



Recent Developments affecting New Zealand life insurers

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New Zealand Society of Actuaries

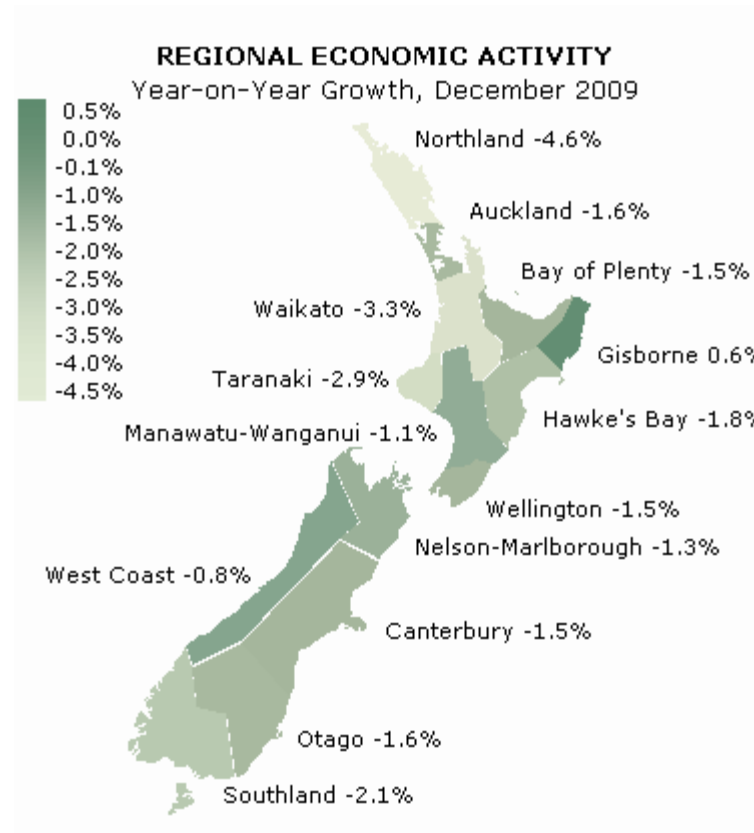


New Zealand

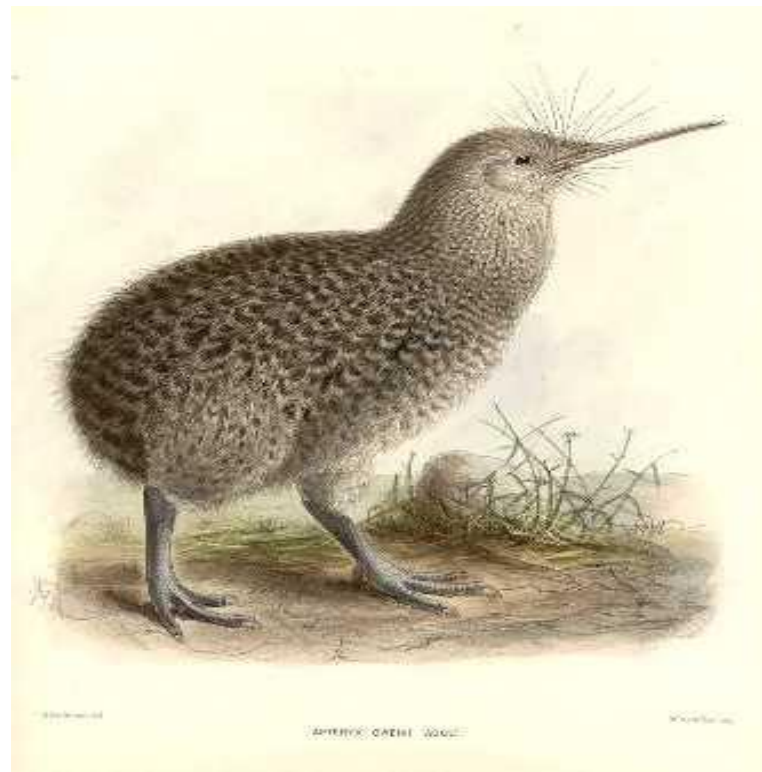
Fellows 146 active
105 resident in NZ
40 life insurance companies

Country 4,360,000 people (34m sheep, 10m cattle)
3,406,000 working age
2,152,000 working
168,000 unemployed

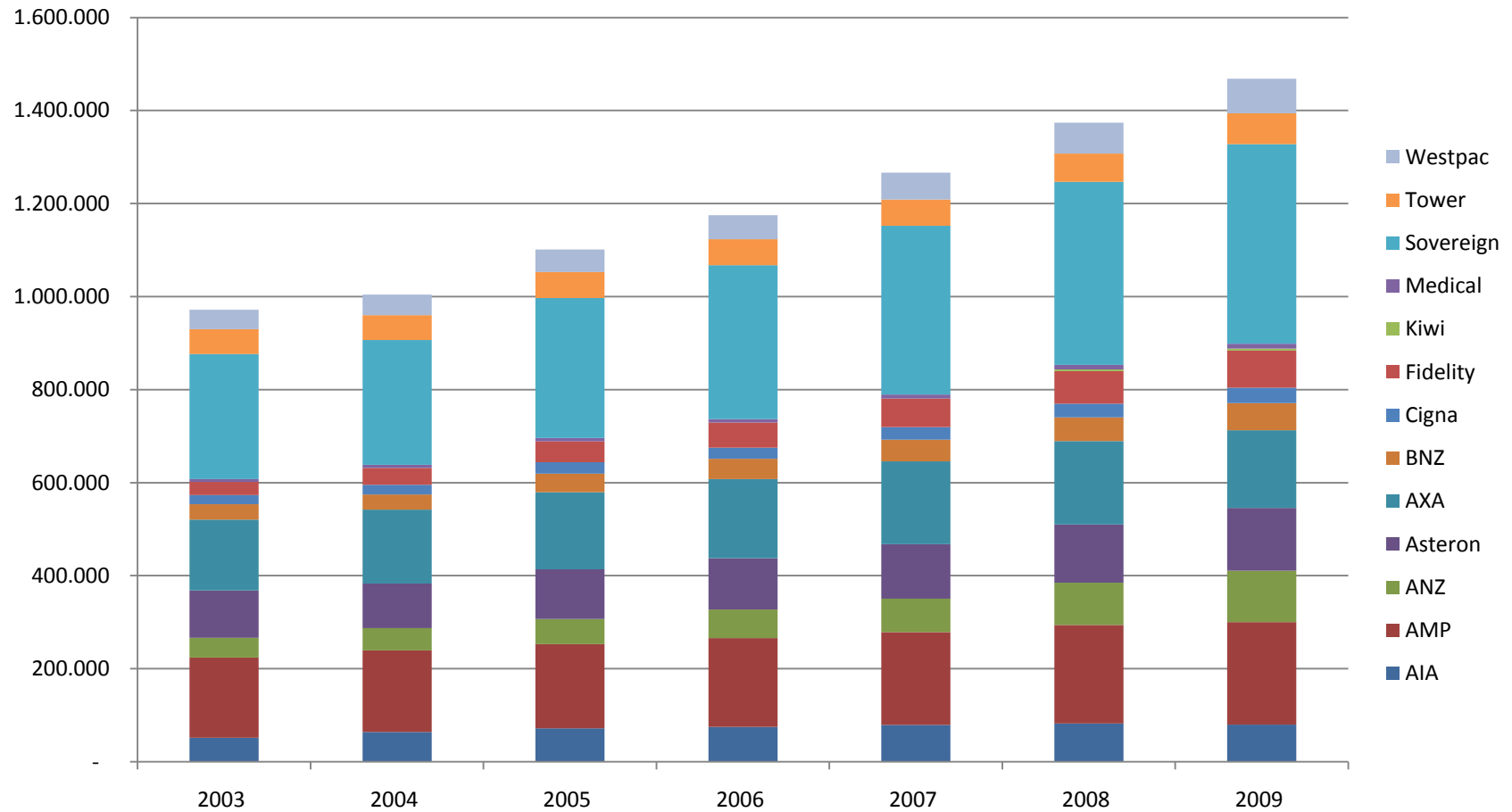
GDP Growth



Life investment



Individual Life & Disability



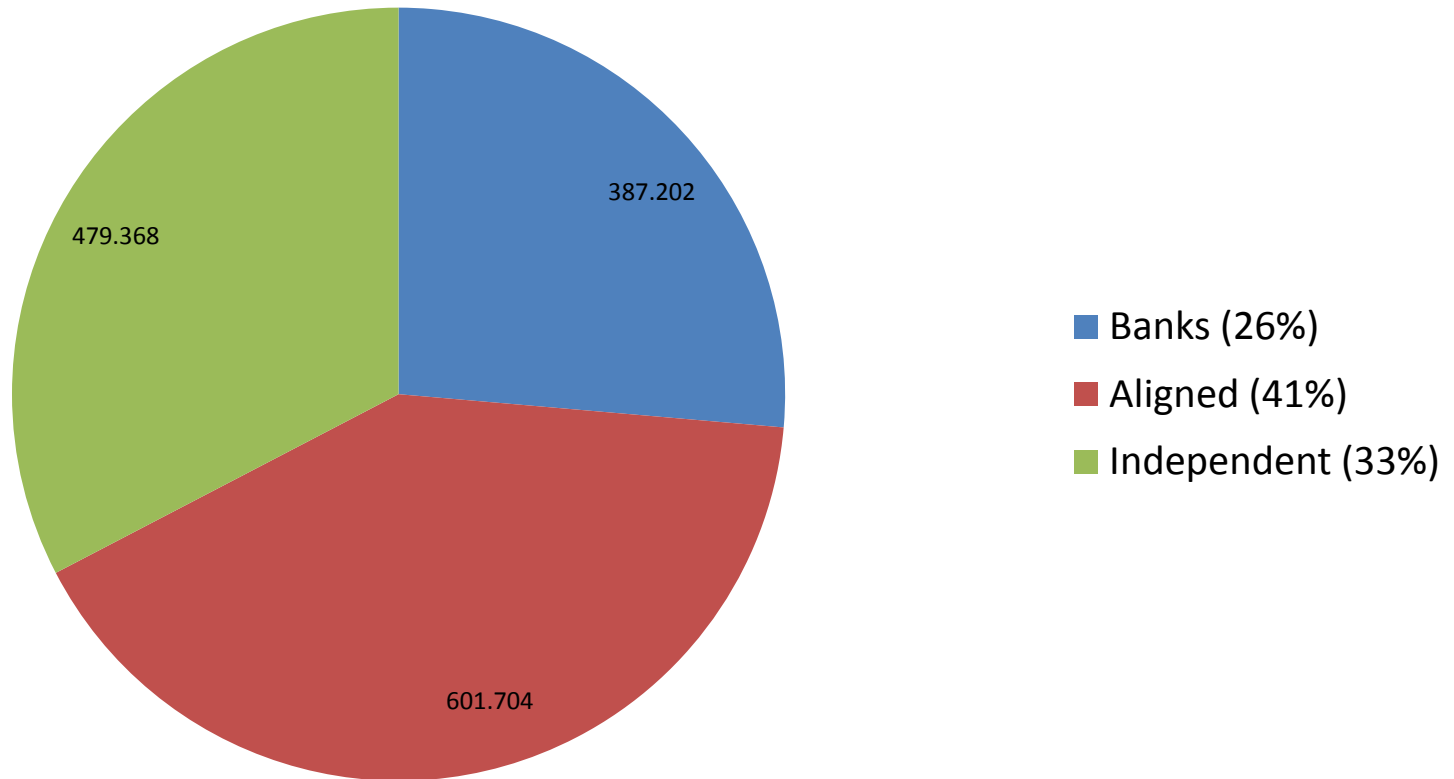
Risk products

Yearly Renewable Term 80%
Life, TPD, Trauma, Income Protection

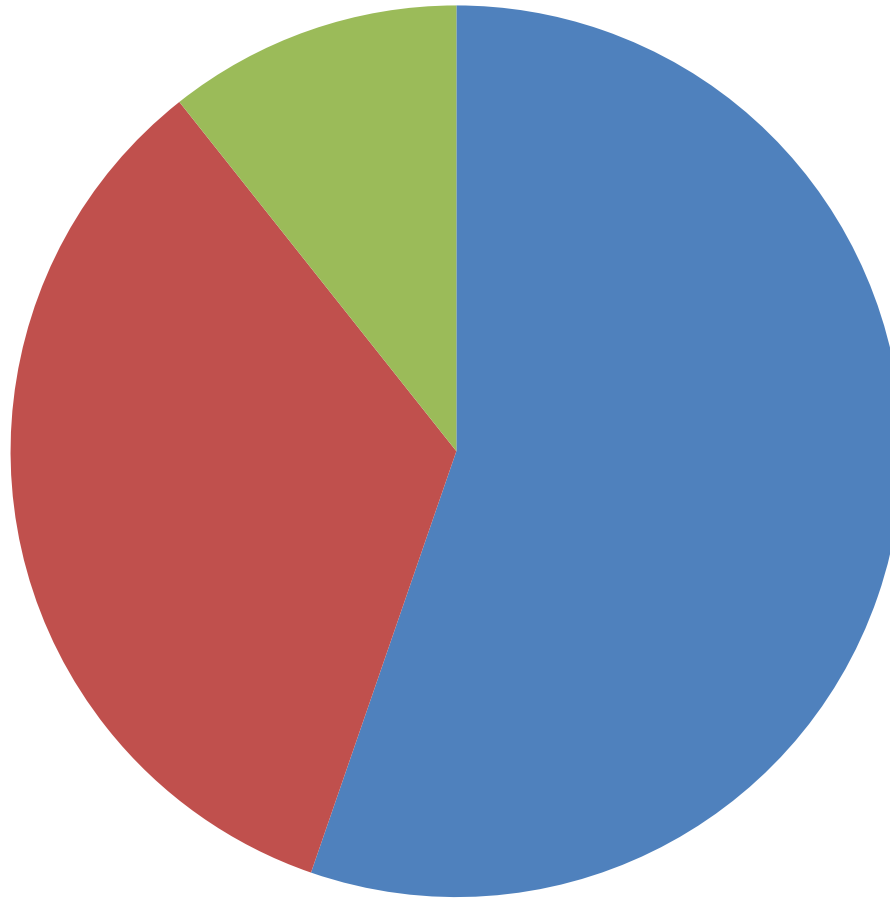
Level Term 15%
Life, TPD, accelerated Trauma

Guaranteed acceptance 5%
Life, accidental death

Distribution channel



Ownership



- Bank (55%)
- Foreign (34%)
- Local (11%)

Replacement business

Stepped premiums

& High up-front commission

& Short commission write-back

& Transfer terms

→ **Predatory behaviour**

Cancelled premium	10½%	(Jun 04)
	12%	(Jun 09)

Commission War



Sales strategies



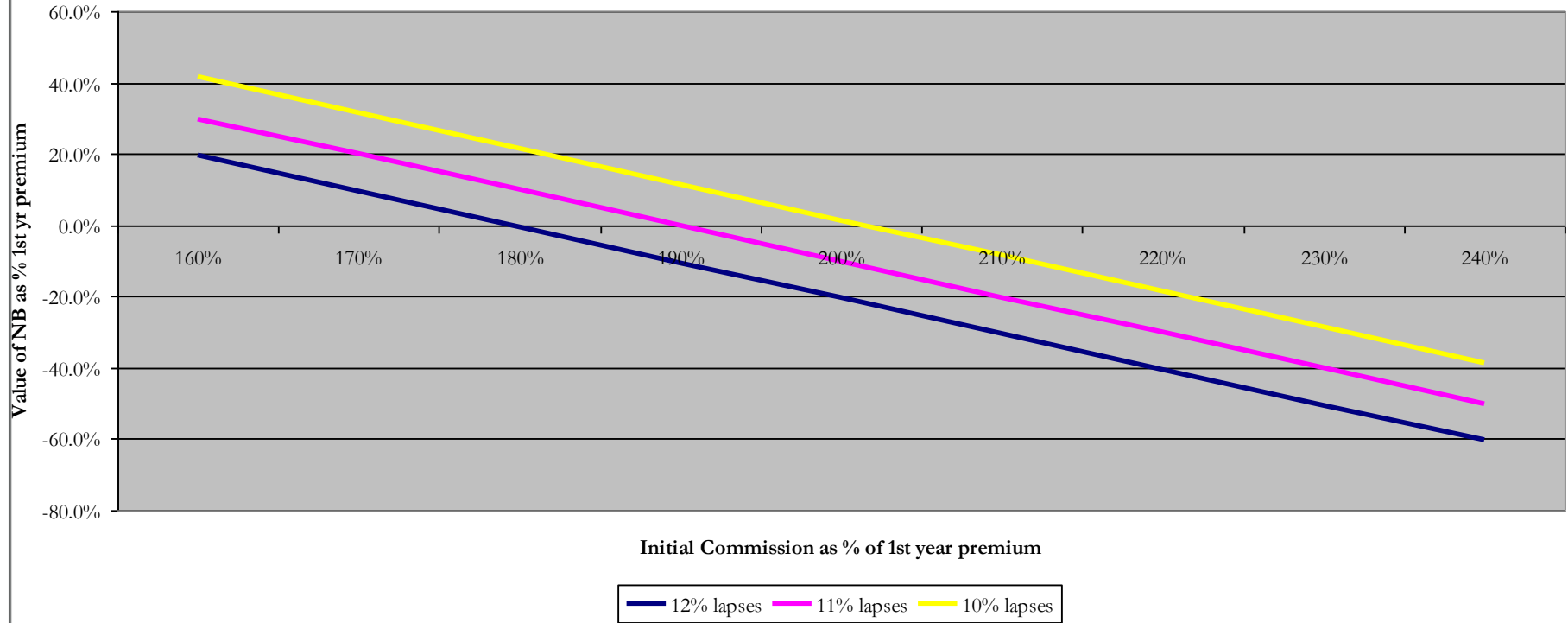
Economies of scale	pay more for bigger share
Loss leader	grow share before new tax
Adjustable bonuses	pay good brokers more
Others not stupid	let's follow the lemmings
Risk-free reporting	shows profit margins

New Business strain



Value of new life insurance cash flows discounted at 15%

(\$ 500,000 sum assured for 40 year old male; premium 1.75*NZ04; Claims nil in 1st year, NZ04 thereafter
Renewal Costs 5% + \$50; Set-up costs \$ 250 + IC + 20%; no duration discounts)



Tax on the horizon



Insurer regulation



Qualitative standard to assess new entrants

Assets proportional to risk

Separation of assets to limit contagion

Board accountable to protect policyholders

Remedial graduation options for regulator

Adviser regulation



Licensing

- Competency
- Accreditation
- Process
- Documentation
- Dispute resolution
- Disclosure
- Client's best interest



Finance companies





Prudential supervision

- Fit & Proper owners, directors & officers
- Board responsibility for NZ policyholders
- Risk management policy
- Unencumbered admissible assets
- Solvency under adverse deviations
- Credit rating for NZ branch
- Financial Condition Report

FCR by Actuary



- Analysis & commentary
- Snap-shot & forward looking
- International norm & trade convergence
- Professional judgement
- Statistical models and scenario testing
- Helps board manage company better

Contact Details



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* Not fully regulated by the UK actuarial profession

^ Accredited member of Institute of Actuaries of Australia.

Acknowledgements



Slide:

New Zealand

GDP Growth:

Individual Life & Disability:

Source:

Population: Statistics New Zealand (Dec 2009 data, June 2008 data for livestock)
Fellows: New Zealand Society of Actuaries census at 01 October 2009

The ANZ National Bank of New Zealand (NBNZ Regional Trends)

Insurance and Savings Institute of New Zealand (in-force API at 31 Dec 2009)

Earlier drafts of the paper were reviewed by Peter Davies (Chair – NZSA Health practice committee), Ian New (NZSA immediate past president) and Roger Vineall (ASSA). I am grateful for this assistance. However, any omission or inaccuracies remain my sole responsibility.