July 2010
Issue 151

Actuary Australia

Professionalism Course – Melbourne

Public Policy and the Institute

A Better Deal for Disabled Australians (NDIS)

Critical Illness – Experiences from New Zealand

As if life was not busy enough with full time work, two little boys and being Editor of *Actuary Australia*… I've embarked on something scary – I'm studying again! I've started a bit easier than some. I am doing the Health CPD Course whilst others have just completed (and hopefully passed) the first sitting of the ERM Part III course. I am assuming (or rather hoping) that my CPD course has a higher pass rate than a Part III subject.

I toyed with the idea of the ERM course, but I've seen someone else's notes and I am so glad it is not me. It has been so long and I have my life back now (if you consider dealing with two small boys having my life back). Plus, I probably shouldn't admit how much of my statistics and finance degree is now a distant memory. Can I do proofs with GARCH and ARCH and whatever other wonderful acronyms are out there? Maybe if I had a huge amount of study days, which I imagine would not be the case for those FIAAs sitting ERM.

If you are reading this and have taken the plunge for Semester 2 – good luck! On a related topic, I am keen to see the results of the *Actuarial Pulse Report* (pp8-10) given the number of things we are all juggling both inside and outside of work. Having taken the plunge into the consulting world in the last couple of years, I would be interested in whether the views from the survey regarding work / life balance differ much between consulting and corporate roles.

Also in this edition, Barry Rafe, the convenor of the Public Policy Council Committee, takes us through how the Institute decides what to comment on and what the view of the Institute is – something personally I was keen to understand (pp11-13). We also bring you an article on the Productivity Commission Inquiry into National Disability Care and Support which kicked off in April 2010. This is a huge project in which John Walsh (an actuary from PwC) is heavily involved (pp14-17). – *CRH* ▲

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Actuary Australia

Contributions
Contributions should be sent to The Institute of Actuaries of Australia, marked to the attention of **Katrina McFadyen** (Publications Manager). When sending contributions please supply text in Microsoft® Word format. Illustrations and photos should be supplied as JPEG, TIFF, EPS or PDF files at a resolution of 300dpi. (Note: GIF files are generally unacceptable because of low resolutions). Prior to supply of material, please confirm supply specifications, copy limits and relevant details with Katrina McFadyen. Email: **katrina.mcfadyen@actuaries.asn.au**

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What's New on the Web – July

Cost of Death and Disability Benefits in Superannuation Funds

A new Professional Standard 405 dealing with the cost of death and disability benefits in superannuation standards has been released. The standard commences on 1 July 2010 and replaces Guidance Note 450 (Cost of Death and Disability Benefits Certificates by Actuaries Under Sub section 279(3) of the Income Tax Assessment Act) which was last issued in April 1993. A copy of the Professional Standard and the Explanatory Memorandum are available at www.actuaries.asn.au

Actuarial Certification of Premium Rates under the NSW Motor Accidents Scheme

A new Professional Standard 310 dealing with actuarial certification of premium rates under the NSW Motor Accidents Scheme has been released. The standard takes effect for premium certifications on premiums to be written from 1 October 2010. The standard replaces Guidance Note 351 (Premium Rate Certification for the NSW Motor Accidents Scheme) which was last issued in February 2004. A copy of the Professional Standard and the Explanatory Memorandum are available at www.actuaries.asn.au

Economic Valuations : Exposure Draft of Practice Guideline released

An Exposure Draft of a new Practice Guideline on Economic Valuations (which would replace Guidance Note 552) has been released for comment. The closing date for comments is Friday, 16 July 2010. A copy of the Exposure Draft and Explanatory Memorandum are available at www.actuaries.asn.au

Deferred Tax Assets : Information Note released

An Information Note on Deferred Tax Assets has been released jointly by the Life Insurance and Wealth Management Practice Committee and the Superannuation and Employee Benefits Practice Committee. A copy of the Information Note is available at www.actuaries.asn.au

Request for input - Information Note on Profit & Loss Recognition of Asymmetric Risk Reserves for Participating Business

The Life Financial Reporting Sub-committee has commenced initial work on an Information Note setting out key issues and considerations regarding profit & loss recognition of asymmetric risk reserves for participating business. This work is intended to supplement the existing Information Note on Asymmetric Risks (April 2008) issued by the Life Insurance & Wealth Management Practice Committee. Feedback is being sought on current practice, interpretations and considerations prior to a first draft of the note being completed.

Details of the scope of the review are available at www.actuaries.asn.au

Feedback should be sent to jeroen.vankoert@axa.com.au

APRA releases enhancements to prudential framework for life companies

On 4th March the Australian Prudential Regulation Authority (APRA) released final prudential standards on enhancements to the prudential framework for life insurance companies. In particular, members should note:

- Life companies will need to have a written Board-approved policy regarding pricing advice. Policy modifications will also require actuarial advice, unless excluded as immaterial under the company's actuarial advice policy.
- The Appointed Actuary's (AA's) employer will need to retain the AA's working papers relating to the prudential standard for seven years and provide them to APRA when requested .
- Where an AA reports a contravention to APRA under s98 of the Life Insurance Act, they should not disclose this to the life company in some circumstances.
- APRA may request a life company to arrange a special purpose review and advise the company that an alternative standard to the Institute's must be used. Members are reminded of clause seven of the Institute's Code of Conduct.

The new standards became effective on 1 July 2010

Further information is available at **www.actuaries.asn.au**

Postcard from Cambridge

Town and gown

In September 2008, I left my actuarial job in Perth to start a PhD. Why? You may well ask. I did not foresee the Global Financial Crisis. Nor was I motivated by the thought of having ‘Dr’ before my name. I simply got an offer that was too good to turn down: a scholarship to study for three years at the University of Cambridge. Here is a description of life in Cambridge and my experience here so far.

Cambridge is a university town of about 100,000 people, one quarter of whom are students. As you enter the campus (which is also the centre of town) there is a lamp post on which the words ‘Reality Checkpoint’ have been etched. The ‘real world’ lies behind the checkpoint and past it are the Colleges, departments, research institutions, libraries, lecture theatres and administrative offices that make up the University of Cambridge. The University is 800 years old, so some of these buildings were built 600 years before Europeans had discovered Australia. The campus looks like a small market town, with more than its fair share of grand old English buildings, churches and five-storey libraries.

It takes a while to work out how study and research happen amongst this mass of stunning architecture. Even long-term residents of Cambridge are often confused about what exactly the University of Cambridge is, so let me try to describe this alternative reality. The University of Cambridge is an association of 31 independently run ‘Colleges’, 50 or so departments, and multiple institutes, research centres and other academic centres. Each of these organisations appears to be independent, operating in total disregard of all the others. Each of the Colleges enrols about 200 to 500 students (both undergraduates and postgraduates), and then sub-contracts to the departments to provide teaching for its students. In addition, undergraduate students normally receive a few hours of personal teaching each week from a senior academic within their College. Many of the senior academics (or Fellows) are also lecturers in the various departments and so they have two employers and two sets of responsibilities, one to their department and the other to their College.

As a postgraduate student, all of my research supervision and support is provided by my department, but my College still plays a large role in my life. One of the great benefits of the College system is that students and Fellows from all disciplines meet one another within the small communities of their Colleges, so that within Cambridge there is much better communication between specialists in different fields than is found elsewhere. For me, the best thing about Cambridge is the dynamic and diverse community of students; from every country on earth, studying everything from the *History and Philosophy of Science* to *International Relations*. You can learn so much just from talking to somebody over dinner or in the College common room. Perhaps other institutions could also use forced mingling in social settings as a model for interdisciplinary communication?

One of the oldest traditions in a College is that the Fellows and the students dine together regularly in ‘Hall’. Hall is a ritual. Students must wear their academic gowns and stand up as the Fellows enter Hall and go to the top table (the High Table). The Fellows stand facing the students while a Latin grace is read. Once the grace is over, students are served a three-course meal in the most beautiful surroundings. Most college dining halls are several hundred years old and some serve dinner by candlelight. Gowns cannot be removed until the Fellows have left the Hall! Prior to Cambridge, I had worn an academic gown only once, at my undergraduate graduation ceremony. Now I own one, and wear it frequently. At first all of this seemed very bizarre to me, much like a scene from Harry Potter, but the really strange thing is that now it almost seems normal!

Outside of the departments and College, there are a wide range of lectures, reading groups and student societies open to all students. The 'Cambridge' name is like a magnet, attracting academics, government officials, diplomats and senior business people alike. Every week a range of distinguished speakers give public lectures. Students are spoilt for choice when it comes to learning and entertainment here; which means that you need discipline, motivation and decent time management skills to complete your studies.

My work and studies

A PhD is a three to four year research project, which makes a significant and original contribution to knowledge. By its nature, work towards a PhD is important but not urgent. To get it done, you must set your own deadlines and create accountability for yourself, because nobody is going to chase you up for a summary of reading, or status update on your progress. I have found that presenting at workshops or conferences is a great way to create accountability and force my progress along. Audiences in Cambridge don't hold back, and for me, there is nothing like the fear of public humiliation to spur action.

My PhD project investigates the interactions between macroeconomic conditions, industry outlook, firm specific risk factors and corporate default risk. In modern globalised markets, firms are typically larger and more inter-connected than ever before. Linkages such as supplier-purchaser agreements, or credit contracts, mean that the default of one firm can have a "knock-on" effect on other firms, industries and markets. It is not well understood how default shocks propagate through the economy or how this process varies in different macroeconomic conditions. This is an area in which my actuarial skills are directly applicable, but at the same time I am extending my knowledge of macroeconomics, debt markets and non-financial markets.

I also work one day a week for the Cambridge Programme for Sustainability Leadership on a collaborative insurance initiative. My work involves investigating how insurance companies can reduce the environmental impact of the home insurance claims cycle; from policy design through to waste management, materials and repair techniques used in reinstatement following damage claims.

My studies and work have increased my awareness of how financial products and services influence the quality of life we lead in the short-term, and the way the economy develops in the long-term. By its size and influence alone, the financial sector can drive innovation and change in all areas of the economy. The insurance sector enables businesses and individuals to manage a range of risks, from longevity risk and retirement incomes through to longer-term threats such as climate change. Financial companies are already contributing to solutions on climate change by modifying their business strategies, working with policy makers, and sharing their information and understanding of climate change risk.

Academia is often criticised for being disconnected from the practical concerns of everyday life. I would argue that this is an unfair generalisation. Businesses can also cease to provide goods or services that improve our everyday lives and academic research can provide innovative ways of approaching this problem. Both my actuarial training and my time at Cambridge have opened my eyes to the vast potential of financial products and services to make a difference to people's everyday lives, and I am looking forward to crossing back over the "Reality Checkpoint" next year equipped with a new perspective. ▲

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Singapore

One of the pleasant parts of the job of President is visiting members and I have been fortunate to have recently completed another round of trips.

Starting in Perth I visited Curtin University and spoke to students about the recent changes to the Institute's education program, their job prospects and the new ERM/CERA designation. I also spoke with members of the Curtin University Students' Actuarial Society (SAS), who had recently organised a successful river cruise for members, using their actuarial skills to turn a potential deficit into a profit.

Bozenna with members of the Curtin University Students' Actuarial Society and lecturers

Perth is full of ongoing construction – with opportunities for actuaries to expand into new areas. After speaking with a group of about 25 members, we continued down to the waterfront for a pleasant dinner.

The next stop was Singapore, where I met with Executives from the Central Provident Fund (CPF), which provides a social security savings plan for Singaporeans. From 2013 it will be compulsory for those over 55 to take some of their retirement savings as a non-guaranteed lifetime annuity. The annuity payments could be reduced if necessary, so that the value of liabilities always equal the assets. The focus of the CPF is sustainability – as it does not want to experience some of the recent issues of other government retirement schemes.

The Government has issued the CPF with exclusive special bonds, paying a dividend of 4%, which is being used to back the value of liabilities. This investment compares very favourably with alternatives available in the market. As an indication, bank account deposits typically only earn 0.3% interest. The compulsory annuities are available with an associated low, medium or a high level of bequest available to beneficiaries on death, and with a high, medium or low level of benefits.

As an example, the CPF annuities typically pay $1,000 per month (non-guaranteed) for an initial lump sum of $100,000, compared with $600 per month (guaranteed) from other (private) providers in the market. It is interesting to compare this to Australia, and what might happen if this initiative was introduced here. It will also be interesting to see the reaction of the population, if their annuities do decrease at some time. The intention is for the portfolio to be managed such that any decrease would be small, if possible.

I also spoke to members of the Singapore Actuarial Society about the recent developments in the Australian market and ERM. Both ERM and the new CERA designation were areas of intense interest. We are currently investigating whether we can offer our two-day ERM course in Singapore during first Semester 2011.

Singapore Members' dinner: Brian Ang, Bozenna Hinton, Jill Hoffman and Andrew Linfoot;

Hong Kong was the final stop on this tour. While there I addressed the Actuarial Society of Hong Kong (ASHK) and also had the opportunity to meet with some of the local actuaries at a dinner function. Again there was strong interest in ERM and the new CERA credential.

Actuarial Society of Hong Kong dinner

The ASHK has over 700 members and the Singapore Actuarial Society has over 480 members. Both Societies are thriving and focused on meeting the needs of all their members from around the globe. Travelling in Asia on these visits serves to highlight the challenges including distance, that Australia faces if it is to ever realistically compete as a regional hub. ▲

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Alan Merten

Title…
Vice President, Employee Benefits and CEO, Manulife Provident Funds Trust Company (but in the process of moving to Jakarta to become CEO for Manulife Indonesia)

Organisation...
Manulife Financial (Hong Kong) – Canadian, very large, listed life insurance company

My favourite energetic pursuit...
Downhill skiing

My favourite meal...
Dim Sum

The sport I most like to watch...
Whatever my kids are doing - karate, swimming,…

The last book I read (and when)...
Just finished reading (slowly) *The Black Swan* by Nassim Nicholas Taleb. Challenging my actuarial beliefs in the value of projecting outcomes and making decisions from doing this

My favourite CD...
Whatever is the latest *Triple J Hottest 100*

My favourite film...
The Big Chill (guess my age…)

My interesting / quirky hobbies...
Playing harmonica, testing my Cantonese with my staff, electronic gadgets (e.g. an iPad - Will I / Won't I / Will I / Won't I?)

My ideal weekend day...
An early bike ride with a mate (but not in Hong Kong). Then a slow, late breakfast out with family and friends. Some reading by the pool and playing with the kids in the pool, Some procrastination of helping kids with homework. BBQ at home with a bunch of friends chatting and solving the world's problems till late

If stranded on a desert island I'd take...
Electronic gadgets and a solar charger

The person I'd most like to meet...
Douglas Adams (now deceased but somewhere Hitchhiking around the Universe, probably)

What gets my goat…
Glass-half-full people

What I wanted to be when I grew up...
Grown up – never really thought ahead very far

Why I decided to become an actuary...
I mistakenly thought that it was only three years of scholarship-paid study compared with five years of a Computer Science-Law degree

Where I studied to become an actuary...
Macquarie University

Qualifications obtained...
BEc, and then went back to the Macquarie Graduate School of Management for an MBA some 10 years later

My work history...
Started in a life company's actuarial department then moved into a life company's Corporate Superannuation Department. Transferred to Switzerland to spend my time on planes flying back to Asia to do feasibility studies for starting life companies and then transferred to Indonesia to help start one. Came back to Australia, joined Trowbridge Consulting and spent seven years on lots of interesting projects and building the Asian Financial Services practice. Joined NRMA Financial Services in a Strategy, Business Planning and Appointed Actuary role and led the build and establishment of and ultimately ran ClearView Retirement Solutions. Returned to Asia and joined Manulife in Hong Kong to run the Provident Fund and Group Insurance business (approximately 800,000 customers and US$8 billion of funds under management)

What's most interesting about my role...
The diversity – one hour I'm debating policy with the regulator, the next I'm dressed up as a 'God of Fortune' handing red packets to my 250 staff for Chinese New Year at a function to lift staff engagement

My role's greatest challenges...
Deciding what **not** to do – putting priority on the right things is the most important decision

Who has been the biggest influence on my career (and why)...
I pick up lots from different people but… **Peter Eckert** asked me to move to Switzerland, this led me to experience an international career and showed me a whole range of different type of work that actuaries can do and happily brought forward my wedding. **Barry Rafe** brought a different dimension to my work, in thinking about people and emotions, not just the rational. Greatly improved my strategic thinking and applying judgement based on strong financial evidence and facts when you can get them; but not waiting for them if they're not available

My most important decision…
(A joint one) getting married and moving to Switzerland

My biggest regret…
I don't believe in them – you can learn from everything

I'm most passionate about…
Showing empathy

I'd like to be brave enough to…
Exit the safety of the corporate world and start my own business exploring and developing businesses around my own ideas

My proudest moment…
Two equal moments – birth of my kids

The Olympic sport I'd like to be in…
Debating (does that count? – it should)

If I were a car, I would be an…
Alfa Romeo – much more fun than just getting from A to B but a bit quirky too

In my life I'm planning to change…
Frequently…

The age I would like to stay…
Doesn't matter to me

At least once in their life, every actuary should…
Talk to external real-life customers about their experiences

My best advice for my children…
Seek to understand before you seek to be understood

Four words that sum me up…
Empathetic, optimistic, synthesizer, principled ▲

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The Actuarial Pulse

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.

Next Survey A new set of questions will be available in August 2010.

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 11 June 2010, 442 responses to the survey.

Work / life balance is a topic that has gained much attention in the media in recent years. A 2009 report issued by The Australia Institute found that "Australians work the longest hours in the western world" and that "full-time employees in Australia work an average of 44 hours a week, much more than the 'standard' working week of 38 hours". (Source: Fear, J. and Denniss, R. (2009). *Something for Nothing: Unpaid Overtime in Australia*. The Australia Institute, Policy Brief No. 7). Working hours, however, do vary by industry. The purpose of this month's *Pulse* survey is to determine how the working conditions experienced by actuaries compare with those of the 'average' Australian.

Q.1 What is your current employment status?

Choice	Count	%
Full-time	364	82.7%
Part-time / casual	49	11.1%
Not working	27	6.1%

Q.2 Which of the following best describes your employer?

Choice	Count	%
Private sector company	215	49.2%
Consultancy	113	25.9%
Public sector organization	49	11.2%
University or other educational institution	12	2.7%
Self-employed	17	3.9%
I am currently not employed	22	5.0%
Other	9	2.1%

Question 3: How many years total experience do you have in your current and related employment?

Choice	Count	%
0 – 2 years	56	12.7%
2 – 5 years	95	21.6%
5 – 10 years	98	22.3%
10 – 20 years	94	21.4%
20+ years	86	19.5%
N/A	11	2.5%

The purpose of the first three questions is to create a demographic profile of the respondents to this survey. The majority of respondents are full-time employees who work for either a private sector company or a consultancy. All levels of experience are represented. This survey, therefore, appears to have been answered by a fairly representative cross-section of the actuarial community.

Q.4 Are your working hours specified in your contract of employment or some other document?

Yes: 62.0%	No: 38.0%

Q.5 On average, how many hours do you actually work per week?

	Ave working hrs specified in contract		Ave working hrs actually worked	
	Full-time	Part Time	Full-time	Part Time
All Employees	37.42	25.33	45.12	25.65
Averages by employer category				
Private Sector Co.	37.41	23.70	46.00	25.44
Consultancy	37.61	24.63	44.23	28.00
Public Sector Org.	37.88	33.33	43.27	35.33
Educational institution	35.75	16.00	49.17	11.33
Self-employed	-	-	44.75	26.43
Averages by years of relevant experience				
0 – 2 years	37.44	27.40	42.40	26.38
2 – 5 years	38.34	18.50	44.74	20.33
5 – 10 years	37.65	34.00	43.81	36.33
10 – 20 years	37.30	24.38	46.50	30.33
20+ years	35.88	22.83	47.95	20.24

Among those respondents whose contracts did specify a required number of working hours, the average number of working hours specified was 37.42 hours per week for full-time employees (consistent with a 'standard' 38 hour working week) and 25.33 hours per week for part-time employees. By contrast, the actual average number of hours worked was 45.12 hours per week for full-time employees and 25.65 hours per week for part-time employees, indicating that actuaries work a sizeable amount of overtime each week on average, although not that much more than the average Australian. When considered by employer category or by the number of years of relevant experience, there is little difference between the contractually specified hours of a full-time consultant, corporate or public sector actuary, or of an early career actuary as compared to a mid-career actuary, but academic actuaries tend to be required to work fewer hours each week, as do actuaries with the most experience. Nevertheless, it is full-time academic actuaries and more experienced actuaries who actually work the longest hours, followed by corporate actuaries, consultants and public sector actuaries. This seems to dispel the myth that working in a university is a far less taxing job than working in private industry.

Q.6 How does your employer compensate you for any overtime that you work?

Choice	Count	%
No compensation for any overtime I work	273	68.3%
Time in lieu / flexi-time	60	15.0%
Extra income as periodic bonus payment	39	9.8%
Extra income at a set hourly rate	7	1.8%
Other	33	8.0%

As is the norm among white-collar employees, most respondents are not compensated for any overtime that they work. Of those respondents who are compensated for the extra hours that they put in, the most common form of compensation is time in lieu, followed by extra income as part of a periodic bonus. Other methods of compensation listed by respondents include additional flexibility in working hours or the opportunity to work from home; more favourable performance reviews (which can increase the chance of getting a higher bonus); and some time in lieu but not on a '1 for 1 offset' basis.

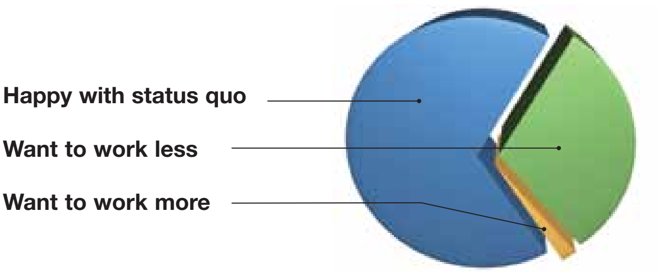
Q.7 Why do you work overtime?

Choice	Count	%
Overtime is necessary in order to complete my allocated workload	304	77.4%
I enjoy doing my job	103	26.2%
To impress my employer	49	12.5%
Pressure from my employer	44	11.2%
Financial gain through overtime payments	17	4.3%
Other	44	11.2%

The main reason cited by respondents for working overtime is simply the need to get the job done. As one respondent commented, ● "some things just need doing – and who else is going to do it?" The second most common response listed was enjoyment of the job, which suggests that, even though respondents are putting in extra hours at work, most are not suffering while working them. Other reasons for working overtime specified by respondents include 'workplace culture'; having to accommodate multiple time zones; and that working extra hours allows you to work at a more relaxed pace or to do a better job. One respondent, however, stated ● "I don't need to work overtime (as) I complete my work program efficiently", and another stated ● "I don't work overtime (as my) young family is too important", suggesting that it may not always be necessary to work overtime in order to get by in the actuarial world.

Q.8 Are you happy with the number of hours you work each week?

Choice	Count	%
Yes	277	67.6%
No, I would like to work fewer hours	125	30.4%
No, I would like to work more hours	8	2.0%



Reassuringly, most of the respondents to this question claim to be happy with the number of hours they work each week. Nevertheless, almost one third of respondents would like to work fewer hours. Not surprisingly, those in the latter category tend to be those who work longer hours to begin with. Full-time employees who said they would like to work fewer hours work 49.10 hours per week on average, whereas those who said they are happy with their working hours only work an average of 43.79 hours. Based on the comments made in response to this question, it appears that it is not so much consistently working a few extra hours each week that bothers many respondents, but the need to work extremely long hours during peak times of the year. As one respondent commented ● "I would like less variability in (my) hours – the overall level averaged over a year is probably ok but the peaks and troughs are correspondingly draining and boring." At the same time, another respondent stated ● "I have been unemployed since I finished uni last year. I am trying to find work but there aren't enough entry-level positions available."

Perhaps a possible solution to the overwork problems experienced by actuaries during peak periods could be for employers to hire additional temporary employees, such as the above recent graduate or retirees, during these times. This would help to ease the workload for the regular employees and provide a foot in the door (or a link to the workplace) for the temps. This is something that employers wishing to improve employee work-life balance should definitely consider. ▲

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Professionalism Course participants

Professionalism Course

JUNE 2010

A little 'a' Actuary (or is that 'actuary'?...... or 'designated actuary'?). It all sounds a bit confusing, but at the end of the two day professionalism course, I couldn't be more proud to be associated with a group of specialists who are renowned for its skill, integrity and well.....professionalism.

It was with great anticipation that I made the arduous 15 or so kilometre journey to the centre of Melbourne to undertake the Institute Professionalism Course, the first to be held in Melbourne. (Those who have completed this journey in peak hour will agree this statement contains no element of hyperbole!)

Our facilitator Martin Mulcare, immediately noted the distinct difference between this group and previous groups doing the Professionalism Course. Whereas prior course groups included a mixture of those seeking the actuary 'designation' on the way through their studies, or those who were completing the 'fellowship' (i.e. the traditional route), this course, being in Melbourne, brought together both those on the fellowship track but also a significant group who had not worked in traditional actuarial areas for a number of years.

Many of the people who attended have forged successful careers using their actuarial training as a base. I'm sure those who joined me at the course would agree there was a little more 'grey hair' in the room than usual. Indeed, when I looked around the room, there were a number of old friends and colleagues who had once worked in traditional areas within the Melbourne actuarial community.

We commenced with a thought provoking discussion on ethical frameworks with Chris White, himself an expert on the topic. It was fascinating to discuss the various methods of moral reasoning (and indeed, how each of these can lead to decisions in stark contrast with one another). It was equally intriguing to note how each of the candidates at the course aligned themselves with one form of reasoning over another, and "how far they would go" in several case studies designed to tempt. The conclusion from this session was that we are undeniably an 'ethical' group!

Chris made way for the Senior Vice-President of the Institute, Barry Rafe, who discussed our professional obligations as actuaries, general risk management and the Institute's Disciplinary Scheme. The well publicised HIH Royal Commission was used as an example of how actuarial controls can break down, with subsequent penalties well communicated by the Institute. I think our professional obligations were best summed in four words by Barry, "Don't be a _______" (the writer of this article will let the reader fill in the blank)!

The next session was aimed at informing us of our CPD responsibilities (40 hours per year). This was particularly relevant for a group that doesn't necessarily work in traditional actuarial fields. Our learning was tested by a 'bingo style quiz', 'the results of which worried me

slightly (given our numeric skills are valued as actuaries), as groups were shouting "bingo" despite the fact it was not yet numerically possible to achieve this.

David Goodsall's session on the Professional Code of Conduct rounded out the first day, and again, was a great reminder to ensure that not only should we meet our professional obligations with integrity, but that we should comply with the Code as actuaries no matter what professional service we are providing at the time (even owning a gym as it turns out – ah yes, I've fallen victim to the writer's curse of including an 'in joke'). Some provocative and challenging case studies were again used to demonstrate the point, from managing work and personal relationships to the complexity of accepting work outside your area of expertise.

The next morning we turned up feeling bright and perky (well, that's the official line), thanks to the fine dinner, drinks and entertainment provided by the RACV Club – the highlight of which was an improv act who tackled tasks as diverse as a Shakespearian take on photocopying to a complete performance of *Snow White* in three seconds!

CEO Melinda Howes, provided a revealing insight into the services the Institute provides for us, as well as the snapshot of the global actuarial profession, reiterating the advantages of a global designation. In particular, Melinda seemed genuinely excited that the profile of the current group was representative of how the actuarial profession has spread its wings outside of non-traditional areas, and encouraged all of us to shout "I AM AN ACTUARY!" when we woke up the next morning.

Kent Griffin's 'war story' regarding the AXA Prosperity bonds issue painted an all too powerful image of the delights of cross-examination in the witness box, as well as the value of reading the fine print.

Presentation guru Tony Bulmer completed the second day of the course with his 'Presenting with Focus' session, which reinforced the key message of presenting naturally to engage audiences.

A big thanks to all those who contributed to an enjoyable experience over the two days, including Martin, Carmen, Shreya and all those who spoke and inspired us (and another personal thanks to the chefs at the RACV club for those magnificent cakes and desserts)!

Now I can say it loud and clear, **"I AM AN ACTUARY"**[1] ▲

Andrew MacKessack
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[1] Author's Note: I do not own or operate a gym.

Institute of Actuaries of Australia

Congratulations to our New Actuaries June 2010

Farheena Ahmad
Nicole Appleton
Rose-Maree Bacon
Hazel Diana Barnett
Sean Andrew Brereton
Kathryn Joan Cannon
David King Him Chan
Stephen Kim Yin Cheng
Woo Hyun Cho
Derek Clark
Steven Claxton
Sheridan Daniels
Farrel Datt
Tony Dillon
Ian Brian Donaldson
Joanna Duan
Antony Brockwell Edwards
Rachael S J Foo
Grace Shuk Yun Fung
Michael Neil Gomersall
Malcolm Gillespie
Sophie Jane Haley
Andrew Keith Harrex
Jeremy George Holmes
Sara Ivory
Adam Jarrod Jupp
Alex Kaufman
Andrew Killen
Matthew David Kippen
Mark Vaclav Kral
Karen Min Ging Lau
Mei Yang Mary Liao
Wen Liu
Fiona Loveland
Andrew MacKessack
Virginia Rachel Maruff
Stuart Ian McGregor
Peter McNally
Gwyneth Ruth Missen
Dominic Mittiga
Kerrie Noonan
Shengshen Nie
Aya Ozawa
Rod Peel
Natalie Therese Pocock
Susana (Wing Sze) Pui
Philip Rappoccio
Andrew Scholes
Nicholas John Scott
Julie Sims
Wynne Hsiau Yin Tan
Anne Taylor
Mark Tomlins
Sonia Maree Tripolitano
Ben Wang
Michael Conor Williams
Hsin-Yun WU
Keun Yeung
Sharon Yiu
Angela Guanghui Wei

New Appointment

The Institute of Actuaries of Australia is pleased to announce the appointment of **Kelvin Russell** as Senior IT Manager.

In this newly created position Kelvin will provide strategic input into all aspects of IT at the Institute, including the website and educational facilities. He will work closely with the current IT staff members, Julian Buckell and Laura Guo, and will also have a 'hands-on' role in supporting the IT systems.

Kelvin completed a Bachelor of Rural Science (Hons) degree at the University of New England before taking up a position with NSW Agriculture in 1990. He has subsequently completed a Graduate Diploma in Industrial Mathematics and a Graduate Certificate in Database Design and Administration, both from Charles Sturt University. He has worked on a variety of sites, most recently working for six years with Cardlink Pty Limited.

Kelvin brings to the role extensive experience in IT, both in small offices and in large enterprises. He commented "it is clear that there is enormous scope to leverage the IT systems currently in place to better communicate with, and provide better support to, the members of the Institute." ▲

Public Policy and the Institute

This article was inspired by a recent letter to the Editor regarding our submission to the Review into the Operation and Efficiency of Australia's Superannuation System Phase Three (*Actuary Australia*, May 2010).

The letter asked how the Institute decides which issues it makes public comment on, and also how we consult with our members in determining our public policy positions.

I am chair of the Institute's Public Policy Council Committee (PPCC) and we thought it is timely to set out the role of this Committee and hence the approach we are taking to the Institute's public presence.

The PPCC is a new committee and our brief is to develop and recommend to Council the public policy approach and focus for the Institute. This includes making sure submissions and external communications are consistent with the Institute's public policy approach.

As you may be aware the Institute's vision is to:

*"**position the profession** so that wherever there is uncertainty of future financial outcomes, **actuaries are sought after** for their valued **advice** and authoritative **comment**".*

I have highlighted key words relevant to our public policy position. The Mission of the Institute specifically envisages engagement in public policy, in particular:

*"to **represent** the profession in Australia, and **develop and promote the actuarial profession's value**, including **contributing to and informing debate on public policy** and business issues."*

The PPCC have decided that to achieve our Mission we need to take a high profile in the press and with Government and to be on the front foot and constructive on those issues where we believe that we can make an important contribution. Clearly we are only a small profession, so to make sure that we manage our scarce resources effectively we, i.e. Council of the Institute, have a number of policy principles which are used to decide if an issue should be actively pursued. I have summarised these below.

1. The Public Benefit

As a professional body, the Institute holds the 'public interest' or 'common good' as a key driving principle in developing policy. The public benefit may include:

- the best interests of the Australian community as a whole, sometimes referred to the 'common good'; and / or
- the best interests of an important part of the community such as a particular group of consumers.

2. Risk-focused

In developing solutions to public policy problems, actuaries take an evidence-based approach that focuses on risks.

> "The financial soundness of life insurance companies, general insurance companies, friendly societies, health funds and many superannuation funds rely on actuarial expertise. Success is evident in this over a very long time."

Risk management has always been at the heart of actuarial work and we are experts at the quantification of risk and at long term financial risk management. The financial soundness of life insurance companies, general insurance companies, friendly societies, health funds and many superannuation funds rely on this expertise. Success is evident in this over a very long time.

In more recent times, the profession has embraced the concept of ERM and is broadening its skill set accordingly.

This principle incorporates a range of sector-specific principles, for example, in insurance, the 'right to underwrite'.

3. Transparency and disclosure

As a profession, actuaries are held to account for the policy positions we take. We therefore need to be transparent and disciplined in our approach and analysis. This requires use of data sufficient to underpin our positions.

We also need to be able to clearly communicate the results of our analysis and our interpretation of this and how it has been used to develop our policy positions.

Where time allows, we need to give the broader Institute membership the opportunity to comment on and be involved in the development of policy positions. This will be done primarily via email newsletters and the website.

4. Equity and the 'equal playing field'

For individuals – this Policy Principle means that individuals are given equal and fair treatment, without unlawful discrimination.

For commercial enterprises – this Policy Principle means that all entities are allowed to compete on an equal playing field. This should translate into avoidance (where consistent with the other Policy Principles) of policies that inhibit competition such as unnecessary barriers to entry and unequal treatment across sectors or across different legal structures.

5. 'Good' regulation

Excessive or unnecessary regulation can obstruct an efficient market from functioning and can ultimately undermine the 'public interest'. Some key elements of 'good' regulation include:

- Proportionality between the regulatory solution and the problem that it intends to solve. For example, consideration of the cost and administrative burden of new regulatory measures.
- Appropriate regulatory tools, for example:
  - effective regulatory measures that actually target the desired issue; and
  - using self-regulation where possible while acknowledging that prescription can sometimes be appropriate.

In practice, where significant issues emerge the PPCC will develop a position for approval by Council. We have appointed a specialist policy consultant that facilitates development of policy positions and a media firm that develops our media and promotional strategy.

Submissions are generally developed by the various practice committees. There is an agreed approval process driven by the CEO. Most major policy statements are publicised by the President on behalf of the Institute. For significant submissions we organise a series of press releases and media interviews. We often also present in person to the relevant politician, government department or regulatory body. We have on occasion participated in joint submissions for example with IFSA, ASFA or other organisations where there are areas of common ground. More often we make our own submissions reflecting our unique perspectives and objectives as a profession. It would also be fair to say that we have significant 'behind the scenes' influence with the various government departments and regulators.

We have already taken some strong policy positions and I have set out below our position on some current issues. We are developing a policy manual which will set out more detail behind our positions. We hope to make this available to members on the website in July.

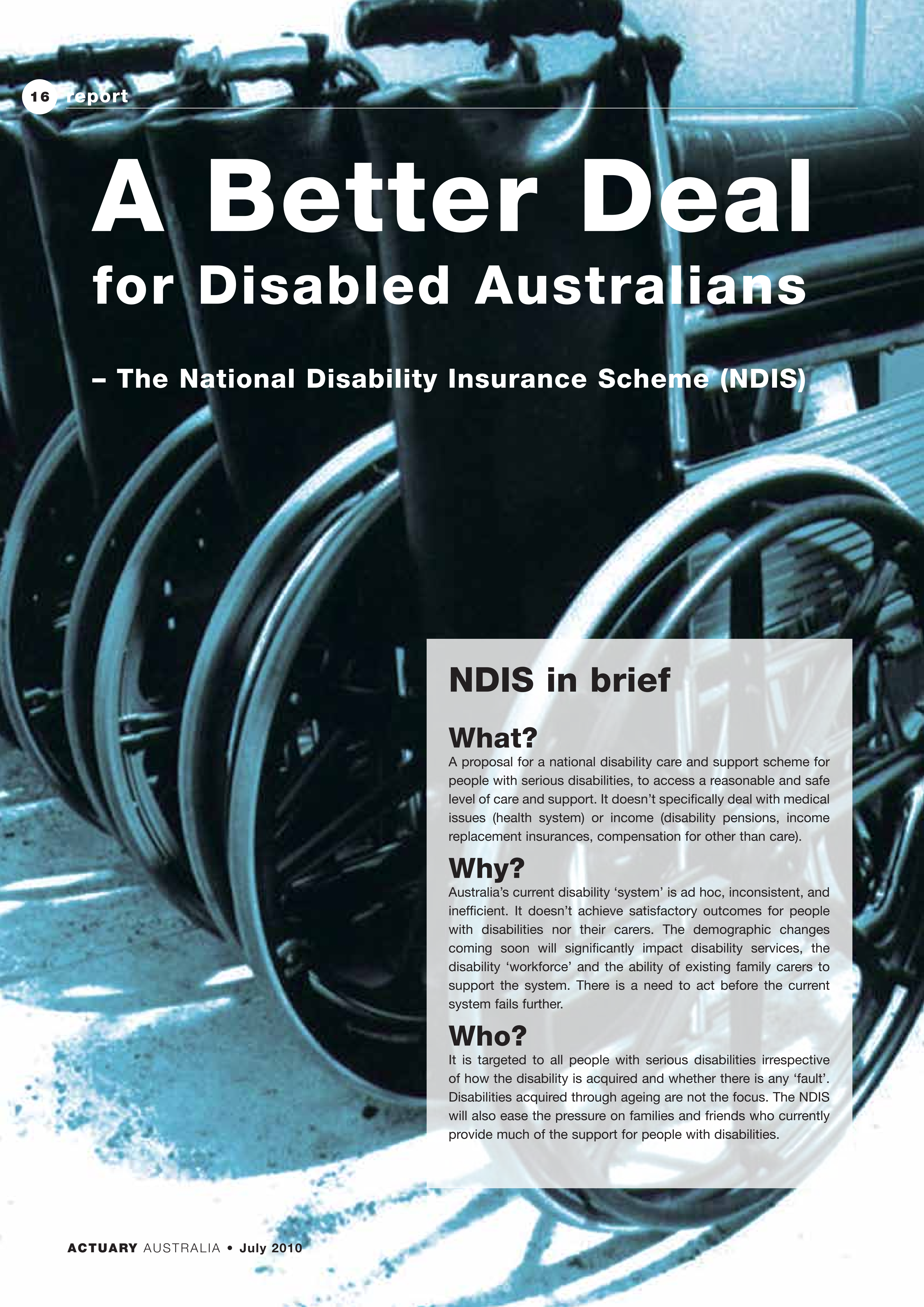
Please email me if you have any queries or observations about our approach. ▲

Barry Rafe
brafe@bigpond.net.au

The following are members of the PPCC:
Barry Rafe (Convenor)
Anthony Carey
Peter Eben
Jefferson Gibbs
Melinda Howes
Rebecca Johnstone
John Newman
Rob Paton
Gloria Yu

Proposed Key Policy Positions

Title	Policy	Public benefit	Strategic opportunities	Practice area/s	Actions
Securing adequate retirement incomes for an ageing Australia 1	Regulatory change needed to address longevity risks: priorities are annuities and deferred Age Pension; earned income exemption from means test. Single point of contact for product development	Better prospects of public having adequate retirement incomes for duration of life. Encourages workforce participation - reduces economic impact of ageing population	High-profile policy area – general profile-boosting opportunities in actuarial core competency area	Superannuation and Life Insurance	Engage Government on Cooper and implementation of Henry Push for reforms to address longevity issues
Ensuring adequate health care financing for an ageing Australia 2	Health financing system reforms to address longevity risks which address long-term outlook, balance public/private, are sustainable, promote efficient and equitable delivery of health care and promote individual responsibility	Enhanced framework for health financing improves chances of public receiving health care at levels they expect over the longer term	Re-positions actuaries as adding value in health financing – beyond private health insurance	Health insurance, Health Financing, and General Insurance	Further policy devlopment, engagement on COAG agreement on National Health and Hospitals Reform, PHIAC, National Disability Insurance Review
Assisting financial services enterprises to better manage risk 3	All APRA regulated entities and super funds should have Financial Condition Reports (or equivalent). (Aspirational) policy that actuaries should be on boards of APRA regulated entities and super funds	Super members benefit from better risk management – Public and shareholders benefit from stability of financial services enterprises	Positions actuaries within superannuation trustees. Promotes actuaries as providing practical, reliable solutions to enterprise risk	Enterprise Risk Management, Banking and Finance, Super, Life Insurance, and General Insurance	Advocacy post Government response to Cooper Review
Helping to mitigate and manage risks associated with energy and the environment 4	Energy and the environment policy should carefully balance certainty and flexibility, take account of risks to financial services sector, and incorporate a review of natural disaster funding	Better design of risk management and mitigation. Better arrangements for relieving consumer hardship after natural disasters	Positions actuaries as valued advisors on significant intergenerational problem	General Insurance, and Enterprise Risk Management	Engagement with Government on energy issues and climate change, Royal Commission into bushfires



A Better Deal for Disabled Australians

– The National Disability Insurance Scheme (NDIS)

NDIS in brief

What?

A proposal for a national disability care and support scheme for people with serious disabilities, to access a reasonable and safe level of care and support. It doesn't specifically deal with medical issues (health system) or income (disability pensions, income replacement insurances, compensation for other than care).

Why?

Australia's current disability 'system' is ad hoc, inconsistent, and inefficient. It doesn't achieve satisfactory outcomes for people with disabilities nor their carers. The demographic changes coming soon will significantly impact disability services, the disability 'workforce' and the ability of existing family carers to support the system. There is a need to act before the current system fails further.

Who?

It is targeted to all people with serious disabilities irrespective of how the disability is acquired and whether there is any 'fault'. Disabilities acquired through ageing are not the focus. The NDIS will also ease the pressure on families and friends who currently provide much of the support for people with disabilities.

Introduction

In November 2009, Bill Shorten MP and Parliamentary Secretary for Disabilities and Children's Services, gave the keynote address at the Institute's Accident Compensation Seminar in Melbourne, speaking on the Federal Government's direction for disability services.

Shortly after the address, the then Prime Minister Kevin Rudd, announced (as part of the Federal Government's 10 year National Disability Strategy) a Productivity Commission inquiry to investigate new approaches for the funding and delivery of **long-term care and support** for people with severe disabilities.

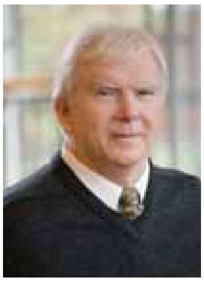
The Inquiry was formally launched in April 2010 and will examine a range of options for long-term care and support, including consideration of whether a no-fault, social insurance approach to disability is appropriate in Australia.

John Walsh and **Sarah Johnson** from PricewaterhouseCoopers provided a brief background to the prior work and investigations undertaken to arrive at the point of the Inquiry.

2003-2005	The **Insurance Issues Working Group**, reporting to Treasury and Finance Ministers, investigated the feasibility of a no-fault insurance model for the long term care of people who sustained major injuries.
Oct 2006	Establishment of the **NSW Lifetime Care and Support Scheme (LTCS)** for motor vehicle injuries, along the lines of the International Industry Working Group (IIWG) findings.
2007-2008	There was a push to extend this type of scheme to all serious disabilities, and it became a priority issue from the **Australia 2020 Summit**.
April 2008	Bill Shorten established the **Disability Investment Group (DIG)** with the mandate to explore funding ideas from the private sector that could help people with disability and their carers access greater support and security for the future.
During 2009	At the same time, again, after receiving an enormous amount of feedback, the National People with Disabilities and Carer Council released their report *SHUT OUT – The Experiences of People with Disabilities and their Families in Australia*.
Sept 2009	DIG produced a report *The Way Forward - A New Disability Policy Framework for Australia* and presented it to the Federal Government. The report uses considerable financial analysis and costings from the report entitled **National Disability Insurance Scheme** prepared by John Walsh and Sarah Johnson.
Dec 2009	Prime Minister announces formal **Productivity Commission Inquiry**.
April 2010	Productivity Commission Inquiry commences.
May 2010	Productivity Commission Inquiry publishes *Issues Paper.*
16 Aug 2010	Extension to final date for submissions to the Inquiry.

With the April launch of the Productivity Commission Inquiry into a National Disability Care and Support (NDIS) scheme, we thought it would be timely to speak to some inside players, to gauge the current views as the inquiry is taking submissions. We spoke to **John Walsh**, Actuary and Associate Commissioner to the Inquiry and **Paul Barach**, Professor and Clinician who is working with the Motor Accidents Authority and the Long Term Care Authority to develop a NSW Trauma Collaborative.

What was the impetus to establishing the DIG?



John Walsh (JW): DIG was initiated because there was recognition that disability services in Australia are poorly funded and poorly delivered and that they don't provide good outcomes for people with a disability or their carers. Much reform work had been completed since 2000 for the Insurance Minister's Council following the failure or difficulty of liability insurers (eg HIH and UMP). The NSW LTCS Scheme was established, so there was a real momentum for the disability system to be redesigned and overhauled. Upon the change of Government in 2007, Bill Shorten was very keen to extend the NSW scheme to all injury around Australia, which then further evolved to include all disabilities.

Many actuaries are linked in some way to the state-based accident compensation schemes. How do you see an NDIS interacting or overlapping with the state based schemes, in particular, the large claims under such schemes?

JW: That's a complex and currently unresolved question. The state based schemes are currently in various forms so any future interaction will be dependent to an extent on a scheme's current form, whether no-fault or fault-based. Of particular interest to a NDIS would be the extent and manner in which the schemes provide care and support to those accident participants most in need. In some jurisdictions, so-called 'catastrophic injuries' are compensated by lump sum, in others by ongoing support, and in others not at all. Following the IIWG work, the NSW motor accident scheme removed the care and support for these people from the existing scheme and now funds them on a no-fault basis, paying for the care component on an ongoing, rather than lump sum basis. Any structural change, of course, should have a goal to get a better outcome for people with disabilities and their carers.

To put it into context, injuries, and more particularly the subset of 'major compensable injuries', are a relatively small component of the 'severe disability' group under discussion. And another important distinction to note is that the NDIS model as described in the DIG report was focused on care and support, not income replacement or medical costs which fall outside of the scheme proposed by DIG but are included in our accident compensation systems.

There are many 'actuarial issues' associated with the design of any insurance system – eligibility, definitions of disability, benefit levels, etc. What are your views on what the eligibility and definition of disability would be under a no-fault social insurance type scheme?

JW: This is difficult, again, the definition of disability, and especially 'severe and profound disability' is an item on which the Inquiry is seeking views. In this context, there are two assessment tasks – one is to assess whether someone is eligible for any scheme, and the other is to assess the level of entitlement to benefits from the scheme. Broadly, the Inquiry is seeking views on how these would work – would eligibility be based on a **functional need** for care or support, rather than or as well as on a disability label or classification, or the capacity for work? Also, to what extent might financial viability necessitate cut-offs or graduation of entitlements, and should the assessments lead to a 'once-and-for-all measure' as is the case under lump sum designs, or a more long term set of measures? There is a lot of work being done in Australia and internationally on assessment tools for disability.

What about benefit levels?

JW: Again, this is an aspect that the Inquiry will be taking advice on. One would expect that benefits or 'entitlements' will need to be based on some notion of 'support needs and reasonable costs'. As a general comment, the NDIS as proposed by DIG was looking to enhance the current funding system and redesign the delivery system so that it provides better support for people with a disability and their carers.

Some Life / Disability actuaries might be interested as to the effects on, and / or interactions with, disability insurances. Do you have any views on the potential for people to reduce their voluntary coverage if they view the NDIS as a safety-net?

JW: Disability insurances are primarily aimed at income replacement or medical expenses; the system we are discussing has not been about income, but rather the provision of care and support services. If disability insurers expect lapses in cover, then it might be a case of educating policyholders about what their insurance covers. I think that the current income-replacement disability insurances can go hand in hand with a NDIS-type scheme.

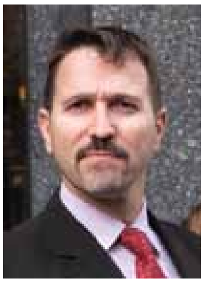
We've talked about the people with disabilities, but what about the carers? They are also a major target of the NDIS.

Sarah Johnson and JW: Yes, as actuaries we should be familiar with the demographics of our ageing population. Our country's 'caring workforce' is ageing and our society will no longer be able to rely to the same extent on the informal and unpaid care provided by families, friends and work colleagues. A change will need to happen whether or not there is an NDIS, but implementing a formal, well-thought out scheme with proper protocols and governance will be a critical requirement.

Informal disability care (ie support from family, friends and work colleagues) is very leveraged, so a small drop off in informal care leads to a much larger increase in the need for formal (paid) services, because informal carers often perform more than one 'service' and do so more continuously. To give you some numbers, there are currently 2.5 million people in Australia who classify themselves as a primary carer of someone with a disability – many of them ageing parents or spouses. These people also need a better deal. Australia

will need to deal with the impact of our ageing demographics in one way or another.

What do you see as the criteria for a good disability system?



Paul Barach (PB): When people are injured or sick, a good system is one that engages and supports them to quickly get back on their feet, back to their families and communities. So if you frame the system of healthcare as such then of course when you have disability, the question is again how to bring to the user and their family and their carers better levels of wellbeing. I would argue that the injured and their family should be the one to define what it means to "get back to wellbeing".

What are the main challenges that a disability system needs to address?

PB: I think that the goal for a disability system is that, if you have a loss of function, for example you've lost an arm, the system will help minimise the impact of that impairment on your ability to participate in life. It is a question of supporting positive adaption to changed circumstances. And as a society we now have an international obligation to ensure this happens. So, the question is how much can the system bring your functioning back to your pre-injury state, without the limb? The system should be able to bring you back an average physical function of somebody of your stage or age.

The second aspect is emotional. How does the system help you come to terms with your emotional loss? Does it use psychological tools? Does it help you build your confidence and empower you to change? Does it help you deal with depression?

The third thing is your earning power and wellbeing as a worker. How does the system provide vocational training to allow you to shift from, say, a blue collar vocation that requires use of your hands, to more of a white collar worker that uses your intellectual capacity?

What do you see as the positive aspects of the national disability insurance scheme proposal?

PB: I think this is hugely innovative and it's a landmark initiative! The first positive aspect of the proposal is that it forces transparency, which means that we can discuss difficult issues that we don't talk about - like the perverse incentives in the current system not to get well or the perverse incentives for insurance companies to perpetuate the problems, for example by working against the claimant rather than for them.

There's a well documented collection of middle men and women that gain quite a bit from a dysfunctional system. Now that's a tough topic to talk about, especially for a clinician. And so I think the disability scheme is all about harmonising the system so that we actually focus getting the injured person back to work and productively engaged with life and actually spend the resources on delivering more value to them.

I think the goal is that by moving towards a no-fault model, we are aligning the needs of the injured person, and that we're removing the perverse incentives on middle men and women and immediately are forced to deal with the issues of the injured person / claimant / consumer / patient and their family.

It is key to set up a research arm that evaluates the impact of the new disability proposal and creates a national registry to track the outcomes of the injured.

What are the possible pitfalls for the proposal?

PB: For a national scheme to work it has to have buy-in from all core stakeholders. That would be the legal bar, the medical associations, the trade unions, the medical colleges, the government agencies, the health department, the treasury and all the rest. And of course that would also be the community – the public, the press etc.

So I think for this to work there has to be an educational process and the potential limitation that might occur is not spending enough time in engaging these stakeholders. I would hope that the national disability scheme gets bipartisan support.

It is really important to have a series of consultative engagements over the next year or two to ensure that when the bill is passed, it is seen as a bipartisan approach. The other thing is I'd like to see more transparency in the process in terms of how much each phase will cost. In the present culture, with a great mistrust of government, there has to be a process of demonstrating the cost accountability of the process. That might not be politically expedient but I think it is better than having constant political strife after the bill gets implemented.

John Walsh… final thoughts?

JW: An insurance model is not the only model under consideration – anything that funds and delivers better services for people with a disability is under consideration. And there are certainly actuarial questions – eligibility, benefits design, pricing structure, funding structure, resource allocation, benchmarking, monitoring and research to provide evidence bases for decision making. **I would encourage interested actuaries to make a submission to the Productivity Commission Inquiry.** ▲

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Critical Illness – Experiences from New Zealand

John Smith re-caps James Louw's address on critical illness experience in New Zealand between 2004 and 2008, presented at the recent International Actuarial Congress in Cape Town.

New Zealand's 12 major life insurers submitted data for a critical illness study. The results were compiled by Gen Re. The exposed to risk entirely comprised stand-alone and accelerated cover in-force at any time from 2004 to 2008. The corresponding claims were those diagnosed between 2004 and 2008.

Generally, critical illness is issued on yearly renewable rates. 72% of business is accelerated cover with 28% stand-alone. Intermediated life offices compete on scope of wording as much as price.

There is continual definition weakening driven by rating house comparisons. Wider definitions are often passed back to existing policyholders. Severity-based payments are less prevalent in New Zealand than South Africa.

Larger Policies are Riskier

The average claim was slightly less than the average sum insured.

	Life years	Claim amount	Average
Claims paid	3,474	$295 million	$85,000
Exposed to risk	1.52 million	$138 billion	$92,000

The average claim was $91,690 for males and $76,296 for females.

Paradoxically, there was heavier experience on larger policies. The low average claim disguised a spike in claims for policies with a sum assured between $150,000 and $200,000.

Actual to expected claims

Sum Assured	Male	Female
$ 1 – $ 25,000	87%	96%
$ 25,001 – $ 50,000	99%	97%
$ 50,001 – $ 75,000	100%	100%
$ 75,001 – $ 100,000	95%	96%
$100,001 – $ 150,000	93%	94%
$150,001 – $ 200,000	148%	143%
$200,001 and over	119%	123%

I think the spike might reflect anti-selection just below the underwriting limit for a doctor's report. Nevertheless, medical limits continue to increase and large sum assured discounts are quite common. These results imply that large sum assured discounts on critical illness policies are not warranted.

The experience of accelerated cover is roughly 16% lighter than stand-alone cover. This could be consistent with some notified accelerated claims being paid as death claims. Australia has a heavier incidence of critical illness claims but lighter mortality claims than New Zealand. A question was raised as to whether Australia pays accelerated claims faster. This might explain part of the heavier mortality experience in New Zealand. Any residual heavier mortality may be due to ethnic differences in population mortality.

The Mums and Dads market

72% of lives covered were in their 30s or 40s; the so-called 'Mums and Dads' market. Exposure is split evenly between the sexes. The average age of insured women is slightly younger than for males. The percentage of total cover/total clients is shown in the following table:

Age band	Male	Female	All
20 – 29	8%	10 %	9%
30 – 39	33%	37%	35%
40 – 49	39%	37%	37%
50 – 59	18%	14%	17%
60 – 69	2%	2%	2%

The risk of cancer, heart attack and other dread diseases rises with age. Thus, it was no surprise that the average age of claimants was older than that of those in-force:

	Male	Female	All
Exposed to risk	42.0	40.6	41.3
Claims incurred	50.5	46.5	48.5

Loose Definitions

Some examples of generous claim definitions are:

- partial payment for early prostate cancer (full payment if intervention is required);
- the option for trauma cover to be reinstated, excluding the prior claim condition;
- reinstatement of life cover over three years without additional charge; and
- no permanent deficit required for stroke.

The main reason for loose definitions is competition for better ratings. Rating houses classify policy wording based on ease of qualifying for a claim. Conditions are rated on a scale of leading, average or lagging the market. Yesterday's leader can become tomorrow's laggard. This leads to a drift towards ever wider coverage.

Despite the loosening of claim definitions, aggregate experience is not getting worse.

Actual to expected claims		
Year	Males	Females
2004	110%	102%
2005	111%	102%
2006	116%	100%
2007	90%	91%
2008	84%	105%

The Gen Re experience study may not include all IBNR claims. This might have artificially lowered results for the most recent years.

Not all companies have succeeded in containing claim costs. Actual to expected claims over the five years varied by insurer from 70% to 120%. In 2005, the range was 45% to 140%.

Apart from the definition of claims, other relevant factors affecting a company's ability to make a profit on this business include:

- degree of claim assessment stringency;
- degree of underwriting stringency; and
- mix of business.

Smoker Differentials

Actual experience did not vary by smoker status nearly as much as market pricing:

Actual to expected claims		
	Male	Female
Smokers	132%	118%
Non-smokers	97%	98%

"There was considerable volatility in the results of the experience study. However, some common themes emerged, and despite widening claim definitions, experience appears to be improving."

Smoker experience was 36% heavier than non-smoker experience for males and 20% heavier for females. My office charges more than twice the non-smoker premium for smokers from age 27 for women and 35 for men. The experience seems to suggest a smaller differential is warranted.

Cancer Experience

The incidence of cancer in the general population is a lot heavier than among insured lives: 226% for males and 189% for females. Most companies have a three month stand-down period for cancer claims and underwrite carefully. For many risks, critical illness acceptance is tighter than life cover.

Anti-Selection Not Visible

Claim variation by duration was relatively modest:

Curtate duration	Actual to expected claims	
	Males	Females
0	94%	101%
1	90%	94%
2 - 4	103%	101%
5+yrs	99%	98%

Summary

There was considerable volatility in the results of the experience study. However, some common themes emerged.

The smoker differential used in market pricing is too big; large sum assured discounts are not warranted; office underwriting and claim stringency can have a significant impact on results; and accelerated claims could be lighter if offset by heavier mortality experience.

Finally, despite the widening of claim definitions, experience appears to be improving. ▲

John Smith
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This article and tables are based on James Louw's presentation on critical illness experience in New Zealand between 2004 and 2008: http://www.ica2010.com/docs/250_PPT_Louw.pdf

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The Ultimate Question (AA149 – Solution)

Devise your own ultimate question. The question can take any form (ie mathematical or non-mathematical), but the solution must be 42

After much consideration, the prize for the best ultimate question goes to **Stephen Woods** who submitted the following question:

"What is the smallest number whose aliquot sum you get if you multiply six by nine? or in plain language, what is the smallest number whose proper divisors sum to six multiplied by nine?"

Stephen also submitted several pieces of '42' trivia:

- 42 represents a perfect score at the International Maths Olympiad;
- 42 is the expected number of rolls of a fair die to roll two consecutive sixes; and
- 42 minutes would be the time for a body to move through a straight frictionless tube between two points on the earth's surface accelerated solely by gravity.

Congratulations Stephen, you will be receiving a $50 book voucher.

Maths, Turtles and Evil Spirits

A magic square is a square matrix of (usually distinct, consecutive) integers arranged such that the numbers in each row, column and main diagonal of the matrix sum to the same value. According to legend, the world's first magic square (the Lo Shu magic square) was discovered over 4000 years ago by the Chinese Emperor Yu on the back of a turtle's shell. Emperor Yu observed that on this turtle's shell were nine groups of dots, arranged in three columns and three rows, and that the number of dots in each row, column and diagonal was equal to 15. The ancient Chinese believed that the numbers in the square symbolized the natural order of the universe.

During the Middle Ages, magic squares were used by a number of cultures in amulets worn for protection against evil spirits. However, by the 18th Century, it was the mathematical properties of magic squares, rather than the occult ones, that became the focus of people's attention and many variations on the magic square were subsequently devised. Even today, magic squares still hold a fascination for people, as can be seen by the widespread popularity of one of their most recent variations, the Sudoku puzzle.

This month's column features several puzzles, based on traditional magic squares, for you to solve.

(i) The Lo Shu magic square is shown below with several numbers missing. Fill in the remaining squares of the grid so that the grid contains each digit from 1 to 9.

4		
		7
		6

(ii) On the wall of the Sagrada Familia Cathedral in Barcelona, Spain, is a magic square designed such that each row, column and diagonal sums to 33 (the age of Jesus Christ at his crucifixion). This is an unusual magic square in that the numbers 10 and 14 both appear twice and the numbers 12 and 16 are missing. The magic square has been reproduced below with several numbers missing. Complete this magic square.

	14	14	
			9
	10	10	
13		3	

Magic in the Air

For your chance to win a $50 book voucher, complete the following magic square and email your solution to: inthemargin@actuaries.asn.au ▲

	3		13
			8
	15	14	

Solutions: The missing numbers in each of the puzzles, from left to right and top to bottom, are: (i) 9, 2, 3, 5, 8, 1 (ii) 1, 4, 11, 7, 6, 8, 5, 2, 15.

Contagion in the Workplace

Lots of my colleagues have been coming into the office while sick. I'm really annoyed that they're exposing me to their germs. Why won't they stay at home?

Don't we all suffer just a little from the "I'm indispensable" syndrome? Symptoms include:

- a deep seated belief that no one understands the work quite as well as you
- a proprietorial resentment of anyone else touching your spreadsheets
- very likely, desperation borne of being three days late with your project.

Put that all together and there's no way you're staying home and letting someone else stuff things up, right? Or, even worse, they might do a great job in your absence and get all the glory!

But back to your spluttering colleagues.

First, staying at home is clearly going to be much better for their health. Any amateur doctor knows that the best way to recover fast is to rest and not put a strain on yourself: stay at home, stay in bed, and try to convince someone to wait on you hand and foot. If you're going to head for the office, you'll set your recovery back for days!

Second – and this is the key – it is so inconsiderate of them to come to the office sick! We've all seen the ads for disinfectants, and we are aware that viruses live for 300 years once they get onto doorknobs, phones and computer keyboards. And there, invisible killers that they are, they prey on innocent passersby – like you.

So what can you do to protect yourself? According to those helpful workplace posters, you'll need to wash your hands often – presumably without touching any doorknobs on the way in and out of the toilets (how's that going to work?). Don't touch your eyes or nose, and stay at least a metre away from those who are ill. Most excitingly of all, it's a great opportunity to wear some of those industrial facemasks you stockpiled during the Great Swine Flu Non-Epidemic of 2009.

If you are a believer in preventative remedies, there are numerous options: vitamin C, hot lemon drinks, echinacea and the rest. And – though I hate to be the one to mention it – don't forget good old-fashioned early nights and no alcohol.

And if you do succumb after all that – you *won't* be in, right?

iToys

Almost every actuary I know has an iPhone – it's ridiculous! I even know of one with the HP-12C app on it. Is this the new accessory for try-hard actuaries? What next?

There does appear to be a very high take-up of iPhones in the actuarial population. But is this surprising, when we are – broadly speaking – a bunch of geekish types earning very healthy salaries? If we're not going to be early-adopters, who is?

In my own workplace iPhones were proliferating like guinea pigs of the electronic world within days of their Australian release. And by now they outnumber the HP-12C's – those trusty, miraculous, unglamorous tools of yesteryear - by at least a factor of two.

So much of what we used to physically do can now be achieved with an app:

- calculating. Future generations won't experience that satisfying, subtle click of the HP-12C keys because they'll be using their virtual touch-screen calculators
- searching, of all kinds – for restaurants, locations, information
- keeping in touch. One word – Facebook.

Of course we don't *need* any of this, but it's plain we want it. And who could blame us? It's all fantastic.* It saves us time, it gives us more options, it provides heaps of new topics for us to be smarty-pants-es about.

What next? Good question. I'm sure there's an app with the answer.

* Lest, dear reader, you are concerned that this week's column is nothing but product placement: I own an iPod (love it), I Facebook passively and I still – still! – don't have a mobile. Yep. Weird. Oh, and my HP-12C has just turned 25 and is still going strong! ▲

Remember to send me your questions! – the more controversial, the better.

LIWMPC Update

It has been a busy year to date for the Life Insurance and Wealth Management Practice Committee (LIWMPC) with increased regulatory activity post the global financial crisis driving much of the committee's focus.

The following update covers some of the recent key areas of focus for the committee. More detail can be found in the LIWMPC's recent autumn newsletter which can be found on the website. If you would like further information on LIWMPC activities, feel free to contact the convenor Grant Peters (grant.peters@au.ey.com) or the author.

APRA capital project for life insurers and general insurers

APRA recently released its discussion paper on proposed changes to capital standards for life and general insurers. The key proposals include:

- A 'three pillar approach' to supervision, harmonisation across industries and alignment to international developments.
- A capital requirement corresponding to a 99.5% probability of sufficiency over a 12 month period.
- A requirement for insurers to prepare an annual 'ICAAP report' for submission to APRA. This is a wide ranging summary of an insurer's capital management process.
- Substantial changes to capital standards for life insurers and friendly societies and refinements to existing standards for general insurers.

The LIWMPC has a taskforce focussed on this project which is preparing the Institute's submission to APRA in conjunction with the General Insurance Practice Committee.

Changes to APRA prudential standards for life insurers

APRA recently released its enhancements to the prudential framework for life companies. The revised standards are:

- Prudential Standard LPS 310 – Audit and Related Matters
- Prudential Standard LPS 320 – Actuarial and Related Matters
- Prudential Standard LPS 510 – Governance
- Prudential Standard LPS 520 – Fit and Proper

In particular, members should note:

- Life companies will need to have a written Board-approved policy regarding pricing advice. Policy modifications will also require actuarial advice, unless excluded as immaterial under the company's actuarial advice policy.
- The appointed actuary's employer will need to retain the appointed actuary's working papers relating to the prudential standard for seven years and provide them to APRA when requested.
- Where an appointed actuary reports a contravention to APRA under s98 of the Life Insurance Act, they should not disclose this to the life company in some circumstances.
- APRA may request a life company to arrange a special purpose review and may advise the company that an alternative standard to the Institute's must be used. Members are reminded of clause 7 of the Institute's Code of Conduct.
- The new standards become effective on 1 July 2010.

Joint SEBPC and LIWMPC Information Note on deferred tax assets in unit pricing

The LIWMPC recently completed a joint information note with the Superannuation and Employee Benefits Practice Committee (SEBPC) on deferred tax assets in unit pricing. The Information Note covers issues to consider when valuing deferred tax assets, monitoring of deferred tax assets and other practical issues such as governance and communication to unitholders. The Information Note can be found on the Institute's website.

Variable Annuities Taskforce

The Variable Annuities Taskforce was established to provide support for members practising, or with an interest, in variable annuities and retirement products. The first stage of the taskforce's brief was to provide an initial reading list of topics in this area to membership. The taskforce's Information Note was recently released and is available on the Institute's website.

The taskforce is now focusing on the second phase of its brief which is to research a number of topics as they apply to variable annuity products in the Australian market.

The topics which the taskforce is researching are:

- Prudential capital framework and how it might apply to variable annuities.
- Review of standards (including APRA, ASIC and the Institute) to identify where changes may be required.
- Sustainability in the Australian market, particularly whether the derivatives market is large enough to support a vibrant variable annuities market.
- Access for super funds. How could super funds make variable annuity style product features available to members?
- Sustainable advice and marketing. How would the advice process apply to variable annuities in Australia? ▲

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Budget Lock-up

> "The main advantage of participation in the Budget Lock-up for the Institute is the opportunity to put out an informed media release quickly – to highlight the matters that are of most interest or relevance to members."

In an era of instant information, people want ready analysis of events as they occur. The Budget Lock-up allows journalists and approved industry representatives to analyse all the Budget papers under embargo and to be ready to provide public commentary as soon as the Budget speech has been delivered in Parliament by the Treasurer.

The Lock-up is separated into two groups, namely the media in Parliament House, and industry and community representatives in Treasury. Until last year, the Institute of Actuaries of Australia did not participate in the Lock-up process. We sought an invitation, and I was allowed to participate in the 2009 Federal Budget Lock-up.

This year I participated in both the 2010 Federal Budget and the special Lock-up for the release of Australia's Future Tax System, the 'Henry Review'. The main advantage of participation for the Institute is the opportunity to put out an informed media release quickly. My job is to highlight the matters that are of most interest or relevance to members and to communicate these as soon as we are released.

The Lock-up requirements are rigid. Treasury decides who is entitled to attend and participants sign in at the main Treasury building in Canberra at the appointed time. The Budget session typically lasts for six hours: from 1.30pm to 7.30pm. The Henry Review Lock-up was for a four-hour period on a Sunday afternoon. It is sensible to arrive on time in order to find a good position, as there are about 80 attendees. The Lock-up location is a secure basement within the building. The process starts by handing over your mobile telephone and by signing a declaration that you will not transmit information during the Lock-up process. The information is market-sensitive, so security has to be tight and the penalty for any breach is imprisonment. Although all participants are able to take in a laptop computer, they are not allowed to connect to the internet or send emails (and this is closely monitored).

All participants sit at desks in an open plan area. We are given a hard copy of the Budget papers and memory sticks are handed around so that you can copy the Papers in an electronic format onto your laptop. We are able to discuss the material freely with each other and Treasury executives are present to answer questions. Food and drink is provided and there are several breakouts of small groups debating some of the contentious subject matter. Some of the larger industry groups, such as the ACTU, will have several delegates and people tend to cluster according to their political or social representation. At last year's Budget I sat close to the ACTU, as I was interested in their views. This year I sat close to ASFA and IFSA representatives.

Many people in the Lock-up work on a newsletter. My process is a little different. I try to pick out the key points that will be of use to the Institute and I document these on a notepad so that I can refer to them during a teleconference later. I also look at the financial impact of different initiatives. It is helpful to discuss controversial issues with others to get different perspectives.

I spend time documenting the key issues and their likely impact for distribution to other consultants at work. Some of it may be used later in newsletters for clients. One of the key things I look for is any legislative change that may have been recommended by a previous Institute submission. This reinforces the importance of public policy work and it is important to show members that some of the work done actually does assist in policy change. Once we are released and have picked up our phones, I leave the Lock-up and join a teleconference with Institute representatives. I then provide a summary to the CEO and President of the Institute so that they can prepare a media release on the Institute's views.

There is little point in producing a factual newsletter, as the daily press, accounting firms and industry bodies produce good summaries very quickly. At Rice Warner, we prefer to wait a few days before sending out a newsletter, where we can add opinion and informed commentary. While that was our practice for last year's Budget and for the Henry Review, we did not produce a newsletter on this year's Budget, as there were very few initiatives relevant to our own work that had not already been included in our Henry newsletter.

My view is that the Institute should have a representative at all future Lock-ups. It would be useful to have more than one representative, although numbers are limited. The advantage of having two representatives is that more practice areas can be covered and people can review the material from a different perspective. Participation is a valuable experience for anyone interested in public policy. ▲

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Maybe I'm getting cranky in my old age or perhaps I have been spoilt by some wonderful speakers in the last 12 months. In any event, I am becoming less tolerant with poor presentations! If I am prepared to invest time (and in some cases money) to listen to you, I expect that you will invest some time and effort to make it worth my while - and at least interesting. Communicating to a group, whether it be 5, 50 or 500 people, is not easy. However, if you don't want to be dull and you would prefer to be memorable, I would like to make a few suggestions...

Let's start with the end in mind, as Steven Covey recommended. If you are not clear on the purpose and the outcomes that you are seeking I think that your presentation is already condemned. Tony Bulmer urges his clients to answer two questions, in writing, combined in one succinct sentence:

- What do you want the audience to think or do (and I would add feel)?
- What is the relevance or benefit to them?

With that clarity of intent you can now focus on what and how you are going to present.

In my experience there are three common excuses that presenters use for being ordinary:

> "I promise you'll never forget my presentation!"*
>
> * Because I plan to take away your chair

1. "After all, it's a dry subject". I'm sorry I can't accept that the subject matter automatically means that the presentation is dull. If it is worth presenting it is worth presenting well. I've seen some economists transform what is potentially the most dreary market update into a fascinating story so I would like to challenge this excuse. What can you do to make your topic more interesting?

2. "Well, I'm not a charismatic person". This is a little more tricky because there is an inherent bias towards lively, witty speakers – and that may not be you. You may not be charismatic but you are interesting, aren't you? I've seen people tell engaging stories with their friends and then become a robot on stage. Trust yourself, relax, be you and project you - and there is a very good chance that I **will** find you interesting.

3. "There wasn't much time to prepare". You have whatever time you make available so use it wisely. It may be a question of priorities or it may be how you deploy your time (eg playing with the font on your slides rather than thinking about the purpose and outcome). It may also be that, even subconsciously, you don't want to practise too much because you want an excuse to be ordinary or you want to be safe. Or you don't want to be so good that you stand out. I can only ask, do you want to be memorable or not?

If you can take care of the excuses then you can now consider some positive steps to deliver a successful presentation. There isn't space to provide a full process here, and there are plenty of experts available to assist on specific matters, so I will simply throw out ten ideas for differentiating your presentation by engaging more fully with the audience through a wider range of senses:

- Use creative visuals, either slides or props.
- Draw models and diagrams on flip charts or a whiteboard.
- Show a video (there must be something relevant on YouTube).
- Play music to influence the mood.
- Distribute handouts, at the appropriate point, to explain a key point.
- Encourage the audience to speak, either to you or to each other.
- Tell stories, give examples, relate case studies
- Find analogies that provide understanding (or just amusement).
- Share something personal about you to remind them you are human.
- Employ a different seating arrangement (or take the chairs away).

I hope that you have some fun in trialing a few items from this list at your next presentation. The most important test is whether it works for you. The second test is whether it works for your audience.

It is a challenge to prepare and deliver a top class presentation and it takes more than maths to be extraordinary (not ordinary). How good can you be? ▲

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Young Actuaries Program – Networking Exposed

On a rainy evening during May, The Pavilion at PricewaterhouseCoopers was the place to be, filled to the rafters for another action-packed YAP event. An anxious actuarial crowd with a combined IQ of a couple of million certainly weren't disappointed by our guest presenter, Lisa Butler, Director of Paragon Associates. A networker and networking coach by profession, Lisa took an interactive workshop approach in presenting her area of expertise, making the evening all the more enjoyable.

YAP Interactive Workshop

Lisa suggested that there are four types of personalities:

The Driver – decisive, direct and strong-willed. They can be high achievers and are task rather than relationship orientated. ● When networking with Drivers, it's best to focus on what they're interested in achieving, rather than 'wasting time' talking about feelings and small talk.

The Expressive – verbally adept, sociable and relationship focused. If you want to pinpoint an Expressive, look for someone talking with their hands, waving them about as they speak. The Expressive is excitable, enthusiastic and a chatterbox. ● Expressives are happy to be distracted from the 'point' of the conversation, so be enthusiastic, responsive and share information or stories. The focus is on developing the relationship.

The Analytical – reserved, logical and facts oriented. They process information and think thoroughly before they speak, valuing precision and perfection. ● To network with Analyticals, be logical and converse at a slower pace. Long periods of silence are not a problem.

The Amiable – cooperative, easy to get along with and dependable. They are the people pleasers and team players, and it is important to them that everyone gets along. Lisa gave the following tip: if you are at a networking or social event and feel left out, look for an Amiable – they will feel sorry for you and let you into the conversation. ● When networking with Amiables, be relaxed and agreeable; don't push, don't rush and be a good listener!

The audience was then asked to move to the four corners of the room depending on which personality type they thought best described themselves. With a room full of actuaries, the room was surprisingly not overpopulated by the Analytical tribe. The split was actually roughly around 5% Drivers, 20% Expressives, and the remainder equal between Analyticals and Amiables. Although Lisa seemed genuinely surprised at the diversity in the room, she pointed out that the majority of better networkers were actually the introverts, not extrovert personalities. The reason? They are more focused on developing deeper, personal relationships.

Lisa Butler

So which personality type are you? Ask around – what you think might not be the same as how others perceive you. And more importantly, what are the personality types of the people around you? Why not try tailoring your communication style with the pointers mentioned in this article – drop me an email with how you go!

Many thanks to PricewaterhouseCoopers for sponsoring this event and all those who participated on the night. Our next event is on 29th July on the topic of 'Speak Up & Influence People'. Please come along, we look forward to seeing you there! ▲

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Investments Bridging Course

The *Investments Bridging Course* is an online course that has been designed as a temporary measure to ensure that members who meet the new 'actuary' designation have a solid foundation in investments until the new *Part IIB* course on investments is introduced at accredited universities delivering Part II. In setting requirements for the designation 'actuary', Council decided that all those who were Associates or were eligible for all Part I and II exemptions before the end of 2009 would be exempt from completing the Investments Bridging Course.

In 2010, new Associates will also achieve the designation 'actuary' and will be required to complete the Investments Bridging Course. Completion of this course is also a requirement for Fellowship for those who take the *Course 7A Enterprise Risk Management* option for Module 1 from 2010.

The content of the course has been designed to meet the International Actuarial Association's (IAA) FQA requirements for investments knowledge. A mapping exercise was completed to link the IAA syllabus for their *Subject 8: Investment and Asset Analysis.* While some of this content is covered by the CT courses e.g CT8 or Part II: The Actuarial Control Cycle, most content of the course is drawn from Unit 1 and 2 of the existing Part III *Course 1 Investments*.

The Investments Bridging Course has two units:

- **Unit 1: Investment Background**
- **Unit 2: Asset Liability Management**

The course will be done entirely online. There will be no teaching through tutorials or discussion forums. The course will have no start and finish dates, with participants being able to enrol at any time. Participants will have access to the course for a period of six months.

There will be one online multiple choice test which comprises 100% of the assessment for the course. The test will have a time limit of two hours and will involve 30 questions covering a range of topics in the course. Question Pools will be created and random questions will be drawn from these pools. Participants will have three attempts to pass the test.

Participants will need to find a witness before they can sit the assessment to fill out and sign a form verifying that they will witness the participant login to attempt the test. The witness needs to be an actuary or Fellow. The witness will be provided with a password, which will need to be entered into the system to attempt the test.

No exam centres will be provided for the assessment. Participants will be able to sit the assessment on any computer with internet access at any time provided that their witness is present to verify they have logged in.

The following people will be eligible to do the Investments Bridging Course:

- members who have completed Parts I and II; and
- students enrolled in the Actuarial Control Cycle course at accredited universities in 2010.

The following people will be ineligible to do the Investments Bridging Course:

- students who are currently enrolled in an actuarial studies program at an accredited or a non-accredited university except for those who meet the criteria outlined in the bullet points above.

Readings will be provided in the Learning Management System in PDF format, where possible, or as links to other websites. Printed course materials will not be provided to participants by the Institute.

The following textbooks will be prescribed reading for the course. Sections of these prescribed textbooks will not be made available in digital format in the Learning Management System.

- Fitzherbert, R. (2004). Investment Principles for Actuaries. Institute,
- Sherris, M. (1996). Money and Capital Markets (2nd Edition), Allen & Unwin
- Viney, C. (2003). Financial Institutions, Instruments and Markets (4th Ed), McGraw-Hill ▲

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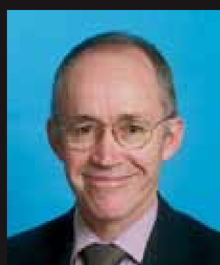
Ian Laughlin – APRA Appointment

The Federal Government has announced the appointment of Mr Ian Laughlin as a Member of the Australian Prudential Regulation Authority (APRA) for a three-year period commencing on 1 July 2010.

Ian is well known in the profession with extensive experience in the financial services industry, particularly the insurance industry. He has had considerable involvement with the Institute through membership of many committees, particularly the Audit and Risk Council Committee, the Risk Management Practice Committee (as Convenor) and served on Council from December 2006 to December 2009.

Ian replaces John Trowbridge whose term of appointment as a Member of APRA ends on 30 June 2010. In the announcement of Ian's appointment, Chris Bowen, Minister for Financial Services, Superannuation and Corporate Law paid tribute to the important contribution that John has made during his term as a Member.



The Institute congratulates Ian on his appointment and looks forward to working with him during his term at APRA and wishes John all the best in his future endeavours. ▲

Our Semester in Review

– ASSOC at Macquarie

Culture creates an institution. ASSOC, the Actuarial Students' Society at Macquarie University is dedicated to achieving success through positive engagement in its vibrant culture.

Holistic development is offered through all our activities – many actuarial students have been given the opportunity to develop their organisation, leadership, teamwork and time management skills when helping plan one of our 14 events. And simply by being there, amongst our diverse collection of students from across the year groups, members develop interpersonal skills, communication skills, friendships and valuable networks.

Similarly, a belief in 'fun' guides our decisions. Our indoor soccer competition is a joint event held with ASOC from UNSW. ASSOC's sporting competitions achieve holistic development by not only equipping students with the ability to work in team situations but also helping them socialise and meet with their fellow students and soon-to-be colleagues.

Getting people involved in events like this is what ASSOC is all about. Being part of an event like this can range from just playing in the competition and having fun, all the way to being part of the planning team for the event. Their role includes such tasks as scheduling matches, food preparation, organising a venue and much more.

The ASSOC Indoor Soccer Competition, sponsored by PricewaterhouseCoopers, is a whole day soccer extravaganza where eight teams from various universities are pitted against each other in a set of gruelling encounters to decide which team and which student society will get the prestigious honour of lifting the trophy as well as the minor prize money that goes with it. In this years' competition, a team from UNSW rose from the ashes like a phoenix to snatch the trophy away from ASSOC's grasp.

ASSOC is committed to the community. Our charity team has supported Relay for Life, Daffodil Day and the Bandaged Bear Day Appeal. However, our principle community is actuarial students and the QED Careers Forum offers members information and guidance on possible career pathways. It is offered with support from actuarial recruitment firm QED Actuarial and is one of ASSOC's three careers events.

Speakers from Towers Watson, Deloitte and KPMG explained the process of graduate recruitment – what employers look for, what their firms offer and what a graduate position involves. QED Actuarial explained the employment opportunities, typical salaries and gave important advice on how to approach the recruitment process.

Importantly, the Institute discussed recent changes to the qualification process and how they would impact current university students. Many students were concerned and confused about the very challenging process of qualification, so this talk was particularly valuable.

So what have we learned from our involvement in ASSOC? We've learnt that engaging in a student society with a strong, positive culture is a wonderful experience, rich with opportunities to develop as a person and as an actuary, to contribute to our communities and to have heaps of fun.

Students attending the Qed Careers Forum

ASSOC takes up a lot of time in an actuarial studies student's already busy schedule of studying, social activities, physical development and differential equations, but we wouldn't have it any other way. ▲

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Enterprise Risk Management (ERM) – why should I care?

Many actuaries do not really understand what Enterprise Risk Management is and why it is relevant to ALL actuaries no matter what field you are working in. I was in that camp myself until Ian Laughlin (outgoing Chair of our Risk Management Committee and incoming member of APRA) straightened me out recently. Here's what I found out:

- ERM is the process by which organisations in all industries **assess, control, exploit, finance, and monitor risks** from all sources for the purpose of increasing the organisation's short and long term value to its stakeholders.
- **ERM is not necessarily done by risk management professionals!** Sure risk managers set up processes to do things like measure risk, assist businesses to set risk appetite and report on exposures, but actually **the senior business people themselves (including actuaries) are the risk managers.**
- Risk management is not all about controlling or reducing risk and not all about holding capital. It is about deciding on a risk appetite and then **optimising the return to the business for the amount of risk taken.** It's about **the upside as well as the downside.** This concept has been long understood in investments, but has not often been applied across businesses as a whole.
- **Risk management is not just a practice area in its own right.** It also is a discipline that has applications across all actuarial practice areas.
- Risk management techniques are an extremely valuable tool to **assist senior business people in decision making.** It should not be viewed as a compliance mechanism, but a tool that can actually add real value to a business.

Now that I understand this, I realise that every actuary needs a basic understanding of Enterprise Risk Management. This understanding will also assist actuaries to be more valuable to the senior decision makers in the c-suite. In fact, we have developed a new one-day course called *Influencing your Key Stakeholders*, which will be run in the second half of the year.

Enterprise Risk Management is different from Risk Management

ERM is **not just about operational risk,** or just about avoiding or reducing risk, which are common misconceptions.

Two key principles underpin ERM:

1. taking a holistic approach to the management of risks of all types across the enterprise; and
2. managing to maximise value for the stakeholders, within the agreed appetite for risk.

How can I build my ERM knowledge?

There are a number of ways.

- Join our ERM community on Linked-In. For details please contact Kent Griffin (new Chair of the Committee) or Gloria Yu.
- Sit the six month CERA course and gain some additional post-nominals (if you are also an actuary you will become a Certified Enterprise Risk Actuary). The textbook for this course is also a good read whether you are sitting the course or not.
- Participate in some CPD events about risk management, such as:
  - the Institute's ERM community session held on 26 May where we discussed the government's home insulation scheme (The Strange Case of ISO31000 and the Roof Batts), or
  - our annual one-day Enterprise Risk Management Seminar being held this year on 21 September.

Our website ERM page is currently under development. In the meantime you can try:

- the Casualty Actuarial Society website at http://www.casact.org/research/erm/; and
- the International Actuarial Association website at www.actuaries.org then select Committees > Enterprise > Financial Risk.

What's happening at the Institute?

We ran a networking evening in Sydney on 8 June for actuaries working in banking and finance. This followed a similar successful Melbourne event in May. More such evenings are planned for banking and finance actuaries, and we are planning to have similar sessions for actuaries working in investment and wealth management.

Our new customer relationship management system *Aptify* has been successfully installed and staff feedback about the new system has been positive. Thanks for your patience during the down-time in early June. We are part way through our major web upgrade which will proceed in three stages from June through until early 2011.

The Melbourne Professionalism Course and Graduation Dinner were held on 22 June and it was great to see the excitement and joy of those finally receiving their actuary certificates.

As always, your feedback is welcome – please do not hesitate to contact me on the email below, or other members of the secretariat at actuaries@actuaries.asn.au. ▲

Melinda Howes
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Diary Dates

14 July	Melbourne	**Insights Networking evening** – Tim Gorst will present his Melville prize winning paper *Insights into our $1.2 Trillion Home Lending System*. Check the website for the venue.
29 July	Sydney	**Young Actuaries Program** (YAP)
24 August	Sydney	**Graduation Dinner** – all members welcome.
21 September	Sydney	**Enterprise Risk Management** one-day seminar
October (TBA)	Melbourne	**Super Policy Forum**
7-10 November	Melbourne	**17th General Insurance Seminar,** Gold Coast

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