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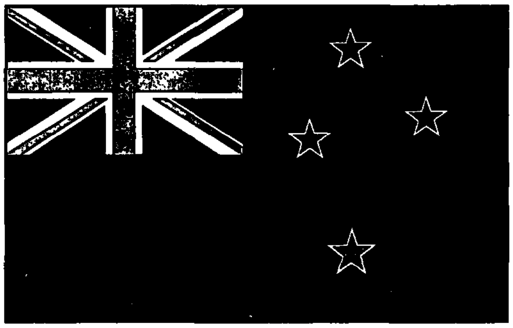
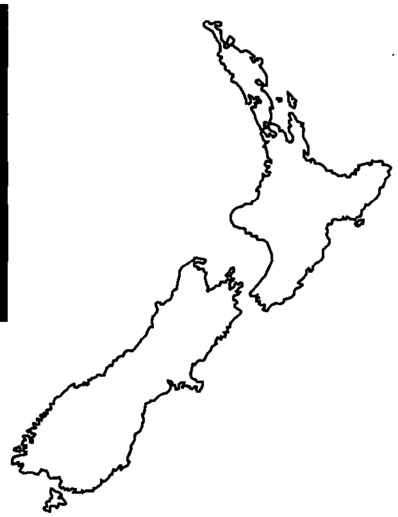
New Zealand actuaries welcome North American perspective

by Curtis E. Huntington





In October, I attended the biennial meeting of the New Zealand Society of Actuaries (NZSOA) in Christchurch, New Zealand. This was a three-day meeting attended by 91 actuaries — 71 from New Zealand and 19 from Australia. I was the only actuary attending from North America.

Most of my immediate family have lived in New Zealand for several years, and I have become a frequent traveler to that country. Because of my interest in international actuarial activities, I became a member of the NZSOA several years ago. This was the second meeting I have attended.

Membership

The NZSOA Members *Handbook* lists 100 individuals as Fellows. Most live in New Zealand, but 13 list overseas addresses, including several in Canada. Most of the Canadians, for example, once lived in New Zealand and have returned to Canada. For many years, about 10% of the Fellows have been individuals who qualified in North America and emigrated from Canada. The handbook also lists 16 individuals as Ordinary Members, mostly from Australia. I am an Ordinary Member.

Reflecting long-term ties to the United Kingdom, membership is available to any member of the Faculty of Actuaries in Scotland and the Institute of Actuaries in the United Kingdom. NZSOA also recognizes membership in the Institute of Actuaries of Australia, the Canadian Institute of Actuaries and the SOA. Generally, Fellows of these five bodies who usually reside in New Zealand or who are "familiar with New Zealand conditions" are admitted as Fellows of the NZSOA (FNZSA). All other members are Ordinary Members. A student membership category also exists.

Meeting content

The general meeting included reports by the president, treasurer, and several subcommittees. Subscription levels (dues) were discussed thoroughly and then voted on. A report from the Diploma in Financial Mathematics program at Victoria University of Wellington that is partly funded by the financial sector was presented. Officers were elected.

The following gave reports:

- The life insurance subcommittee on realistic reporting, the appointed actuary movement, and a code of business practices
- The human rights subcommittee on developing a response to a request from the Justice Department and on the justification for gender discrimination in life insurance and superannuation (pensions)
- The professional conduct subcommittee on the implementation of a code of professional conduct

Though NZSOA meetings are similar to SOA meetings, they also are significantly different. Eighteen papers were prepared before the meeting. (The 13-hour non-stop flight from Los Angeles provided me ample opportunity to read the papers before arrival.) While some papers covered topics that are unique to New Zealand ("Life Insurance Act 1908 — Still with Us?"), others covered a breadth of subjects that will sound quite familiar to North American actuaries (appointed actuaries, continuing professional education, realistic reporting of earnings, investments and the actuary, long-term care and health reform, taxation, and superannuation arrangements).

I was impressed with the large number of papers produced by the members (given the size of the organization) and their high quality. Discussions of the papers were conducted with a friendly vigor not frequently seen at North American meetings.

Typically, authors would present summary remarks about their papers. Audience members then would either comment on the contents of the paper or give additional information or background. At the end of each session, a summary of the remarks made from the audience would be given, usually by the author. This provided an opportunity to clarify or rebut comments that had been made from the floor, which resulted in extensive discussions on papers. Audience input added to the material's effectiveness.

The keynote address was by Barry Urquhart, a well-known Australian author on quality customer service. The first day ended with a "trade fair," similar to the exhibit hall at recent SOA annual meetings.

Concurrent sessions on the second day covered life and pension topics. The second day concluded with a black tie dinner, with a special address by a member of the New Zealand Parliament.

Ample time was allowed for relaxation and social events. In addition to golf and tennis, some of the attendees went skiing. A late winter in southern New Zealand left nearby ski fields with plenty of late winter snow.

Overseas societies welcome the attendance and participation of North American actuaries, who add a welcome dimension to the meetings. For example, I presented a discussion on the development of the U.S. valuation actuary and on continuing education requirements in North America at the New Zealand meeting. I gained new

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well regarded in educational circles in his country. He wrote a textbook, *The Application of Group Theory in Physics*, that was translated into six languages and is still used at many universities.

Starting a new life

The couple now has refugee status, but they hope to receive their green cards this year. They say everyone they've met here has been very helpful, and they look forward to finding jobs and possibly settling in Chicago. "We have made many friends here," Anna says.

The Equitable cont'd

segment backing the policies going into the closed block were selected for the closed block. The amount of closed block assets was determined as the amount, together with anticipated earnings from these assets and revenue from closed block policies, that was reasonably expected to be sufficient to pay guaranteed benefits and taxes and to maintain the 1991 dividend scales if the experience (of 1990) underlying such scales continues. The closed block assets will decrease to zero when the last policy leaves the closed block. Under no circumstances can the assets allocated to the closed block nor the revenue from them revert to the benefit of stockholders.

Individual policies not in the closed block

For the non-dividend paying individual par policies excluded from the closed block, the NYID required that we protect these policies similar to the closed block policies. We designed a process to prevent the stock company from making more profit from these policies than had been assumed in the calculation of their actuarial contributions.

Distributing actual excess profits would have presented many of the closed block problems again, such as allocation of expenses and valuing of asset cash flows. Therefore, we concentrated on the most significant component of profits for a product (for example, interest spread for annuities and claims ratio for health insurance). We then established a process where experience in these components that proved better than we had assumed in allocating policyholder consideration would be distributed over time to policyholders in each class.

The actuarial negotiations with the NYID were largely completed in time to finalize the plan adopted by our board in November 1991. Work related to the non-dividend paying policies not in the closed block continued into early 1992.

Regulatory obstacles

Many other regulatory hurdles had to be jumped, most at the federal level. We had to negotiate with the Department of Labor for ERISA rulings and with the IRS for corporate and personal tax rulings. The biggest obstacle was the Securities and Exchange Commission (SEC) in the preparation of our prospectus or S-1. Space does not permit even a list of all the issues with which we had to deal. To give you some idea of the complexity, at one of the many drafting meetings with attorneys representing us, Axa, and the underwriters, one of our people asked the underwriter's attorney (who spends 100% of his time on S-1s and related issues), "On a scale of one to ten, compared to other issues you've worked on, how complicated is this one?" The answer was, "Thirteen."

Two issues we faced warrant mentioning. The first was related to whether we could continue to GAAP-account for our traditional life insurance business as we had in the past. Although we were a mutual company, we had been producing statements basically in accord with stock GAAP, attested to by our auditors. For traditional life insurance, we had not been using FAS 60, but a modification of FAS 97 called "Source of Earnings." Everyone, including the major accounting firms and the FASB staff, agreed that FAS 60 gross premiums are not a good representation of revenue for the par business of a mutual company. However, we were still required to follow the dictates of FAS 97, which prescribes FAS 60 as the accounting model for traditional life products, including participating. Therefore, as part of the conversion, we had to revise all our GAAP factors for the affected business.

The second issue was how the results of the closed block should be presented in our GAAP financial statements. We believed the most meaningful presentation would be to show the line-by-line closed block results in a separate column and then consolidate them with the open block. The SEC insisted on a one-line entry on the profit and loss statement, reflecting the net earnings of the closed block. This results in our P&L not being comparable to other companies, because closed block premiums are excluded from revenue, but the expense related to closed block policies (which are not charged to the closed block) are in the open block. Therefore, we'll have a meaningless high ratio of expenses to revenue.

Meeting the deadline

I never believed we could complete everything on schedule — an acceptable plan for adoption by the board on November 27, 1991, and the IPO by mid-July 1992. That we met those ambitious deadlines is a credit to many people, both within the company and outside it. In particular, the regulators (the NYID and the SEC) spent countless hours on this project. We didn't always agree with them, but we could not fault their effort and cooperation.

No more complex transaction in the insurance industry exists than converting a mutual insurance company. Even with all the complexities, many companies are exploring demutualization to gain access to outside capital and to enhance the flexibility of the company to react to changes in the financial services marketplace.

Gary Corbett is an independent consultant and the former senior vice president and chief actuary of The Equitable insurance companies. He is a past President of the Society of Actuaries.

New Zealand cont'd

insights as I discussed these issues with my New Zealand colleagues.

Many SOA members travel abroad, on business and for pleasure. The newsletter of the new International Section will try to list upcoming foreign meetings. If SOA members can tailor their travel plans to include attendance at some of these meetings, they will find it, as I have, to be a rewarding opportunity.

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