes in for not a lot of return. This is particularly true of a city such as London, where there is already a massive tourist industry and they don't stand to benefit significantly further as a result."

Others were confused as to just who exactly benefits, "with all the bribery and pork-barrelling that goes on."

However, ultimately people tended to agree that 'when cities plan correctly, they do benefit. However, a lot of cities build facilities that are not required by the residents or are in the wrong location and are rarely used again.'

## QUESTION 7: DO YOU THINK THE PRIME MINISTER SHOULD BE ATTENDING THE OLYMPICS AND THE OFFICIAL OLYMPIC FUNDRAISER AT WHICH THEY HAVE TRADITIONALLY GIVEN THE KEYNOTE ADDRESS?

| Yes (34%) | No (66%) |
|---|---|

By far the funniest responses we received were 'who will be the Prime Minister in July?' and "Julia Gillard should really take her chance – she might not be Prime Minister for much longer" I considered both of these to be fair points and well made. This was followed closely by the idea that she "may be mistaken for the Olympic Torch!"

Most people suggested the Prime Minister should attend the official Olympic Fundraiser, but perhaps a trip to the Olympics was best left to the Sports Minister amongst others.

Pragmatism was the name of the game, with many respondents expressing a desire for more data, to determine whether or not the Prime Minister's competing functions were more worthwhile than those that were Olympic-related. After all, as one respondent put it, "it's hard to argue against the idea that some things are more important than the Olympic Games."

Others were looking out for their own 'public funded' trips across the world to enjoy the events and celebrations. They were up in arms about the 'extravagant waste of taxpayer funds' but given the same opportunities "would definitely be there".

Whilst many people expressed that they simply 'didn't care' less about her actions, others saw the Catch 22 nature of the situation, with the media ready to accuse her of "wasting the taxpayers' dollars if she attends", as many did above, or "not getting behind her nation's athletes" if she doesn't.

## QUESTION 8: WOULD YOU LIKE TO SEE THE FOLLOWING SUMMER OLYMPIC EVENTS BROUGHT BACK?

| Event | No | Yes |
|---|---|---|
| Tug-of-War | 68% | 32% |
| Fire-fighting | 81% | 19% |
| Solo-synchronized swimming | 87% | 13% |
| Poodle clipping | 91% | 9% |
| Swimming obstacle races | 69% | 31% |

There have been some weird and wonderful events at the Olympic Games over the past century and a bit, especially some of the exhibition games. The respondents overwhelmingly decided that none of the above events were worthwhile bringing back. Outside of Tug-of-War, where male respondents were more positive than females about the return of overweight men leaning backwards on a rope, both men and women answered these questions almost identically.

I was most disappointed about the 13% positive response to solo-synchronized swimming. Just the thought of someone thrashing around in a pool, like a swimmer in distress down at Bondi, whilst remaining in

time with a poorly chosen classical piece of music should have received 0%. Yep, bring on the hate mail!

This question was inspired by a recent trivia night I attended, where they asked whether a series of events had ever been held at the Olympics. Out of all the events listed, it was the 'mixed 4x100 relay' that was never held. In fact, outside of equestrian events, which is really just about the horses anyway, I can't think of any other event where men and women have ever competed together.

With gender equality being pushed in all facets of life, why don't the women compete with the men as they do in other professions? At the very least, this would remove all of the issues South African officials had about Caster Semenya, which ironically is an anagram of 'Yes, A secret man'.

But before I close off this question, I would like to point out that a few of our astute respondents did cotton on to the fact that the poodle clipping event was in fact an April Fool's joke propagated by the UK's Telegraph newspaper in the lead up to the Beijing Games. With its take up rate across the blogosphere, they ought to be congratulated.

## QUESTION 9: WOULD YOU LIKE TO SEE THE FOLLOWING WINTER OLYMPIC EVENTS BROUGHT BACK?

| Event | No | Yes |
|---|---|---|
| Bandy | 91% | 9% |
| Speed skiing | 50% | 50% |
| Ski ballet | 80% | 20% |
| Sled dog racing | 66% | 34% |
| Military patrol | 87% | 13% |
| Winter pentathlon | 52% | 48% |

Overall, we received a far more positive response to brining back Winter Olympic sports, particularly the winter pentathlon (cross-country skiing, downhill skiing, shooting, fencing and horse-riding) and speed skiing (point the skis downhill and go!). Across the board, men were more likely to want to bring back these winter events, with the predictable exception of ski ballet. Please, organising committees for future Games, leave that for when parents take their kids to Disney on Ice.

## QUESTION 10: WHAT NEW SPORT(S) WOULD YOU LIKE TO SEE INCLUDED IN THE SUMMER OR WINTER GAMES?

Nearly every response we received was to add sports to the Summer games, and predictably, they had an Australian bent.

After the IOC removed baseball and softball, karate and squash were set to replace them, but neither got enough votes to see them appear at the London Olympics. On the other hand, golf and rugby 7s will be appearing in 2016, which were both popular responses to this question.

Outside of all these, and excluding all those that said "no more!", the most popular responses to this question included • T20 cricket • Netball • Surfing • AFL • Snooker • Lacrosse • Ten pin bowling • UFC.

Some of the more interesting and entertaining events were heavily related to drinking, including boat races and beer pong.

Quite a few pointed out that if backwards swimming was included, then backwards running should be as well. Finally, warming the cockles of the International Pole Dancing Fitness Association's heart, there was solid support for the inclusion of pole dancing.

## QUESTION 11: WHAT NEW SPORT(S) WOULD YOU LIKE TO SEE REMOVED IN THE SUMMER OR WINTER GAMES?

This question got a fantastic response and across the board there were a few sports that were in the firing line. For the first time, I agreed with almost everything included in the responses.

With the Olympic motto being 'faster, higher, stronger', the first sports our respondents want to see less of were anything that involved subjective marking including • rhythmic gymnastics • synchronised swimming • diving • dressage • snowboarding • all those ice skating events that involve leaps and twirls. However, special mention was made about retiring curling. Permanently.

The next events to go were all those that didn't reflect the pinnacle of the sport. Particular focus was given to football, which I couldn't agree more with, as well as tennis.

Lots of respondents wanted to get rid of equestrian, as it boiled down to the performance of the horses, rather than the competitors themselves.

Finally, many respondents made the good point that there were so many variations of swimming, running, boxing, weightlifting, skiing, cycling and ice skating. Many believed there should be a consolidation of some of the individual events to reduce medals "being handed out like confetti."

## QUESTION 12: WOULD YOU LIKE TO SEE MORE OF THE PARALYMPICS COVERED BY THE TV STATIONS?

| Yes (45%) | No (55%) |
|---|---|

From those in the 'Yes' camp, for which I am firmly one, there were many examples of people having seen the games in Sydney and were 'very inspired', and 'uplifted'. Respondents suggested that there was "not enough recognition given" to events that were "more inspirational than the overly drug-infested competitive sports".

However, others suggested that the "commercial coverage is based on economics" and if there isn't the market, then there won't be the coverage. Others went a step further to propose better scheduling to increase the coverage of the games by either running the events at the same time as the Olympics, or even beforehand because "by the time the Olympics has finished, everyone is over it".

From those in the 'No' camp, most simply suggested they were just 'not interested', potentially due to there being "too many categories to keep track of" or because all of the additional equipment means that some events are 'too easily manipulated' by the athletes.

## CONCLUSION:

Whatever your opinion of the Olympics Games, you'd better brace yourself for all of the media coverage and related hype because it's about to heat up whether you like it or not.

And, if your colleagues are looking even more sleep-deprived this winter than last year, give them an extra-strong cup of coffee, drop Cathy Freeman's name into conversation, but don't mention the baton twirling that is rhythmic gymnastics! A

# Actuaries Salaries


**Salaries are always a topic of great interest – the latest periodic survey indicates that for some Fellows the range of typical salaries has not increased significantly and that the GFC continues to have an impact on the profession.**

**"The safest way to double your money is to fold it over and put it in your pocket."**

Kin Hubbard

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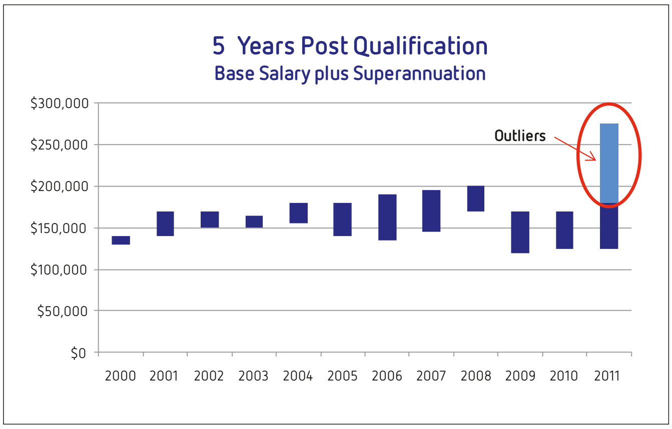
In performing the data collection exercise for this year's survey, we have sensed a heightened level of interest even above the normal excitement which a salary discussion arouses. We believe this centres around the lower annual salary increases since the GFC and the increasing cost of living year on year.

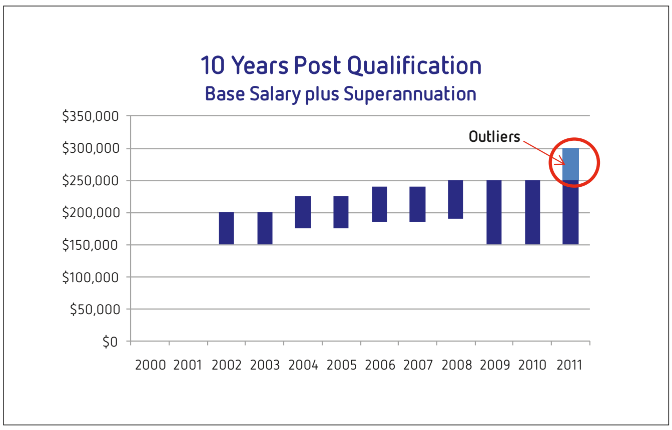
Factors influencing salary reviews usually include job position, level of responsibility, bonus potential, performance against objectives, economic environment and more personal attributes such as leadership potential, communication and interpersonal skills.

Since we have access to salary survey information collected since 2000, we have a good grasp of the trends in market salary levels and the factors influencing them. This is discussed in more detail in our 2012 annual salary report, (please contact us on +612 9262 1612 or australia@acumen-resources.com if you have not already received a copy).

In 2000, Qed Actuarial/Acumen Resources completed its first salary survey in response to demand from individuals and employers. It has helped us build a depth of market evidence and ensures we are well placed to provide realistic advice. We now have over ten years' worth of data and thought it would be interesting to review the changes in salaries over this time.

*Note: The graphs illustrate the typical range of salaries only, outliers are excluded for prior years. Outliers shown in the graphs for 2011 are clearly marked.*

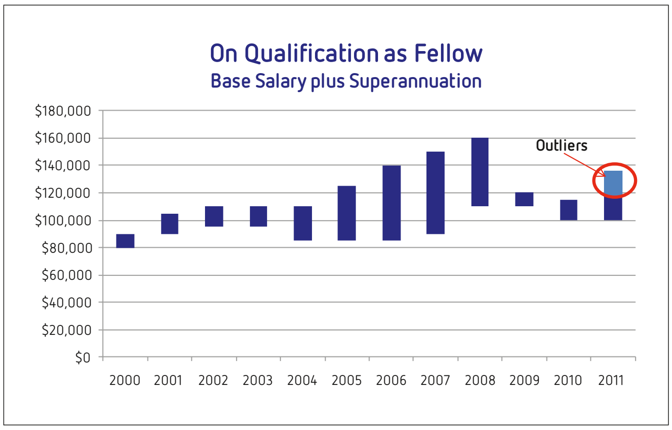



The data becomes less consistent as we move further away from qualification. As position and performance become increasingly important, it is difficult to make any real predictions about salaries simply in relation to years of experience.

- We have removed some outliers but felt that in demonstrating the true range gives some evidence to how some industry sectors value actuarial input more than others e.g. education vs. Investment and the varied level of roles Fellows hold across all sectors.
- It is interesting to note that, for Fellows at five years post qualification, the range of typical salaries across the period has not increased significantly and they remain generally in the band $150,000 to $200,000.
- The continuing impact of the GFC on salaries can also be seen at these levels and trends will be articulated more clearly in the Acumen Resources annual salary report.
- Bonus becomes an increasingly important factor and can range from 0-60% although it is more typically in the 0-30% range.

## QUALIFICATION AS A FELLOW




Again, the graphed range of salaries being paid to newly qualified Fellows has increased steadily over seven of the past 10 years but, since the GFC, salaries have levelled off. We believe there are two clear points behind this.

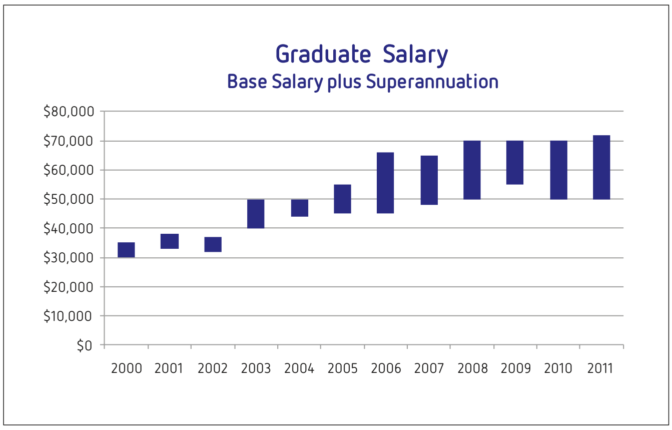
Firstly, the fact that qualification on its own has become a less dominant factor. Secondly, the fall in graduate salaries since GFC is manifesting itself in lower qualification salaries when compared to their colleagues who graduated 2004 – 2008.

However, the trend for Individuals to be rewarded on balance more for their gain in experience, knowledge and skills than their exam passes is continuing.

- The results in 2009, 2010 and 2011 are significant and clearly reflect the impact of the GFC, when we found that many newly qualified Fellows received lower increases on qualification than they had anticipated.
- At this level, bonus payments on top of salary typically fall in the range 0-20%.

**Since the GFC, salaries being paid to newly qualified Fellow have levelled off. We believe there are two clear points behind this. Firstly, the fact that qualification on its own has become a less dominant factor. Secondly, the fall in graduate salaries since GFC is manifesting itself in lower qualification salaries when compared to their colleagues who graduated 2004 - 2008.**

## GRADUATES




- In more recent years, the range of salaries offered to graduates has widened. This is a result of high competition for the top graduates, and with a higher number of graduates on the market, competition for jobs has been intense and individuals have been more flexible to ensure they successfully secure employment.
- One pertinent point to note here is that graduates with internship or similar experience (e.g. Coop Scholars) are highly sought after and accordingly rewarded by their new employers with a premium over the other graduates.
- As part of our recent discussion with Australian employers, we are of the opinion that this premium in salaries for internship experienced graduates will plateau.
- The graph does not reflect the salaries of actuarial graduates who do not find positions within actuarial teams. In our experience, the numbers who do not find the type of role to which they aspired on commencing their actuarial degree has increased significantly over the period.
- Typically, no additional bonus (or only a small bonus of, say, 5%) is payable at this level. In addition to salary, the graduates in this survey would usually receive generous study packages.
- A very recent trend is an increasing number of companies who are clawing back part of the exam and study costs if a student leaves the company.

## SALARY CONSIDERATIONS WHEN MOVING OVERSEAS

Mutual recognition agreements signed by various Actuarial Institutes facilitate actuaries working internationally. An overseas transfer can enhance your resume, giving you broader experience, challenges, variety, new contacts, and the opportunity to work in a different culture and enjoy the benefits of that lifestyle.

While there are many issues to consider, such as how your family feels about it, visas, timing, cultural differences and how your skills transfer, the salary and standard of living are often key. These days, unless your company is asking you to transfer internally, you should expect to be paid on a local salary basis.

The first thing to remember is that it rarely, if ever, makes sense to convert your current salary to another currency and assume you should target this amount. Currently, in nominal terms the Australian dollar is very high and using it as a guide to expected salary levels in Asia or the UK potentially misleading in real terms.

Regardless when allowing for tax and cost of living in real terms, actuarial salaries offer attractive packages in places such as Singapore, Hong Kong & London. A

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# Naomi Edwards

**Title…** Actuary

**Organisation…** Chairman of Tasplan, Director of Hunter Hall, consultant to various organisations

**Summarise yourself in one sentence…** My mother always told me I could do anything and foolishly I believed her

**My interesting/quirky hobbies…** Being a comedienne was fun for a few years but now I prefer directing other performers (they have more talent)

**My favourite energetic pursuit…** High intensity carrot thinning in the garden

**The sport I most like to watch…** My two dogs play wrestling, especially when the large blue heeler does her 'squat-n-squash' manoeuvre on the small beagle

**The last book I read (and when)…** *Cloud Atlas* by David Mitchell. Last week

**My favourite artist/album/film…** The movie *Dancer in the Dark*, directed by Lars von Trier. It shows that pretentious Dogma style films when done as musicals can be very good

**The person I'd most like to cook for…** For various technical reasons involving fire sprinklers, expensive LeCruset casserole dishes and my husband – I am now banned from cooking

**I'm most passionate about…** Tassie's great forests

**What gets my goat…** … To get our goat, my partner and I go into the paddock with a bucket of scraps and call her. Getting my sheep is trickier

**I'd like to be brave enough to…** Be as brave as Senator Bob Brown when he saved the Franklin River and was bashed, jailed and reviled

**In my life I'm planning to change…** My underwear. Daily

**Not many people know this but I…** Have cycle toured through 70 countries

**Four words that sum me up…** Enthusiastic. happy. terrible cook

**What I wanted to be when I grew up…** A nurse or police-woman

**Why and how I became an actuary…** I was heading to do a PhD at Cambridge with a scholarship when I had a crisis about turning into a cardigan wearing geek, so decided to become an actuary instead

**Where I studied to become an actuary and qualifications obtained…** New Zealand and the UK. FIA and FIAA.

**My work history…** a fairly typical progression from a life insurer (National Mutual) to consulting (Bacon &Woodrow, Trowbridge and then Deloitte) but with an abrupt discontinuity when I tree- and sea-changed to Tasmania when I was 35

**What I find most interesting about my current role…** Doing occasional research for Senator Bob Brown is like being on a roller coaster – you will be praised by some and damned by many no matter the content of the report

**My role's greatest challenges…** I love being Chair of a Tasmanian industry fund (Tasplan) where I can make a big difference to people in my own community

**Who has been the biggest influence on my career (and why)…** John Trowbridge was a wonderful mentor to me teaching me not only about ethics but also the importance of taking all the adjectives out of my reports

**My proudest career achievement to date is…** I find it easier to feel lucky or blessed than to feel proud

**10 years from now…** I will be wishing I had stayed out of the sun when I was younger

**When I retire, my legacy will be…** … I am already semi-retired but when fully retired I'm sure many people will breathe a sigh of relief

**The most valuable skill an actuary can possess is…** Communicating complex things in simple ways. "Rising flood premiums?...you ain't seen nothing yet" is a good example

**If I was President of the Institute, one thing I would improve is…** Nothing. The Institute do a fantastic job

**At least once in their life, every actuary should…** Hang out with some very poor people

**My best advice for younger actuaries…** Get a great mentor and learn everything you can from them

**If I could travel back in time I would…** Have kept my cat Bean inside on the morning when he was run over

**If I win the lottery, I would…** Have great fun giving it away and feeling very smug about my generosity

# Managing Risk

## Improving risk and capital management by insurers

**Helen Rowell, Executive General Manager of the Supervisory Support Division at the Australian Prudential Regulation Authority (APRA) discusses APRA's focus on aspects of risk and capital management (with a particular emphasis on general insurers) and provides insight into general insurance industry feedback on the December 2011 consultation package released as part of the capital standards review for general insurers and life insurers.**

The general insurance industry remains well capitalised. At 31 December 2011, the industry held close to 1.8 times the minimum capital requirements set by APRA and surplus capital of close to $12bn. Capital coverage of the industry did reduce slightly during 2011, but still remains very strong.

The industry has also maintained its profitability over the last four years, notwithstanding the pressure it has faced on underwriting results and from lower investment returns. Pressure remains, and it will be challenging for insurers to sustain their profitability and maintain a sound financial position over the coming years. This continuing, uncertain environment heightens the need for sound risk and capital management by insurers so that they are well positioned to respond to developments as they unfold.

APRA will, as always, maintain its proactive and risk-based approach to supervision, seeking to ensure that it is on top of the material factors that will impact the strength and performance of the industry. There are, however, some areas that will be a key focus for APRA over the next year or more, particularly related to effective risk and capital management by insurers.

### REVIEW OF CAPITAL STANDARDS FOR INSURERS

APRA has been undertaking its review of the capital standards for general and life insurers over the last two years. The objectives of the review include improving the risk sensitivity of the standards and achieving better alignment across APRA-regulated industries. The final capital prudential standards will be released in May 2012, with the final non-capital standards out in September 2012. The draft reporting standards will be released in June 2012 and the final reporting standards in October 2012. APRA intends that the new capital framework will be effective from 1 January 2013, with provisions for transition arrangements.

In December 2011, APRA released a second response paper and 14 draft prudential standards for consultation. Outlined below is an overview of some of the key areas highlighted by the consultation.

### COMPOSITION OF CAPITAL

APRA outlined in the December response paper its proposed criteria and limits for the composition of the capital base of insurers. The proposals are intended to substantially align these requirements with the proposed requirements for Authorised Deposit-taking Institutions (ADIs) under APRA's implementation of the Basel III capital framework. APRA's practice for many years has been to maintain consistency of capital definitions for ADIs and general insurers.

The proposed criteria for capital instruments to qualify as Common Equity Tier 1, Additional Tier 1 and Tier 2 capital are the same as proposed for ADIs. The proposed limits are expressed as a percentage of required, rather than total, capital. This is consistent with the proposed limits for ADIs, which are expressed as minimum percentages of risk-weighted assets rather than as a proportion of the capital base. The proposed limits for general insurers have also

Helen Rowell

been set to broadly align with the proposed minimum requirements for ADIs, so that the proportion of minimum required capital represented by the different components of capital is similar.

APRA had previously signalled its intention to align this aspect of the capital framework for ADIs and insurers. The response paper in December was, however, the first time that APRA had provided details of its proposed criteria and limits for the capital base for insurers.

APRA is aware that some insurers are concerned that the limits are unduly constraining, will require changes to the mix of capital instruments issued and will increase the cost of capital for the industry. Some insurers have also raised questions in relation to the treatment of current capital instruments that do not meet the revised criteria to qualify as regulatory capital. APRA will discuss any such concerns, and appropriate transitional arrangements, with individual insurers.

APRA expects to release a draft of GPS 112, the measurement of capital standard, in mid-2012 for its first round of consultation. This draft will necessarily be based on the proposals in the December response paper, as we will not be able to fully reflect comments made in the submissions received in later February. The comments in submissions on the response paper will be fully considered before the final standards are issued later in the year.

## INSURANCE CONCENTRATION RISK CHARGE

APRA has received considerable feedback on the insurance concentration risk charge, or ICRC, and in particular, on the impact of the horizontal requirement, the component of the ICRC that is intended to address a series of material catastrophe events over a year.

The key concerns raised include that it is overly conservative, that reinsurance to offset the requirement is more expensive and less readily available and that there are implementation issues related to the timing of reinsurance renewals. In APRA's view, the events of the last few years serve to demonstrate the need for the risk of multiple events to be addressed in the capital framework. APRA does not share the view that the horizontal requirement is unduly conservative. The other issues appear to be ones that can be dealt with through appropriate transition arrangements. APRA encouraged insurers to outline in their submissions details of their concerns in relation to the ICRC, and in particular, any transition issues that may need to be addressed.

## TRANSITION ARRANGEMENTS

There have been requests for APRA to consider deferral of the implementation date for the proposed capital

**The series of relatively recent catastrophic events will continue to have a significant impact on the general insurance industry. APRA has identified areas for improvement, including better articulation of reinsurance statements and how they operate.**

standards. APRA's view is that there is no need for a general deferral of the implementation date from 1 January 2013. The vast majority of the underlying policy proposals have not substantively changed since the release of the March 2011 response paper.

Any remaining areas of concern are limited to one or two areas (such as the capital base proposals and the horizontal requirement that I have just touched on). Further, in most cases these concerns or issues will be able to be addressed through appropriate transition arrangements.

APRA has indicated that it plans to work with insurers throughout 2012 to determine the transition arrangements that may be required on a case by case basis. APRA announced in March a delay in the implementation of the horizontal requirement component of the ICRC until 1 January 2014, following consideration of the information provided in the recently received submissions.

## RISK APPETITE

APRA has emphasised the need for insurers to adopt a holistic approach to risk and capital management. The starting point for this is the insurer's risk appetite.

APRA expects there to be a clear link between an insurer's risk appetite and its risk and capital management framework, including the target capital levels determined as part of the insurer's Internal Capital Adequacy Assessment Process (ICAAP). APRA expects that target capital levels will be set in accordance with the insurer's risk appetite and not solely by reference to APRA's minimum capital requirements.

The Board is primarily responsible for an insurer's risk management framework and risk management strategy. Integral to this is responsibility for setting the company's risk appetite, which should provide a clear statement of the degree of risk the insurer is willing and able to take in pursuing its objectives. Without a clear and considered risk appetite statement, risk management throughout an insurer's business will be carried out on uncertain foundations, with unclear expectations.

APRA has recently reviewed a number of insurers' risk appetite statements and spoken to CEOs and boards about the engagement of the Board in the process for setting the insurer's risk appetite. Some of the issues that have emerged from APRA's review include that there is:

- no clear statement of risk appetite, or a lack of understanding of the concept;
- a questionable level of engagement by the Board in setting the risk appetite;
- a wide range of quality of the risk appetite statements, from poor to quite good;
- a lack of analysis using stress testing or scenario analysis to set the risk appetite; and
- a disconnect between the risk appetite statement and its translation into operational, and hence risk and capital, management.

In response, APRA is increasing its focus on risk appetite. APRA is continuing the development of an internal checklist for what supervisors should look for in an insurer's approach to risk appetite. APRA is also continuing to provide feedback to industry through a range of forums, and intends to issue industry guidance on this topic in due course.

## STRESS TESTING

APRA expects stress and scenario testing to be used both in setting the insurer's risk appetite and in developing target capital levels. It should form part of the insurer's ongoing capital management, and therefore, be an integral part of an insurer's ICAAP. It should also play a key role in determining an insurer's reinsurance strategy.

Rigorous, forward-looking stress testing supports capital and reinsurance management by identifying severe events, including a series of compounding events or changes in market conditions that could adversely impact the insurer.

APRA reviews the approach taken by insurers to stress and scenario testing as part of its regular supervision activities. APRA has also previously undertaken surveys of industry practice in this area. As with risk appetite statements, there is a range of practices, from poor to quite good. Some of the areas for improvement include the nature of the stresses and scenarios considered, in particular their severity, and the adequacy of the reporting to the board. APRA intends to develop cross-industry guidance on stress testing in due course. In the meantime, requirements and guidance on stress testing are being included as part of the ICAAP requirements under LAGIC.

## ICAAP

Some insurers have sought further information on the ICAAP requirements and in particular, what is expected to be included in ICAAPs, and what has to be reported to APRA and when.

APRA already expects insurers to have in place a process for assessing overall capital adequacy and setting capital targets, and a strategy for maintaining capital levels. The proposed ICAAP requirements, therefore, build on APRA's current capital management requirements and guidance for insurers, and the existing requirements for capital management plans will be subsumed into the ICAAP requirements.

Further details of APRA's expectations in relation to ICAAP were set out in the December response paper and draft standards. APRA will also issue for consultation later in 2012 guidance on ICAAPs. The December package distinguished two documents that need to be produced: the ICAAP summary statement and the ICAAP report.

The ICAAP summary statement is intended to be a roadmap, briefly describing and summarising the capital assessment and management processes of the insurer. This document is expected to be developed and available to APRA from 1 January 2013. As the ICAAP builds on existing capital management requirements and practices, APRA's view is that insurers should be able to meet this timeframe.

The ICAAP report is an annual report that will summarise the outcomes of applying the ICAAP over the last year and give an overview of expected capital management actions and issues for the coming period. It should include details of actual capital levels and capital management actions during the previous period, and projected capital levels and planned capital management actions. It should also summarise any changes to capital targets or other aspects of the ICAAP. The first ICAAP report will be due four months after the first balance date after 1 January 2013 — at the end of October 2013 for June balancers and in April 2014 for December balancers.

APRA expects that the ICAAP will be developed by the insurer's senior management with input from relevant areas and experts. However, the ICAAP is fundamentally the responsibility of the Board: the Board should be actively engaged in the development of the insurer's ICAAP and its implementation, and must ultimately approve the ICAAP.

APRA expects that the first round of preparing ICAAP summary statements and reports will be an education process for both insurers and Boards. APRA is not expecting that the first ICAAPs will be perfect. APRA will work with insurers over the next few years, reviewing and providing feedback on their ICAAPs, and finalising its PPG on ICAAPs to provide broader industry guidance on its expectations.

## REINSURANCE AND USE OF CATASTROPHE MODELS

As many in the industry have noted, the series of catastrophe events over 2010/2011 had, and will continue to have, a significant impact on the general insurance industry. While the resilience of the industry is indeed a credit to management and boards, the events highlighted several issues that warrant close attention from both industry and APRA.

APRA's review of the response to these events identified a few areas where industry practice could improve. For example, industry needs to better articulate in their Reinsurance Arrangement Statements (RAS) what their reinsurance arrangements are and how they operate, including worked examples. The schematics in the RAS need to accurately reflect the words (and vice versa).

The need for stress testing by insurers as part of establishing their reinsurance arrangements has already been highlighted in the stress testing section. In particular, APRA encourages insurers to consider the potential impact of a series of events similar to those of 2010/2011, the erosion of lower layers and back up covers, and further reinstatements being unavailable.

## REINSURANCE CATASTROPHE MODELLING

There is also a need for insurers to have strong governance and risk management practices around the use of catastrophe models.



Catastrophe modelling can be a great resource when structuring reinsurance programmes; however, when not used appropriately, it can be dangerous. Models can give misleading answers for a number of reasons:

- fundamental inadequacy of the model;
- over reliance on mathematical theory and/or poor reflection of the real world; and
- inappropriate inputs that produce nonsense outputs.

It is, therefore, important that insurers do not accept the model output blindly and use this as the basis for the purchase of catastrophe cover. Insurers should also not rely on a single model, otherwise they may purchase inadequate levels of reinsurance and be exposed to significant claims costs in the event of a natural catastrophe.

Model uncertainty is not necessarily a defect of the models; rather, it is an unavoidable aspect of any model. The challenge for insurers is to adequately understand and address that uncertainty. Insurers should understand the limitations of any models that are used and embed an awareness of model uncertainty into their overall risk management framework. That will enable them to make model-related decisions with a conscious eye towards the possibility of model error.

APRA will continue to assess this issue in more depth, with a view to releasing a guide to good practice in model assessment in due course. APRA also intends to encourage boards and senior management to develop a good understanding of the limitations of models and the importance of the appropriate use of models.

## SUMMARY

The industry has much to congratulate itself for, given its sound performance over what has been a very challenging few years. There is no room for complacency, however, as the current challenging environment looks like it will continue for the foreseeable future, so sound risk and capital management by insurers will be critical. A

This article has been based on a speech given by Helen Rowell at the Insurance Council of Australia Regulatory Update, 22 February 2012. The full speech can be viewed under the speeches section of the APRA website at: www.apra.gov.au

**Sue Wetherbee**
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# 20:20 Vision – Towards a changed view of CPD

Stakeholder participation at many levels is being sought to ensure the change is adopted and embedded.


**CPD — Staying Ahead** articles, like this one, will keep Members aware and informed.

## CPD BEING RE-VAMPED

As mentioned in the last edition of Staying Ahead, the CPD Re-Vamp Project is underway and some changes will be made to the present view of CPD for Members. The Project will review and make necessary improvements to both Institute and Member processes and procedures with a view to enhancing the efficiency and effectiveness for Members' access to Professional Development to support their work in wider fields.

## WHO ARE THE STAKEHOLDERS IN THIS CHANGE?

| Stakeholder Participation | Impacted by the Change Process | | Description of Stakeholder | Who |
|---|---|---|---|---|
| | Directly | Not directly | | |
| Driving | ✔ | | Lead the implementation of change at the strategic level | CEO / Sponsor |
| Advocate | ✔ | | Facilitate the change process through support, encouragement and the ability to influence others | Project Manager |
| Active Participation | ✔ | | Change some aspects of what they do in their role and/or how they do it | Project Team |
| Willingness | | ✔ | Provide some assistance in the change process | Consultants |
| Understanding | ✔ | | Have a basic understanding or awareness of the change to feel informed | **Members** |

## WHAT'S ABOUT TO CHANGE AND WHY?

| WHAT? | WHY? | HOW? | WHEN? |
|---|---|---|---|
| **Branding of CPD** | To identify the Institute CPD and inspire Member planning and activity | Conduct a Member Survey to find a name for a CPD tag. A winning tag of Staying Ahead has been found. | Mar 2012 |
| **Support Processes** | To ensure all Members are supported no matter where they are | Creation of Member self serve CPD processes enabled in the Website and guided by a CPD Handbook | Jun → Dec 2012 |
| **Procedures** | To enable efficient, clear and consistent Institute and Member administration | Creation of improved, web enabled , procedures for CPD planning, registration and recording | Dec 2012 |
| **Tools and Templates** | To facilitate easy planning, recording, monitoring and compliance achievement | Creation of a dedicated CPD area on the website where all tools and templates are easily accessed. | Dec 2012 |
| **Capability Assessment** | To enable identification of capability gaps to guide development targets | Capability Assessment Tool will enable self assessment and gap analysis reporting for Members. | Jun 2012 |
| **Capability Mapped to Blended Learning Array** | To ensure capability development planning and performance improvement | All Education courses and Event activities will be mapped to the Actuarial Capability Framework | Jun → Dec 2012 |
| **Learning Networking** | To promote deeper learning beyond course/events via network groups | Creation of Communities of Practice (COPs) and networking activity via discussion groups and "after blogs" | Jun → Dec 2012 |
| **CPD Categories and Points Table** | To accurately award all levels of CPD activities to comply with PS1 | CPD activity will be categorised and awarded points for achievement, effort and attendance.. | Jun → Dec 2012 |
| **Learning Culture** | "To encourage shifting of CPD goals from doing, to learning, to Staying Ahead. | CPD Re-Vamp Project improvements will enable Members to plan and achieve professional career goals | Jun – Dec 2012 → |

In "Staying Ahead", you will continue to hear about progress on the above initiatives. Your review and feedback will be sought throughout as we want to ensure that Members are informed and updated of the changes that are planned. 🅰

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# Taking a risk

**"The person who risks nothing, does nothing, has nothing, is nothing, and becomes nothing. He may avoid suffering and sorrow, but he simply cannot learn and feel and change and grow and love and live."**

Leo F. Buscaglia

Disused building, Atlanta


Atlanta Investment property

I have a personal belief, that in life, sometimes the greatest risk is not taking any risk at all. Deciding to sit the actuarial exams is an example of taking a measured risk. What risk you might say? For me personally, it was the risk of not succeeding and somehow being uncovered as a fraud. Yet if I hadn't taken that risk, I would never have qualified as an Actuary and would not have known the many learnings, blessings and benefits that came with the journey to qualification and beyond.

Other people may think very differently. Human beings have an amazingly wide reaction to the same event – in particular how they respond based on their perception of risk and what is at stake.

A recent example of is that my wife and I visited Atlanta in early April to purchase some properties. The breadth of people's responses to this has been extraordinary:

- "What, you're going to own a gettho and rent to crack dealers?"
- "Well, if there are such good deals, why aren't the locals buying?"
- "That's fantastic! So exciting! I will watch with interest!"
- "Let's partner on this!!"

In our professional careers, we are likely to face dilemmas in relation to how we perceive risk, and the risks we choose to take. It is important to realise that having reached this point, we are making an active and conscious decision whichever direction we choose which is the essence of self leadership. In some contexts, the risk of taking on broader responsibility may seem too great: A step into the unknown, into a world with no clear answers; a sinking feeling that you may no longer be the expert. A mantra at this time may be, "Deliver value through what you are good at."

At other times or contexts in our lives, the risks of stagnation, of not growing, of not exploring new possibilities is too great. Our mantra may be, "You cannot discover new land without leaving the shores."

American scholar Joseph Campbell studied various people and societies throughout history. He found a common theme: that we all follow a staged growth journey. Campbell called it the hero's journey. The essence of the hero's journey is that at some point in our lives we are called to action. Our old ways of being no longer work in our changing life circumstances. Often we refuse the call as the pain and fear of change override the desire to move forward. However, life continues to smack us in the face. At some point we realize that if we are to live richer, more meaningful lives, we need to take responsibility. He calls this 'crossing the threshold'. It is summoning up our courage and resources to continue the journey in the face of myriad challenges and ultimately receive the gifts.

When I have facilitated change management workshops in organisations, it has never ceased to amaze me how consistently people recognise this in their own change journeys. While we all do react differently to the same circumstance, and go on this journey at different pace and to different degrees, the journey is common to all of us.

I am not certain of success with my US property venture – there are exchange rate risks, tenant risks and geographic risks to name a few. What I do know is that in my current life circumstances it is a risk I feel is worth taking, for my own personal growth and for the opportunity to do something a little more entrepreneurial. I hope I still feel that way in three years time!

In an actuarial context, we will have many hero journeys over our careers such as qualifying, providing difficult advice, potentially refusing to sign off on reports, entering new fields, and influencing policy outcomes. The challenge we face is to embrace opportunities for growth and adventure in the face of these challenges. One of Joseph Campbell's famous quotes speaks to this point when he says 'We must be willing to let go of the life we have planned, so as to have the life that is waiting for us'. Once we accept responsibility for ourselves we can direct ourselves more consciously and have greater confidence that whatever the outcome we benefit from our experience.

From next month, this column will explore the ways that leadership can be developed in the context of our actuarial careers. A

# An actuarial eye on the world

**As I sit and chat with a vibrant and animated Jennifer Lang, I am more and more convinced of the value of a year-long sabbatical travelling the world. With a genuine sparkle in her eyes, Jennifer takes me through the many adventures she had with her family on their recent globetrotting sabbatical, visiting almost every continent, home schooling two kids, and learning "restaurant French" along the way.**

"A true career break – a chance to recharge my batteries," Jennifer says. And she can't recommend such a move highly enough. Particularly for actuaries, whose skills, she has found, will always be valued even after an extended time away from the profession.

Looking at Jennifer's impressive CV it's clear this break was well deserved. Jennifer began her career as one of only four female actuaries to win a scholarship through AMP, where she worked in various actuarial roles in areas as diverse as corporate finance, asset management and superannuation. As part of her time with AMP, she requested and was granted a transfer to London.

"The great thing about being an actuary is you can travel the world and not need to work in a bar to do it," laughs Jennifer. "I was only in my early 20s at the time, and it was exciting to spend a few years in a truly international city with my now-husband."

After a few years in London, the couple tired of the lack of sunlight and returned to Sydney. Jennifer joined Trowbridge Consulting in Sydney, at the time a firm of around 50 actuaries. The next 11 years at the firm would see Jennifer make Partner, become the "People Champion" of the Financial Services practice, and work on numerous mergers and acquisitions of insurance companies. A particular memorable project was being the Lead Partner on the CBA takeover of Colonial. "That was a major highlight for me in that role," Jennifer explains "it was the biggest

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on-market merger at the time, and our work on it took about a year all up."

Jennifer was eventually poached by her former client CBA, to become the Chief Actuary of Wealth Management, as well as Appointed Actuary of a number of CBA insurance companies, and the key person responsible for reporting on Insurance Risk.

In her five years with CBA, Jennifer had the opportunity to apply the leadership skills she'd acquired in other roles, heading up the Actuarial Team of around 40 actuaries in the life and general insurance businesses.

"We actuaries like to think of ourselves as quite special, but this was really a special team of people. We coached and developed our young actuaries to a professional exam pass-rate of around 50%," says Jennifer. "We also reinstituted the graduate program and we improved our diversity – going from one woman in the team to being around one third female."

"When I led the actuarial team at CBA I also worked hard to win the respect of other divisions within CBA for our team's views and contributions to decision-making. We became known less as purely technical people and more as experts on financial drivers in the business."

Jennifer points to people development as the biggest motivator for her to date. "I've never planned out my career – my focus has always been to keep on learning. I find increasingly that my passion is for developing people and seeing them grow professionally," says Jennifer.

"One of my own great mentors was a woman called Christian Jago. She really took an interest in my career. I learned a lot about communication and leadership from her and that a good measure of success is if you can train and coach someone else up to eventually take your place."

After returning from sabbatical earlier this year, Jennifer is looking forward to her professional come back as a Senior Partner at KPMG's actuarial practice, where she will focus on capital and risk management for insurers.

In addition to these corporate roles, Jennifer has consistently devoted time to contributing actively to the actuarial community, both through the Institute and of her own accord.

For many years Jennifer ran an anonymous actuarial blog about a wide range of issues (which she won't divulge the details of even today). In days when blogging was brand new, she treasured it as a creative outlet. Today her blog is a polished little number, and is no longer anonymous. For someone who "always hated essays at school," it's an impressive piece of work.

Called "Actuarial Eye," Jennifer shares her views on topics as diverse as longevity, women on boards, the property market and ICAAP standards. In her own words, "the blog brings actuarial thinking to a wider set of problems." With a healthy number of subscribers and lively debates on the site between fellow actuaries, Jennifer intends to start introducing contributed opinion pieces by her peers this year.

More formally structured professional involvement has also been a mark of Jennifer's career. She started out in her early years as a member of the Actuaries Institute Taskforce reviewing Life Insurance Capital Standards for the new 1995 Life Insurance Act, then editing the UK profession's magazine *The Actuary*. On her return to Sydney, Jennifer took over as Editor of *Actuary Australia*. Most recently she has also been on the Life Insurance and Wealth Management Practice Committee and the Council of the Actuaries Institute.

"The advice I'd have for young actuaries is to get involved in the profession - through voluntary positions, being on committees, and writing articles," says Jennifer. "I was always naturally a shy person, but doing these things throughout my career helped me to get to know a great range of people in the industry, who I've learned from immensely."

"The other thing I would encourage young professionals to do, is be themselves more at work. Don't pretend to love sport if you don't! There's no harm in voicing your own opinion, even when you fear it's wrong or no one else will agree," says Jennifer. "It's something I only became comfortable doing a bit later on in my career, but it will really earn the respect of your peers."

For the profession more broadly, Jennifer sees great potential to remove the barriers between specialist silos. "I'm one of the rarer people you'll find who has been appointed actuary for both a life insurer and a general insurer," Jennifer tells me. "On many issues, the life insurance actuaries will come to a view and the general insurance actuaries to another view – quite independently. I would love to see us communicate better with each other."

**"On many issues, the life insurance actuaries will come to a view and the general insurance actuaries to another view – quite independently. I would love to see us communicate better with each other."**

As our conversation comes to an end, I'm keen to find out how someone fits in all of this career progression, blogging, editing magazines and participating in committees around family commitments and personal time. "Well, I don't watch much TV," says Jennifer, matter-of-factly. "It's so passive, and I'd much prefer to do something active and engaging."

"Work / life balance means different things to different people, and much of it depends on the point in a person's life. In my 20s I worked really hard, but now spending quality time with my family is important to me. That was a real driver behind our decision to take a year off working, so we could travel the world as a family. You can't put a price on that experience."

Besides all this, Jennifer finds time for other creative outlets, being a longstanding member of North Sydney local choir 'Unaccompanied Baggage.' Jennifer points out that men who can sing are always in high demand, and urges readers – as well as the photographer in the room with us – to come along and give it a try. A

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# Leadership Forum

**The Who, What, When and How of Leadership**

Greg Einfeld presented his insights into what makes and how to become a good leader. He began by giving his definition of a good leader as one that "creates change for a better outcome". For example, Bin Laden succeeded in creating change but failed on a better outcome, whereas Mandela succeeded on both fronts.

But what is a better outcome? That depends on your point of view. Some may think that Bin Laden was a good leader, or that he at least had some very good leadership qualities. It was suggested that a lot could be learned from effective leaders (those that achieved a desired outcome), regardless of whether you believe the outcome was positive.

## HOW DO YOU BECOME A GOOD LEADER?

First you need to develop a vision. One way is to include ideas from your team and work as a facilitator. This has the advantage of making people feel part of the process, but may require good negotiating skills. Another way is to develop your own ideas and convince the team to follow, although it may be difficult to get someone on board who doesn't believe in the goal or approach.

Once you have a vision you need to assert leadership. The table below lists ways Greg has suggested to do this.

Ask yourself: "what do I want to be remembered for, what kind of leader do I want to be and "how can I achieve this?"

## OTHER THOUGHTS ON LEADERSHIP

Greg also shared a few other thoughts on leadership.

Leaders aren't always popular. This doesn't mean you have to go out of your way to be unpopular to be a good leader, but good leadership should not mean bowing to popular opinion. Being a leader can be lonely and sometimes to get to a better outcome you need to take the path less travelled, and hope that over time others will follow.

Sometimes you need followers, or to be one. Too many cooks can spoil the broth, but it is important to know when to lead and when to follow.

Every situation is different, so each leadership approach needs to be different. Try to be flexible.

## ACTUARIES AS LEADERS

The question was then asked "how can Actuaries become good leaders?"

Actuaries are generally seen as competent and having integrity, so have a lot of the skills that are required to become good leaders, however the importance of softer, people-management skills should not be ignored.

Actuaries are well placed to be thought-leaders in companies and the industry, and to be innovation leaders through such things as product development.
The opportunities are there for the profession.

Thanks to Greg for his insightful presentation.

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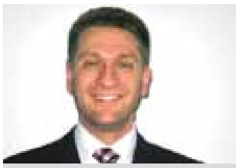

**Greg Einfeld** – Greg has 20 years experience working in financial services. For most of that time he worked at MLC in the areas of finance, investment, superannuation, insurance, strategy and M&A (Mergers and Acquisitions), including leading MLC's insurance business for five years and leading the project that culminated in MLC's acquisition of Aviva Australia. In 2011 Greg founded Lime Super which provides administration and advisory services to self managed superannuation funds.

## CHARACTERISTICS OF A GOOD LEADER

| | |
|---|---|
| **1. Uses hierarchy** | Whilst telling people to "do what I say, because I'm the boss" may not be great for morale, having a chain of command can clearly define leadership roles. |
| **2. Is seen as competent** | You can develop this reputation through such things as good performance, experience, knowledge, and professional certifications. |
| **3. Shows integrity** | Nobody wants to follow someone they can't trust. They are more likely to if they believe the leader is of good character and will deliver on promises. |
| **4. Inspires people** | Everyone wants to be inspired, and it makes following so much easier. |
| **5. Uses incentives** | People will often ask "What's in it for me?". So find out what motivates them and tell them how they will benefit. This doesn't just have to be financial, especially if they are inspired to achieve the better outcome. |
| **6. Sets achievable but rewarding goals** | If the goals are unachievable, then people will not be motivated and you may lose trust. If the benefit is not rewarding, then people will not feel incentivised. |

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# Influencing Public Policy



**How do actuaries, and the actuarial profession, influence public policy?**

This was the topic of an Insights session held in Sydney in March, featuring Peter Broadhead, First Assistant Secretary with the Commonwealth Department of Health of Ageing. Peter has had a long and distinguished career in health policy and program delivery, during which he has worked with the Australian, Victorian and Tasmanian health departments.

As a self-professed fan of actuaries, Peter has regularly drawn on actuarial advice to inform health reforms and develop policy options, ranging from the cost and effectiveness of care co-ordination to aged care funding, dental funding and, most recently, hospital pricing. In his current role, Peter is driving the implementation of the National Health and Hospitals Reforms agreed by all Australian Governments, and was able to highlight a number of areas that could benefit from an actuarial perspective - workforce demographics, aged care funding and longevity's impact on health system funding, to name just a few.

So how can actuaries exercise influence? Lobbyists are common in the halls of Canberra, and many a ministerial staffer has had the difficult job of ensuring unwelcome lobbyists never make it into the Minister's diary. Planning your pitch to the Minister probably isn't the right place to start. Nevertheless, actuaries have a history of supporting industry organisations and lobby groups to put forward better-informed positions – a recent example was the NDIS, a lobby group supporting disability reform and which has been very successful in putting the National Disability Insurance Scheme on the national agenda, supported by robust actuarial advice.

Many other opportunities exist for influencing policy, including putting good ideas to the right senior bureaucrats and submissions to enquiries. The National Health and Hospitals Reform Commission – the review which led to the current health reforms – received over 400 submissions, every one of which was reviewed by at least one Commissioner. A good idea will be listened to, regardless of whether it comes from an individual or from an organisation.

Putting ideas into the public arena, through think tanks and newspaper letters and articles, can also be productive. Timing is important – there's little point lobbying for a May Budget change in April – most of the policy proposals and costings were already nutted out before Christmas. Throwing opinions into a politically sensitive debate can also be counter-productive for relationships and long-term influence – actuaries need to think carefully about how they use the public arena to influence a debate.

Peter's advice for actuaries included;

- **Know your subject matter area well, or work with experts in the field**
- **Stick to the facts and avoid unsubstantiated opinions**
- **Analyse the available data to tell the story – actuaries have a real strength here, and there is much publicly available data waiting for someone to untap its story**
- **Identify 'winners' and 'losers' wherever possible, as this is always of interest to policy makers and the public**

The policy development process is complex and often opaque, with political imperatives driving the timing and 'negotiated outcomes' the norm. This shouldn't deter actuaries from doing the technical work needed to support a good policy, even if it's not something on the current political agenda. Agendas can change rapidly and, when the political timing is right to drive through a new policy, it's far more likely that a policy will be implemented well, if the technical work to support it has already been done.

Despite the challenges, Peter is very positive about the contribution actuaries can make to public policy and encouraged actuaries to contribute to the policy debate. Opinions are common in health and public policy – what actuaries can bring to the table is an appreciation of the facts and the evidence base, ensuring that policy debates are better informed. More importantly, actuaries are unique in offering a deep understanding of risk and variability, and being able to explain the longer term implications of policy reforms. From Peter's personal experience, "we always come out better informed when actuaries are involved". A

# The obsession with peer risk

**Is the obsession with peer risk resulting in the best possible outcomes for investors?**

Asset managers and super funds have become obsessed with peer risk. Many asset managers hug indices to ensure that they do not fall to the bottom of performance tables. Default options in the major super funds have amazingly similar asset allocation despite their differing membership base. This article investigates the reasons why this is the case and makes some suggestions to address the problem.

## BENCHMARK HUGGING AND SHORT-TERMISM

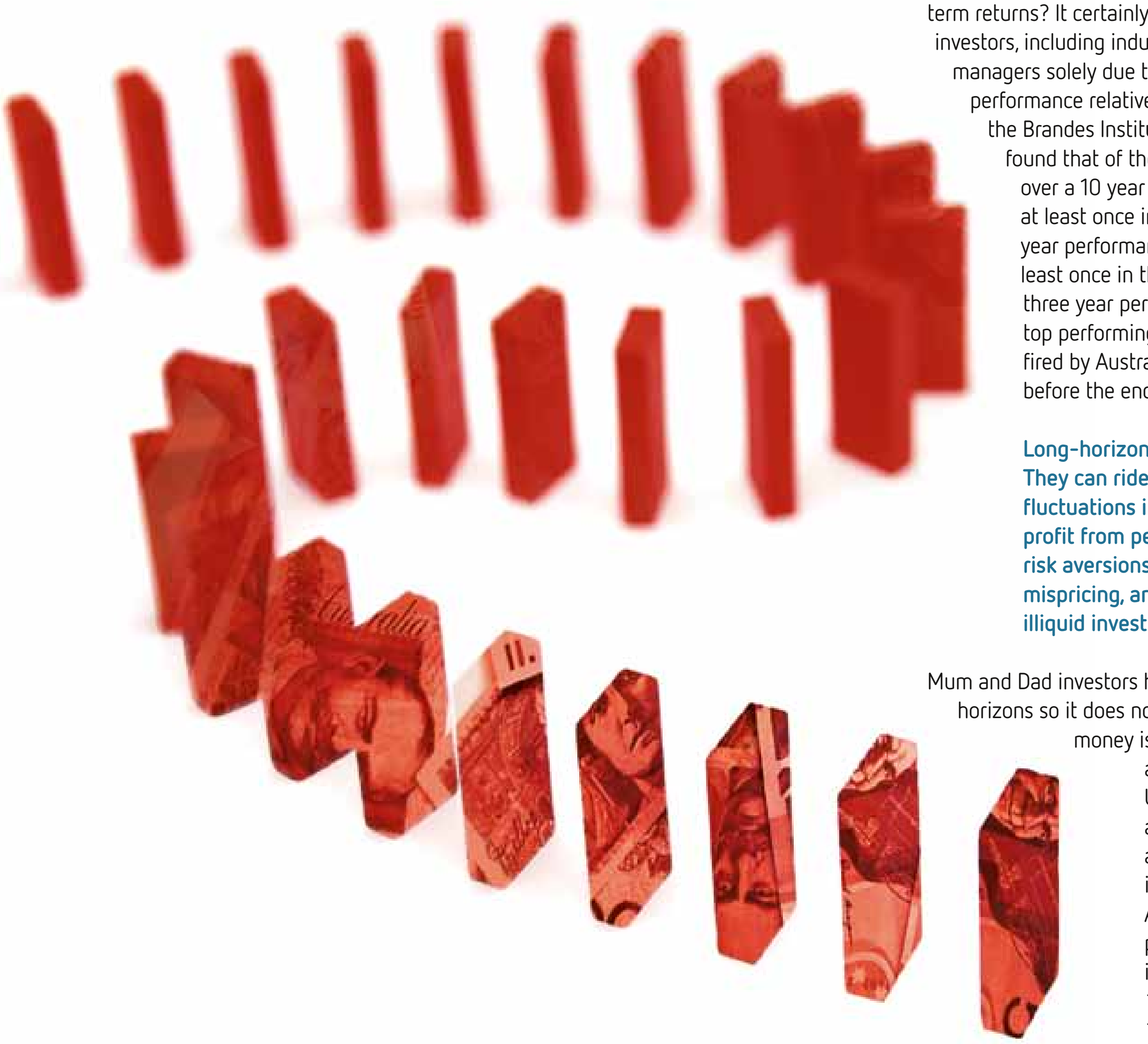
Performance tables which focus on quarterly returns have made it a commercial reality that it is in the interest of fund managers to focus on short term performance and not veer too far away from their underlying benchmark. The view by fund managers that short term underperformance will lead to withdrawals is backed up by a survey carried out by Financial Viewpoint[1] which reflected that four out of nine institutional investors would be pushing for a material change after four quarters of bottom decile performance.

**The ultimate cost of short-termism is borne by the Mum and Dad investors who entrust their retirement savings to corporate managers, fund managers and super fund trustees.[2]**

The question we need to ask ourselves is whether this short-termism as a result of peer risk obsession is costing investors through lower long term returns? It certainly is if it leads institutional investors, including industry super funds, to fire managers solely due to a couple of years of poor performance relative to others. A US study by the Brandes Institute[3] on global equity funds found that of the nine funds in the top 10% over a 10 year period, seven appeared at least once in the bottom 10% for one year performance and five appeared at least once in the bottom 20% over a three year period. How many of these top performing funds would have been fired by Australian institutional investors before the end of the 10 year period?

**Long-horizon investors have an edge. They can ride out short-term fluctuations in risk premiums, profit from periods of elevated risk aversions and short-term mispricing, and they can pursue illiquid investment opportunities.[4]**

Mum and Dad investors have long term savings horizons so it does not make sense that their money is being invested with such a short term focus. In the US in the 1950's and 1960's annual portfolio turnover averaged 17%. By 2005 it had risen to 110%.[5] In Australia the average annual portfolio turnover has increased from less than 17% in 1986 to over 100% today.[6]



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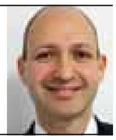

## ASSET ALLOCATION

Peer risk plays a similar role when it comes to asset allocation. For example in the US between 2002 and 2007 many endowments and foundations became obsessed with following the Harvard and Yale Endowment peer group investment models. This led to a significant increase in the allocations to hedge funds which during the GFC proved to be a poor decision. The increased allocation to hedge funds was not appropriate for many of these funds and did not take into account their specific objectives, investment horizons and risk measures.

Our super funds are not very different from the US endowments. The balanced fund options offered as the default option for the majority of super funds have very similar asset allocations despite each fund having its own unique membership demographics. The asset allocations and portfolio construction of the default option is particularly important as 80%[7] of members in the major super funds are in the default option, and rely on the trustees to make the best choice for them.

Most superannuation funds and retail investment houses state the objectives of their fully diversified offerings in terms of CPI + x%. Some do also disclose that they endeavour to perform better than most of their peers, but this is less common. However, it is common knowledge that an obsession with peer risk is the real driver of behaviour for most of these decision makers. This is evident in their actions. The CPI + x% 'objective' is given lip service at best.

Evidence for this can be seen in the tight clustering of asset allocations with high allocations to Australian equities in the earlier years of this century when Australian equities were exhibiting an extraordinary bull market and clear worries about excessive equity valuations abounded. Similarly, in the 1990s global equities driven by 'new economy' myths were well known to be overvalued. Funds were massively exceeding their CPI+ objectives, but failed to retreat from overvalued equities. But these imbalances persisted for so long that any brave fund that did pull in its horns would have been derided and the decision makers would have been removed.

Of course, when the markets turn, as they have in recent years, the herd of self-referential decision makers will fail their members in terms of what really matters, that is achieving returns in excess of inflation. At the end of the day it does not help fund members if the fund performs well against peers but poorly against the absolute return benchmark. Short term peer risk comparisons do not encourage funds to strategically alter asset allocation and invest in longer term assets.

There is a belief that if a super fund performs poorly in the quarterly surveys members will withdraw and transfer to another fund. There is little concrete evidence to back this up. It is unlikely that the 80% of members in the default option take notice of the surveys. Some may say that members ignore the surveys because they have taken little interest in their super to date. But a more generous interpretation would be that members are acting in a way that their trustees should: focusing on the long term and not obsessing about peers.

## ADDRESSING OBSESSION WITH PEER RISK

Awareness of peer risk itself is not a bad thing. After all, it is no good being right but not vindicated for years and losing the confidence of your customers in the interim. However, when it leads to short-termism and everyone copying each other, it can't be a good thing. Obsession with peer risk is a complex problem to solve as it is entrenched in the investment management industry, but there are a number of ways to address the issue:

- Survey providers, investment consultants and institutional investors including trustees should be encouraged to focus on longer term performance numbers and place less emphasis on quarterly and annual returns.
- Super funds should invest in educating members on the importance of long term returns and the relevance of a CPI + x% absolute return benchmark.
- Super fund trustees should tailor asset allocation for default options to the specific member demographics of their fund, and not base the allocation entirely on peer comparisons. Consideration should also be given to the argument for using a life stage model which adjusts asset allocation depending on the age of the member.

This topic will be discussed in more detail at the Insights Panel Discussion: *Risk of Obsession with Peer Risk* to be held at the Actuaries Institute in Sydney on 29 May 2012 between 12.00pm and 2.00pm. A follow-up article will be published covering the highlights of the session. In the meantime members are invited to submit their views and suggestions on this topic to the Institute – ActuariesMag@actuaries.asn.au

**At the end of the day it does not help fund members if the fund performs well against peers but poorly against the absolute return benchmark.**

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# Modelling Riverine Flood Risk

Since January 2011, riverine flooding has rarely been off the agenda. The good news for insurers is that because of decisions made three years ago by the Insurance Council of Australia to fund the development of the National Flood Information Database (NFID), the industry's ability to model these risks is now well advanced. Insurers with licenses to NFID can use this, along with various catastrophe loss models to select and price their exposure for premium setting and to inform the purchases of reinsurance.

The development and expansion of NFID (jointly undertaken by Risk Frontiers and Willis Re) catalogues the known flood exposure to individual addresses using a G-NAF (Geo-coded National Address File) identifier. The best available flood modelling undertaken by private sector hydrologists and hydraulic engineers for local councils and State Governments underpins NFID. Our role is to combine this data together with the G-NAF address ID and the best available Digital Terrain Data. Increasingly the latter is derived from optical remote sensing (LiDAR).

While there remain some gaps in the coverage due to a number of councils yet to contribute or release their data, the current database covers most of the key areas of risk. The number of non-participating councils is decreasing and only a few outstanding areas of interest remain unmapped.

How good is the data? Well Figure 1 shows that the actual and modelled flood extents for Brisbane and Ipswich agree remarkably well. The data in white shown in this figure is based on modelling undertaken some 30 years ago and the concordance demonstrates that even nearly 400 years after Sir Isaac Newton, water still runs downhill. Courtesy of the Brisbane City Council, NFID now includes much more recent modelling.

Similarly good agreement was found between road closures in June 2011 and the modelled extent of flooding in Kempsey for a 1:20 year flood. More recent flooding will give us further opportunities to test NFID and at the time of writing Risk Frontiers staff are arranging to visit Wagga Wagga in order to observe property damage there.

Following the National Disaster Insurance Review, the government has given Geoscience Australia $12 million over four years to develop a portal for flood information. However, this money will not fund any new modelling , the portal's aims are to provide a repository for States and councils to voluntarily deposit flood information.

The most positive outcome will be that the portal may eventually provide insurers with access to new flood studies to enhance the further development of NFID. However, it needs to be borne in mind that there is no commitment to compel councils to contribute information.

At this juncture, we should recall the achievements of NFID, through which insurers already have access to the same information that Geoscience Australia will be seeking. The recent release of NFID version 2.6 (30 September 2011) includes 5.6 million addresses

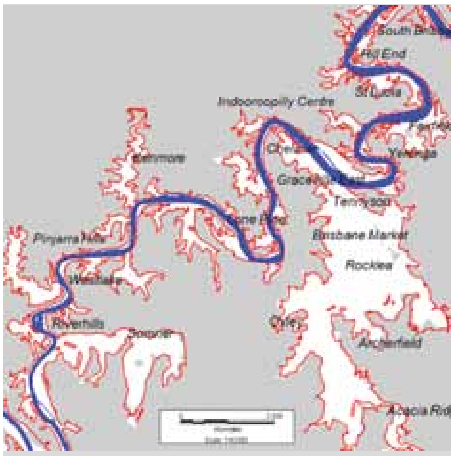


**Figure 1:** Comparison between modelled flood extent in NFID (white areas) and the 2011 Brisbane Flood inundation extent (red polygon). Note that insurers need to be considering water depth as well as the extent of flooding. NFID contains this information.

Brisbane River flooding

with some form of flood information. It is believed that the majority of most-at-risk addresses (i.e. Average Recurrence Interval (ARI) less than 100 years) are now included. Further developments will expand this number greatly. In other words, the task given to Geoscience Australia has already been completed by the private sector. And moreover the data has been processed in a way that meets the requirements of insurers.

If the ICA were agreeable, it would be possible to allow the public access to the same information insurers now have on a street address basis. Technically, this would be a trivial task.

I'd like to conclude with one further point. As is now clear from the Queensland Floods Commission of Inquiry, the way in which the dam was managed or mismanaged contributed to the Brisbane floods. The view of Risk Frontiers is that irrespective of whether the manual was followed, the decision-making around the operators' use of rainfall forecasts was woefully inadequate. Regardless of culpability, the role of human error makes the ARI of the Brisbane floods indeterminate. If we ignore the dam and other changes to the river, we could simply argue in a 170 odd years there have been six higher floods and so the Brisbane flood has an ARI of around 25 years. On the other hand, after adjusting the Brisbane City Council's older modelling presuming competent operation of the dam, we would estimate that this same flood was a 1:125 year event. Regardless of any future examination of the dam operation in court, it does mean that next time it rains like it did in 2011, the operation of the dam is likely to be very different and thus the risk has changed. A

*This article was originally published in the March 2012 edition of the Actuaries Institute's GIPC Newsletter.*

Professor John McAneney is the Director of Risk Frontiers and a Professorial Fellow in the Division of Environment & Geography at Macquarie University. His research background is in environmental physics, boundary-layer meteorology and quantitative risk analysis. Risk Frontiers is an independent research centre whose goal is to better understand and price natural catastrophic exposure to earthquakes, hailstorms, floods, tropical cyclones, bushfire and volcanoes in the Asia-Pacific region. It also undertakes research on policy issues pertaining to natural perils, global climate change and risk communication.

Geoscience Australia is an agency of the Australian Government. It carries out geoscientific research to encourage increased investment in Australia's minerals and petroleum industries; and to improve the management of natural hazards such as landslides and earthquakes. It also produces topographic maps and satellite imagery. Formerly the Australian Geological Survey Organisation (AGSO).

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# New Zealand Future Pathways 2012

**After a year marked by disasters and global economic uncertainty, the Future Pathways series of seminars in New Zealand represents an important opportunity for newer actuaries and students to gain an understanding of the broader range of actuarial applications in the marketplace.**

Seminar presentation with Nicola Thompson



Sam Segal

In what is becoming an annual event on the actuarial educational and social calendar in New Zealand, the second 'Future Pathways' seminar series took place this March. Future Pathways 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, qualified and senior actuaries are welcome to attend and do so in substantial numbers.

An equally valuable component of the event is socialising after the presentations, where actuaries from around New Zealand can meet and mingle. About 100 students and fellows in total attended the two seminars in Auckland and Wellington this year, as well as guests invited to find out more about the actuarial profession and meet people at the coalface.

Last year topics included risk management, health, general, and life insurance. Taking into account the feedback received from last year's series, three presentations were given this year, each with a Q&A follow-up. The choice of topics was driven by the interests and work experience of the volunteer speakers; superannuation, investments, and general insurance were represented this year.

## SUPERANNUATION

Always an area of great debate – Sam Faulkner of PwC presented the history of superannuation in New Zealand and how it has become what it is today. Drawing on recent analyses, he showed how New Zealand's arrangements compare with other OECD countries – it is one of the most progressive/redistributive given its flat rate which is not means-tested. Many in the audience noted that a number of the countries with the most generous schemes are also those in the midst of a sovereign debt crisis (Greece, Italy, Spain, etc).

Nicola Thompson of Aon followed up by asking for a show of hands as to whether the retirement age should be raised. As keen workers, the crowd raised hands on mass – in stark contrast to our Prime Minister, John Key, who has made it a non-starter for discussion. Her presentation illustrated options to increase the sustainability of the current superannuation system with raising the retirement age a key option.

## GENERAL INSURANCE

With 2011 remembered as a year of major disasters, the topic of catastrophes and the insurance of such events was chosen to generate discussion as to what could be expected in the future. Clinton Freeman of Vero Insurance began by asking the crowd what really distinguishes a catastrophe from a disaster and gave a few examples as food for thought. The presentation then discussed catastrophe models – their structure, who produces them, and how they could be of benefit to New Zealand conditions. Also highlighted were the many uses of 'nat-cat' models in actuarial work.

Sam Segal of the Accident Compensation Corporation (ACC), which is a government entity providing no-fault personal injury compensation from events including motor vehicle and workplace accidents, followed with an overview of the Earthquake Commission (EQC) and how the government's disaster fund compares with insurance solutions in California (of which Sam is a native) and Japan. He raised a number of

Christchurch billboard

issues that could be incorporated into the upcoming 'transformation' of the EQC, such as differential pricing based upon location of the home. Sam finished with a comparison of how EQC and ACC have fared thus far as a result of the Canterbury earthquakes.

## INVESTMENTS

Investments is an area that actuaries are increasingly involved in, though many are uncertain as to what the work actually involves as compared to more traditional areas within the insurance and superannuation industries. With only a handful of investment actuaries in New Zealand, the presentation by Daniel Mussett, Head of Consulting at Russell Investments, made for a rare opportunity to hear from a practitioner. He spoke about the players in the field and how the interactions between parties are somewhat more 'political' than what actuaries usually encounter.

Daniel was joined by Henry Chueh, who works in Private Banking at Westpac. Henry gave an up-to-date report on where the world stands with the global financial crisis, and how recent history has led us to the unfolding sovereign debt crisis in Europe and the US. No one will forget Henry's YouTube clip of a business news journalist discussing the recent increase in the US debt ceiling in January. The clip highlighted the level of US Government debt owed by each American man, woman and child ($52,409), but was not fully appreciated by the newsreader, who instead wanted clarification on whether the denominator included newborns and toddlers.

## THANKS

For Future Pathways to continue into 2013 and beyond, those interested in presenting are encouraged to volunteer. On behalf of all the speakers, I would particularly like to thank Jonathan Nicholls from PwC for organising the series, emceeing the Wellington event, and most importantly for keeping us on track as the presentation days loomed. We are grateful to Lyndon Jones from Sovereign for stepping into the role of emcee at our Auckland event. The New Zealand Society of Actuaries provided much-appreciated funding and organisation. Finally, thanks also go to PwC and Deloitte for hosting us respectively in Auckland and Wellington – wonderful venues with views that can only be described as distracting for speaker and audience alike!


Future Pathways seminar attendees

The presentation can be accessed at:
www.actuaries.org.nz/Future%20Pathways%202012.html

**Presenters' contact details:**
Sam Faulkner, sam.p.faulkner@nz.pwc.com
Nicola Thompson, nicola.thompson@aon.co.nz
Daniel Mussett, dmussett@russell.com
Henry Chueh, henry_Chueh@westpac.co.nz
Clinton Freeman, clintonfreeman@hotmail.com
Sam Segal, sam.segal@acc.co.nz

**Clinton Freeman** is the Senior Pricing Analyst at Vero Insurance, based in Auckland. He was an EQC-funded Fulbright scholar to the US for researching natural hazards.

Genevieve Hayes
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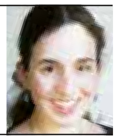


"I have discovered a truly marvellous proof of this, which this margin is too narrow to contain" – Fermat.

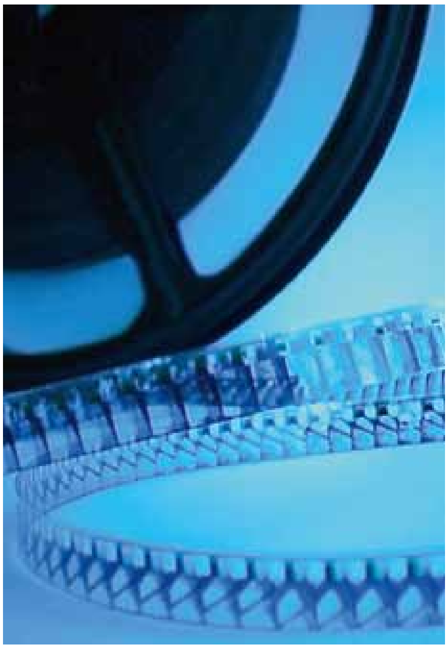
# Escapes and translations

## LOST IN TRANSLATION

In late May of each year, Cannes, in the South of France, plays host to the world's most prestigious film festival. Many of the films that are presented at the Cannes Film Festival go on to be released internationally in the coming months.

Sometimes however, when a movie title is translated from one language to another, something is lost in translation (and this applies to all movies, not just ones screened at Cannes). For example, *Thelma and Louise* became *An Unexpected End* in Mexico and *Leaving Las Vegas* became *I'm Drunk and You're a Prostitute* in Japan.

The original English language titles of twenty movies have been hidden in the word search diagram below. The word "the" has been deleted whenever it appears at the beginning of a title. The following list gives foreign language versions of these twenty titles, translated back into English:



- *Advert Brings Death*
- *An Expert in Fun*
- *Captain Supermarket*
- *Club of Five*
- *Criminals on Vacation*
- *He's a Ghost!*
- *Knight of the Night*
- *Love in the Skies*
- *Mum, I Missed the Plane*
- *Please, Do Not Touch the Old Women*
- *Power and Greed*
- *Rita Hayworth – Key to Escape*
- *Six Naked Pigs*
- *Skyscraper Attack*
- *Slightly Pregnant*
- *The Cop in Drag*
- *The Eighth Passenger of the Nostromo*
- *The Gun Died Laughing*
- *Urban Neurotic*
- *Zany Son-in-Law, Zippy Grandkids, Sour Father-in-Law*

**For your chance to win a $50 book voucher, find each of the twenty original titles in the word search and match them to their foreign language alternative in the list above, then email the twenty pairs of titles to: inthemargin@actuaries.asn.au**

| | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| N | D | B | B | T | Z | B | T | T | N | Y | F | V | K | Y | T | P | B | T | F |
| N | P | I | S | M | O | R | H | V | B | D | E | J | H | V | V | J | B | H | U |
| O | J | G | X | R | P | P | O | O | J | H | R | I | Z | K | R | B | E | G | L |
| I | K | M | K | A | E | E | G | S | P | G | R | K | X | V | L | L | T | I | L |
| T | N | O | N | M | K | K | A | U | A | U | I | X | R | U | A | E | B | N | M |
| P | U | M | P | F | L | P | C | N | N | Y | S | U | F | M | E | A | V | K | O |
| M | G | M | N | I | A | R | W | O | N | D | B | I | E | R | S | L | D | K | N |
| E | D | A | N | X | Z | H | K | M | F | I | U | F | T | V | J | I | N | R | T |
| D | E | S | N | B | B | M | O | G | H | E | E | S | Q | M | S | E | O | A | Y |
| E | K | H | R | V | Y | G | I | O | S | T | L | H | K | P | Q | N | Q | D | N |
| R | A | O | Q | E | R | G | M | E | I | L | L | T | A | Q | K | A | P | T | A |
| K | N | U | V | M | C | E | G | H | A | J | E | L | T | L | T | H | M | U | C |
| N | K | S | B | S | A | U | W | W | I | R | R | K | J | I | L | T | P | G | F |
| A | L | E | G | L | R | E | D | M | J | M | S | Q | Y | G | L | K | O | L | D |
| H | W | H | O | B | L | E | G | O | P | U | D | E | K | C | O | N | K | Q | V |
| S | H | N | N | G | C | U | G | P | R | Z | A | D | I | E | H | A | R | D | F |
| W | E | I | N | H | U | O | E | K | S | P | Y | E | J | T | Y | X | E | Q | Q |
| A | S | I | X | T | H | S | E | N | S | E | O | D | Z | D | O | H | Z | B | L |
| H | S | Y | B | Y | R | A | R | M | Y | O | F | D | A | R | K | N | E | S | S |
| S | Z | C | P | B | U | L | C | T | S | A | F | K | A | E | R | B | W | F | G |

## ESCAPE FROM ALCATRAZ (AA167 SOLUTION)

This is a modified version of a puzzle by Henry Dudeney that appeared in his 1907 book *The Canterbury Puzzles and Other Curious Problems*. Dudeney's original solution is paraphrased as follows:

Every word in the English language contains at least one vowel or the letter Y. Since none of the dials contain a vowel, the word must contain a Y. No word in English is spelled with a Y followed by two consonants and all of the three letter words containing two consonants followed by a Y either begin with an S or have an H, L or R as their middle letter (which are not on the dials). Therefore, Y must be the middle letter. The only words with Y as the middle letter and consonants as the first and last letter are: GYM, GYP and PYX, and only PYX can be spelled using the letters given. This can only be spelled in one way using the dials of the lock.

However, readers of this column were able to identify two additional words that could also be spelled using the lock dials: CWM (pronounced *coomb* and defined as a round, steep-walled hollow in a mountainside formed by glacial erosion) and WYN (a runic letter adopted into the Old English alphabet, but later replaced by w). These words are not found in all dictionaries, but are considered acceptable in (English language) Scrabble, so are acceptable for the purposes of this puzzle. TNT was not accepted as a possible solution, as this is an abbreviation (for the chemical trinitrotoluene.)

The existence of the two additional words does not render this puzzle unsolvable, since the question allowed three attempts at cracking the combination. Regardless of which of the words is correct, it would be certain to be found within the attempts.

Six correct answers were submitted. The winner of this month's prize, selected randomly from among the correct entries, was **Stephen Edwards**, who will receive a $50 book voucher. A

Gae Robinson
gae.robinson@finity.com.au

Gae answers serious and not-so-serious questions about life in the office, career, study and coping as an actuary in the real world

# Into the real world / Email etiquette

## INTO THE REAL WORLD

I'm in my final year at uni doing Actuarial Studies. What is it like to work as an actuary? And what skills should an aspiring actuary focus on, besides technical and communication skills of course?

Working as an actuary will be…

**Technical.** You'll need to understand actuarial concepts and techniques, some of which will do your head in at first. And there'll be lots of Excel – on about Day 2 you'll discover your Excel skills are not as good as you thought. Ditto programming skills.

**Interesting and challenging.** It'll be great because the problems are REAL, and it'll be difficult because the problems are real… You know part (e) of your typical exam question, that last part that's really hard and you usually rush out a lame, hopeful answer because that's all you can do in the time you have? Well, real life is full of part (e)'s!

**Seasonal.** Some weeks the work will consume your every waking minute and other weeks you'll get time to breathe. Breathe when you can!

**Fun.** You'll be working with a bunch of nice people and everyone will be working hard, having a joke, and occasionally going mad.

**Boring** – sometimes.

**People-focused.** Problems belong to people, decisions are made by people, companies are run by people and you will get your tasks from people.

**Exhausting**. There's a reason why some people look back and say "uni was the best time of my life!" You call two and a half days a heavy load? Give me a break…

And what will you need to do to make the most of your graduate role? Oh that's very simple:

Focus on doing quality work, be organised, ask questions, listen, be prepared to get it wrong, get to know people, be interested in your industry, get everything you do checked, know what's important, be open to guidance/feedback, manage yourself, make sure you understand the big picture, be brave, know when to stop analysing, admit any mistakes ASAP, listen, apply common sense, write well, be helpful, get involved.

And of course, enjoy!

## EMAIL ETIQUETTE

A few of my emails have caused dramas lately – misunderstandings, offence etc. Can you help?

Step one: are you sure you REALLY need to write an email? If the person you're emailing is on the same floor as you, go and talk to them. If the email is at all likely to lead to a series of questions and answers – or worse, a 'heated discussion by email' – then make a phone call instead. Or organise a meeting.

Now draft your email. If it's an important communication (if it's going to someone important, it's always important), you need to think about it just as carefully as a letter or report. Ensure your message is clear and well explained.




If there's a lot to say:

1. First draft the message in full detail, leaving nothing out. A complex message needs to be structured – intro, main message, ending.
2. Read it over and simplify and prune where you can.
3. Highlight important parts – including any actions you want people to take – with colour or bold.
4. Read it over one more time before you send it. If in doubt – get someone else to review.

Other miscellaneous advice:

- Keep your 'subject' line relevant and brief.
- Your greeting ('Hi Melinda', 'Dear David' etc) and sign-off ('Regards', 'Cheers') should reflect your style.
- Send your email only to those who need the information. Don't use 'Reply all' as your default – when the whole company gets the email about this year's flu vaccinations and you tell everyone that you'd like the 10.30 slot on Wednesday, we wonder why we needed to know
- Don't use the Urgent indicator unless it's for real. Pseudo-scientific studies have shown an inverse correlation between actual urgency of emails and the use of the Urgent indicator, which devalues its use.
- If there's ANY sort of confidential information, or controversial content (criticism, cheekiness) in your email – double check who it's addressed to before pressing Send! Did you reply instead of forward? Or when you typed the first letter, did Outlook automatically provide your most important client's email address instead of your best buddy's? I have learned from bitter experience that email 'recalls' do not usually work.

And if you find yourself in trouble again, deliver your apology verbally not by email!

Jessica Cheung
Jessica.cheung@asoc.unsw.edu.au

# The evolution of the actuary

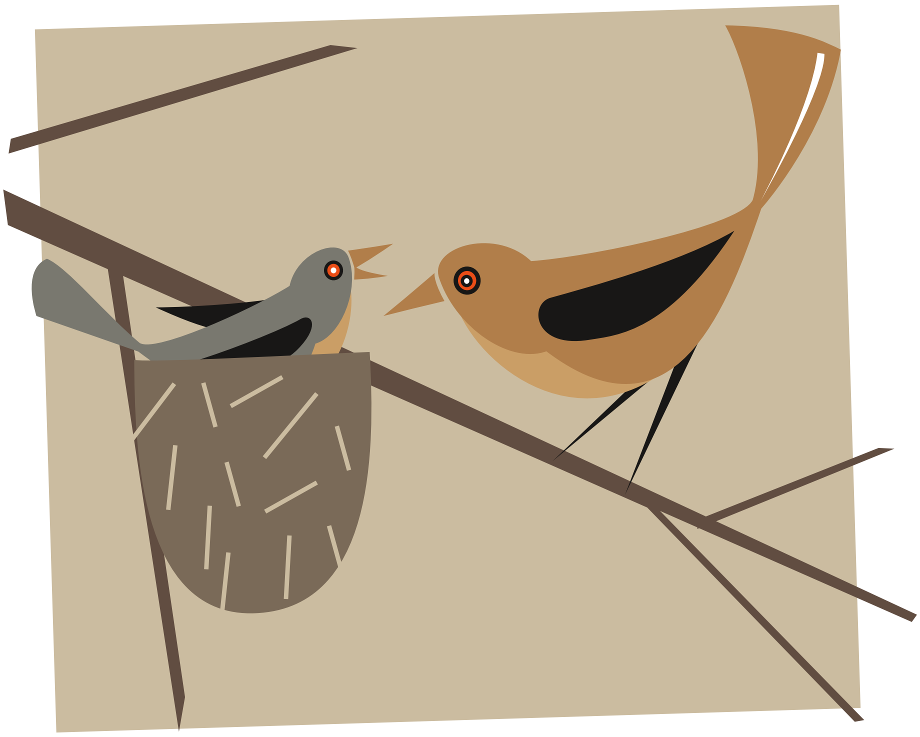
The actuarial profession has always been somewhat a misnomer to many outside our profession. An ordinary passer-by would say, "An actuary? So...do you look after birds?" However, after surveying students from each cohort at UNSW currently studying actuarial studies, it seems the actuarial industry has made a name for itself as a very mysterious profession, with deep set misconceptions and stereotypes being passed from generation to generation of students.

## THE FIRST YEAR

Coming into their first year, students often trawl through publications promoting actuarial studies to gauge a sense of what they are getting themselves into. But the common sentiment is, "I read that and still don't really know what it is about". This is with good reason though. *"Actuarial Studies is a broadly based commerce discipline that involves the study of mathematics, statistics, accounting, economics and finance for application in life insurance, general insurance, health insurance, superannuation, funds management, banking and management consulting"*[1]. This tells us virtually nothing about the profession. What is it that actuaries actually do on a day-to-day basis?

The university academic experience does not offer much guidance either. "I think people in the industry would be lacking a lot of sleep. I struggle now, and I can only imagine it getting worse. Shoot me!" What exacerbates the situation is friends they meet from older year groups often using them as sounding boards. They share stories about how the average for the previous quiz was a mere 25%, how they spent late nights debugging 20 pages of R and Excel codes and how they had spent days going through lecture notes and yet still had no clue what the topic is about.

Unbeknownst to them, these impressionable first years take all this in, getting more and more frightened of the profession and wondering what it was that they got themselves into. I have lost count of the number of times people have come up to me, asking me, "is actuarial studies really hard?" When I asked one particular first year actuarial student where she saw herself post-graduation, she answered, "I'm stressing my head off right now. I'm seriously considering dropping this course. I haven't given career any thought yet!"



BIRDS - © SIMON PALMER | KIRK PALMER DESIGN

## THE MIDDLE YEARS

For the ever-dismissing cohort of students that still continue on, their perception of actuarial still does not seem overly positive. Three words to describe the typical actuary's personality? "Rational. Smart. Non-emotional." Most worrying is that last one, the students perceiving actuaries, and by extension, themselves, as number crunching machines.

Thus it is quite the enigma, 150 students continuing with actuarial studies, whilst simultaneously harbouring such negative perceptions of the industry. "I just want to be able to retire at 40 and do whatever!" But salary misconceptions aside, there is something about the discipline that keeps people drawn to it. One student, whom persevered with actuarial despite not getting all his exemptions, commented "I really find it interesting, how powerful maths and statistics is, how millions of dollars often depend on the maths used in insurance/risk models."

## THE FINAL YEAR

Final year students, often having completed internships or networked with people already in the industry, have a healthier attitude towards the industry. "I think a typical actuary is a nerd, but only at heart."

But why aren't these perceptions shared amongst the rest of the student community? Often, students just love to complain, to get that sympathetic nod from those whom don't know better, be it a family member with no clue about actuarial or a fresh first year. What is the embodiment of this sentiment? "An actuary is a professional who can solve a problem you didn't know you had in a way that you can't understand."

Hopefully professionals and student societies can together work toward erasing all the negative misconceptions about the profession. However, it may very well be the enigmatic nature of the industry that forms the basis for why students continue to be drawn into actuarial studies. Perhaps it is the constant confusion and hardship we students face that lulls us in. As one student aptly puts it, "After years of actuarial, I don't pretend to know the meaning of the word "prepared" anymore!" A

1 Extracted from the UNSW School of Actuarial Studies website

**Melinda Howes**
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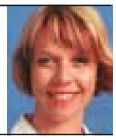

# Can I be a leader?

**WHAT DOES A LEADER LOOK LIKE?** It is hard to define what makes a leader great. They have something... some X factor that is hard to put your finger on. You know it when you see it but it can be hard to define. And it's often different to the stereotype.

In public life, many leaders are charismatic, larger than life figures – great public speakers, polished performers. Politicians and many business leaders exhibit this extroverted, high energy, A-type personality. If we define leadership that way and measure ourselves against this sort of person, it's quite daunting. If we don't have this type of personality, we may feel that we could never be a leader.

Whilst this sort of leader may garner a high public profile (in fact many of them crave one!), they are not necessarily the most effective leaders. There are plenty of top business leaders who look quite different to the archetypal "A-type" personality. They appear measured, considered – even a little reserved. These are the quiet achievers, and include some of the biggest names and most successful leaders. Here are some examples.

David Gonski is a widely respected non-executive director. It is estimated that he sits on more than 40 boards (where does he find the time?), and is or has been Chairman of Coca-Cola Amatil, Swiss Re Life and Health Australia Limited, ASX Limited and Investec Bank (Australia) Limited. He is a Senior Adviser to Morgan Stanley Australia Limited; Chairman of the Advisory Board of Transfield Holdings and a non-executive director of Singapore Airlines. He was recently appointed Chairman of the Future Fund.

Gonski is known as being humble and unpretentious. A profile in 2010 by Australian author and Herald columnist, Malcolm Knox said:

"And despite the high profile, ... Gonski is not a man to throw his weight around; part of him remains an unworldly autodidact, awed by creative genius and as desperate for knowledge as any earnest student.

He is a quiet man, in some ways invisible, and cleaves to the shadows. If he were to draw a self-portrait, Gonski would get more use out of an eraser than a pencil."[1]

Frank O'Halloran, the outgoing CEO of QBE, has been with QBE since 1976, and has held the CEO position since 1998. There has been a tenfold increase in premiums and 44 acquisitions valued at $7.61 billion since becoming CEO. Frank has been credited with building the Australian-based insurer into the multinational company it is today– and they're a rare home-grown success story.

For such a high profile figure, it's amazing how little information about the man himself is available through Google search. That tells you something about him. There is almost no commentary or media articles about his personality, but those who know him have told me that Frank is quiet, down to earth, modest and eschews the trappings of success.

Closer to home is our own Tony Coleman, former Institute President and 2004 Actuary of the Year, who was profiled in this magazine last December. A top student with an MBA, he rose to Senior Corporate Advisory Partner at Coopers & Lybrand (Now PwC) in a 15 year career, then spent eight years as CRO at IAG. In recent years Tony has been active in promoting a better understanding of global warming and climate change in government and business, working extensively with eminent scientists, business leaders and NGOs. He's currently a director of Lonergan Edwards and Associates and holds senior roles in the International Actuarial Association, as well as being an Adjunct Professor at Macquarie Uni. Tony is a sought after non-executive director, currently on the boards of AMP Life, Max BUPA Health Insurance, the Antarctic Climate and Ecosystem Co-operative Research Centre and Low Carbon Australia.

What's noticeable about Tony is his service to others. When being presented with a rare honorary Doctor of Business from Macquarie Uni last year, the Vice Chancellor Professor Steven Schwartz said:

"He has not only achieved great things in his professional life but he has constantly given back to the University ... His contributions ... have helped generations of students after him. This spirit of generosity typifies all that Tony does."[2]

Tony extends this generosity to activities for the Institute, where he has been a key volunteer for many years and also encourages other members to volunteer.

I don't know Tony really well, but have seen him in action on an advisory board we both sit on. Tony is thoughtful and softly spoken, however when he speaks he commands attention. He gives probably the best strategic input of anyone on that board. He's an impressive leader with a quiet, almost gentle, style.


## INTROVERT OR EXTROVERT – WHICH LEADER IS BETTER?

In *The Influential Actuary* sessions Dave Miller ran last year, the attendees organised ourselves into introvert and extrovert categories. Across all of the sessions, I estimate that one third of people thought they were extroverts, and the other two thirds thought they were introverts. If this is representative of the profession as a whole, then most actuaries tend to introversion.

There is a common misconception about introverts. In common usages of the term, introverts are shy people who spend their lives looking at their shoes and refusing to make eye contact. This is not the true meaning. The Merriam Webster Dictionary defines and an extrovert as "... being predominantly concerned with and obtaining gratification from what is outside the self" whereas introverts are "... wholly or predominantly concerned with and interested in one's own mental life".

We all have some level of extrovert and introvert within us, but for most people one is dominant.

People with the extrovert dominant "tend to enjoy human interactions and to be enthusiastic, talkative, assertive, and gregarious" whereas, as mentioned above, those with the introvert dominant are "wholly or predominantly concerned with and interested in one's own mental life"[3].

Extroverts enjoy time spent with others and get bored alone. The real definition of an introvert is someone whose energy tends to expand through reflection and dwindle during interaction. However the common modern perception is that introverts tend to be more reserved and less outspoken in groups.[3]

So whilst the extrovert leader will be seeking the media spotlight and cultivating a team of admirers, the introvert leader may be thinking deeply about issues and quietly implementing key strategies.

What's clear is that both are capable of leading. Extroverts have more of the leadership jobs. But Susan Krauss Whitbourne, Professor of Psychology at the University of Massachusetts, says:

"Researchers are finding that introverts make better leaders than extroverts for one simple reason: they're more likely to listen and pay attention to what other people are saying. It's the introverts you want to choose as leaders, not the extroverts... In addition to allowing their group members to contribute more actively to the success of the group's efforts, introverted leaders spend more time listening and less time talking."[4]

A recent TED talk by Susan Cain, author of *Quiet: The Power of Introverts in a World That Can't Stop Talking*, highlights the importance and power of Introverts and their way of doing things. She also highlights the fact that Leadership is something that, although many times does not come naturally for introverts, can be something they excel at[5].

## HOW CAN I DEVELOP MY LEADERSHIP SKILLS?

You need to put some effort into self development. Whether you're primarily introvert or extrovert, for most of us leadership is not a skill we can just pick up on the job – like becoming an actuary, becoming a leader requires further learning. The good news is that the Actuaries Institute Leadership Committee under convenor Jenny Lyon has been hard at work designing a program of events and activities that are already starting to be rolled out.

If you aren't living in Sydney or Melbourne, we are trying to get to a stage where all sessions are made into webinars – bear with us, as this is coming later this year.

There were some great sessions on leadership at our recent Financial Services Forum, and I couldn't help but notice how well attended they were. If you want to be a leader but aren't putting time and effort into learning these skills, lots of actuaries are, and they are your competition. Don't be left behind!

I would love to hear which leaders inspire you. Please email or tweet me your heroes.

A

#### REFERENCES

1 Knox, Malcolm (13 March 2012). "David Gonski - the man behind the power". *The Sydney Morning Herald*. http://www.businessday.com.au/business/david-gonski--the-man-behind-the-power-20120313-1uxw3.html

2 http://www.actuaries.asn.au/Library/AAArticles/2011/AA-DEC2011_WEB_pp13-15.pdf

3 http://en.wikipedia.org/wiki/Extroversion_and_introversion

4 http://www.psychologytoday.com/blog/fulfillment-any-age/201111/why-introverts-make-great-leaders-sometimes

5 http://www.leadershipconnexion.com/the-power-of-introverts-in-leadership/#

# general insurance seminar

## Tides of Change

**12-13 November 2012**
**Sofitel Sydney Wentworth**


# Call for Papers and Presentations

Actuaries Institute

The general insurance industry is going through a period of flux. We have had cost pressures arising from natural catastrophes, premium rates under public scrutiny, along with additional regulatory requirements. The actuarial profession has a key part to play in weathering these changes.

The Actuaries Institute 2012 **General Insurance Seminar** will be held at the Sofitel Sydney Wentworth on **12-13 November 2012**. The Seminar theme is ***'Tides of Change'***.

The first day of the seminar will be focus on broader insurance market issues and the second day will be oriented towards more technical and operational issues. The Institute's Enterprise Risk Management Seminar will be held at the Sofitel Sydney Wentworth on 14 November immediately following GIS2012.

The program for GIS2012 is now being prepared and we are seeking individuals and working groups from the General Insurance Practice Committee to present papers.

### Relevant topics for papers include:

- The State of the Market
- Risk Management
- The Natural Environment
- Claims and Reserving
- Professionalism
- Actuaries and Value
- Pricing
- Other issues in general insurance.

### Working group topics include:

- Risk Appetite
- Operational Risk
- Measuring General Insurance Performance
- Purchasing Reinsurance
- Microinsurance
- Profit Margins
- LAGIC.

**Presentations can follow one of the following three formats:**

- **Features sessions** will run for 40 minutes. Presentations in these sessions are expected to be accompanied by a peer reviewed paper, which should be a compelling and original treatment of its topic.
- **Spotlight sessions** will run for 20 minutes and are for individuals who wish to deliver a concise presentation on a relevant issue. These presentations may or may not be accompanied by a paper.
- **Poster sessions** will showcase A2 posters in the foyer during breaks and provide the opportunity to discuss the material with delegates. These brief overviews of relevant issues or recent research are intended to evoke discussion, and may or may not be accompanied by a paper.

Given the range of sessions, we encourage submissions from all interested individuals, whether newly minted members of the Institute or steely veterans of the industry. All peer reviewed papers are eligible, and will be considered for, the Taylor Fry Prize.

If you are interested in preparing a paper*, PowerPoint or poster on any of the above topics (or a different topic), please send your synopsis in the template provided together with a completed Submission Form to the Institute by **Friday 1 June.**

If you have any questions, please contact Rick Shaw, Angela Tong or Vivian Tse to discuss.

**Rick Shaw:**
(02) 9322 7471 – rickshaw@deloitte.com.au
**Angela Tong:**
(02) 8121 0868 – angela.tong@suncorp.com.au
**Vivian Tse:**
(02) 9248 4697 – vivian.tse@au.ey.com

*NOTE: The Institute's Enterprise Risk Management Seminar will be held at the Sofitel Sydney Wentworth on 14 November immediately following GIS2012.*

| Key Deadlines | Timeline 2012 |
|---|---|
| Lodgement of **Synopsis and Submission form** to the Institut | 01 Jun |
| Authors advised if **papers accepted** | 29 Jun |
| **Draft paper** to peer reviewers | 31 Aug |
| **Final paper** to the Institute | 12 Oct |
| **Final PowerPoint** presentation to the Institute | 19 Oct |
| **General Insurance Seminar** | 12-13 Nov |

* **Taylor Fry Prize** – Taylor Fry may award a Gold or Silver prize to an author of a peer reviewed paper considered by the Adjudication Panel to have effected a significant advance in the profession's understanding or knowledge of a specific subject or sphere of knowledge.

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