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Coming Up

Nov

MUGS 40th Anniversary Reception
Tuesday 25 November, Sydney

YAP — Contribute to the Profession as an Actuary — Volunteering in Education
27 November 2014, Sydney

Dec

Actuaries Managing Risk - Insights — A Day in the Life of an ERM Manager
1 December 2014, Sydney

Actuaries Managing Risk — Insights — Understanding and Communicating the Uncertainty and Ambiguity of Risks
4 December 2014, Melbourne

2015

Actuaries Summit
Sunday 17 – Tuesday 19 May 2015, Melbourne

ASTIN/AFIR/ERM/IACA Colloquia
Sunday 23 – Thursday 27 August 2015, Sydney

CONGRATULATIONS TO JOHN WALSH

The John Walsh Centre for Rehabilitation Research was officially opened on Friday 17 October 2014 by the Minister for Finance and Services, Dominic Perrottet, and the Minister for Medical Research, Jillian Skinner.

The centre is named after leading Actuary John Walsh AM, who has worked extensively and tirelessly in the field of accident compensation schemes and policy and funding design in health and disability systems.

Find out more at:
A Crack in the Glass

In August came the welcome news that Maryam Mirzakhani had won the Fields Medal—considered the greatest honour a mathematician can receive. The 51 winners to date are perhaps the rarest of human beings—not only possessed of innate mathematical talent, but also the resources and circumstances that affords them the opportunity to pursue mathematical studies, and also the determination and personal dedication to reach the very highest level. However, Mirzakhani’s achievement was even more remarkable—she was the first woman to ever receive the award. If that was simply a matter of chance, she was one in $2,251,799,813,685,248$.

That sound you hear is a tiny, but significant crack in the glass ceiling.

Internationally, the number of women studying mathematics at university has continued to rise, breaking the sexist myth that mathematics is only the domain of men. Even the suggestion that the top mathematicians were male has plenty of counterexamples, starting from the Greek philosopher Hypatia way back in 350 CE.

In the Australian actuarial profession, only 24% of fellows are female, but that rises to 39% for associates and 41% for students. If the trend continues, and women rise up the ranks, then we should see a gender balance at the top that reflects the number of women entering the profession.

But are we truly entitled to rest on our laurels regarding the diversity of our profession? It’s an important question, and not just a question of political niceties. There is ample evidence that there is no bias in innate talent between men and women, and our profession needs to include the brightest minds if it is to remain relevant and successful. Excluding women is both irrational and inequitable.

I think there are some areas of concern.

First, evidence is emerging that fewer high school students are taking mathematics at the highest level, and this decline has been alarmingly high among females. It is unlikely that we are losing students that were going to pursue an actuarial career. However, the basic maths course for the HSC is fundamentally a course on financial literacy, and as actuaries we should be concerned that the financial literacy of our customers may fall. This is especially important for women who still have disproportionately lower retirement savings than men. Our President Daniel Smith has more to say on this in his column this month.

Second, the number of women taking actuarial courses at Australian universities is still far less than 50%. Recent statistics from UNSW show that only 25% of Co-Op students were female, though this rises to 38% for all actuarial studies. Compared to the 41% female ratio for student members of the Institute, this suggests that the proportion of women taking up actuarial studies is falling.

Third, in considering diversity we also need to think more widely, including such factors as race, sexuality, religion, disability, and age. Recently Tim Soutphommasane, the Australian race discrimination commissioner, asked if there was a bamboo ceiling that exists in the same way that a glass ceiling exists for women [https://www.humanrights.gov.au/news/speeches/asianisation-australia]? It is a thought provoking question for us as a profession. In particular, whilst only 10% of the Australian population has Asian cultural origins or ancestry, that ratio is likely to be much higher for students entering our profession. Elan Yang considers the bamboo ceiling in his Student Column this month. Soutphommasane notes that there is good reason to be optimistic about the diversity of Australia’s leadership, with many examples like Penny Wong, Ahmed Fahour, and Shemara Wikramanayake. Will this diversity be reflected in our own future leading actuaries?

Sharanjit Paddam
In October I presented to the iPARM Australia 2014 (Investment Performance, Attribution & Risk Management) Forum in Sydney. The focus of the conference was predominantly on how best to coax extra return out of a portfolio, measure and attribute investment performance and manage investment risks. My experience and research with managing risk on an enterprise wide level has led me to believe that the best investment research and analysis fails to be effective if the communication of those risks is not accurate and effective in itself. Good enterprise risk management (ERM) involves understanding what are the risks and their interactions that are most important; and communicating those risks effectively.

Investment risk discussions are often dominated by asset volatility. This squeezes out wider discussion on what are the most important investment risks from a non investment professional perspective. It also misses the point that the purpose of any investment strategy is to achieve the investor’s goals, and the key risks from an investor’s perspective revolve around the goals, not the strategy.

How can we better communicate the investment risks, particularly in relation to goal achievement, so the people making strategic investment decisions can make better decisions appropriate to their investors’ circumstances?

WHAT DO WE MEAN BY INVESTMENT RISK?
I have made a wide interpretation of investment risk. It is the risk that the outcomes of an investment strategy and its execution do not meet the goals of the investor, or the person (e.g. member) on whose behalf the investments are being made.

Investment risk – the risk that the outcomes of an investment strategy and its execution do not meet the goals of the investor.

The start and key focus must be on the goals of the investor – not on the goals of the fund manager. So the assessment of risk must revolve around that. The goals the investor requires from an investment must be clear. An investor’s financial goals are not solely driven by investments – e.g. rate of contribution and time to retirement. It also requires the degree to which risk can be taken in striving for those goals to be just as clear. E.g. what time period is relevant? Is the risk that over the relevant time there is a return that is negative, less than cash, or less than wages growth or inflation plus...
3%? In other words the risk appetite of the investor must be clear – clearly stated and clearly communicated. This requires two way communication:
(1) The risk appetite of the investor must be clear to those setting and implementing the investment strategy.
(2) The ‘risk’ implications of a fund manager’s strategy should be clear to the investor, so they can determine if it will help meet their goal.

**WHAT IS EFFECTIVE COMMUNICATION?**

Effective communication means being successful in getting the message across – it must be heard, understood and believed by the receiver. Effective includes knowing the message is understood and has been taken on board to make better decisions and achieve more appropriate and better outcomes.

Effective communication means being successful in getting the message across – it must be heard, understood and believed by the receiver.

**INVESTMENT RISKS – WHICH MATTER MOST?**

I’ve identified my top 10 investment risks – split into those strategically / indirectly related to the underlying investments and those directly related. The former are to my mind generally more important. All 10 are factors that affect the risk of failing to achieve the investor’s goals.

**Table 1: Top 10 investment risks**

<table>
<thead>
<tr>
<th>Strategic / Indirect</th>
<th>Direct</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Failure to understand investor’s risk appetite</td>
</tr>
<tr>
<td>2</td>
<td>Matching risk</td>
</tr>
<tr>
<td>3</td>
<td>Inflation</td>
</tr>
<tr>
<td>4</td>
<td>Operational risk</td>
</tr>
<tr>
<td>5</td>
<td>Liquidity</td>
</tr>
<tr>
<td></td>
<td>Asset allocation</td>
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<tr>
<td></td>
<td>Market risk</td>
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<td></td>
<td>Stock selection</td>
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<td></td>
<td>Fund manager selection</td>
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The relative importance of each investment risk will vary from fund to fund with the size and nature of the fund and the environment in which it operates. Most importantly, it will vary with, and should be driven by, the ultimate investor / member’s unique position. Many of the top 10 risks are interrelated. Understanding their relativities and their aggregation is important.

From a communication perspective, communicating even one investment risk can be a challenge. Yet if you are not communicating effectively the contribution of each of these risks to the overall risk of your clients not achieving their goal, you are failing your client. Good decisions require relevant, sufficient quality information. This information goes beyond pure investment data.

One answer is to prioritise the investment risks and bring out the overlaps in discussions with the Board Trustees / investor. Concentrate on the fundamentals – what risks are most important to the combination of your investor’s:
- particular circumstances;
- investment goal;
- time period for that goal; and
- risk appetite?

Taking Table 1 as our indicator of priority, and the strategic / indirect risks as being more important to the setting of an investment strategy, consider how to communicate these for say a superannuation fund.

**STRATEGIC / INDIRECT**

1. Failure to understand investor’s risk appetite

Before illustrating communication around risk appetite I’ll highlight an important fundamental around risk from a non sophisticated or disinterested investor / member. As Howard Marks has noted most people mean “the probability of loss” when they refer to risk. In communicating with them on investment risk and investment risk appetite, keep the concept simple – how much capital are they prepared to lose or what’s the minimum return that is acceptable to them, while potentially making or not making extra returns.

This requires firstly that the investor or fund is helped to express their risk appetite. This two way meeting of minds could be achieved by the investor or fund (for a given demographic / population segment and risk tolerance level) being provided with graphs illustrating a distribution of returns which could then be clearly delineated by the investor as bands from unacceptable (too low), acceptable (in target range) and unnecessary (higher than high target). Figure 1 illustrates this as red, grey and green.

The risk appetite is determined by the investor as: (a) less than a stated investment return with an agreed low A% probability (the red zone) over the relevant investment time horizon, (b) a high B% probability that the investment return will be in the grey zone and (c) a low C% probability that the return will be in the green zone. A,B,C might be 10%, 85%, 5% respectively.

An important aspect of the communication around investment risk appetite is to communicate positively and not scare. Framing the question positively can in itself lead to a more informed dialogue and assessment which in turn should then lead to a better outcome.

2. Matching risk

In the big picture, the nature and timing / duration of the investment assets should match the needs (goal) of the investor (the future liabilities) being future retirement.
income streams at a level to preserve current lifestyle so a need to increase at future wage rates.

Communication of this risk can be achieved by scenarios illustrating ‘what ifs’ for demographic segments in the past and best estimate into the future.

3 Inflation risk
Given the very long timescales in superannuation as people live longer – in the long term the biggest risk from a member prospective is that their savings fail to keep up with wages/ lifestyle inflation.

Communicating this risk requires the illustration of past actual and future potential realistic scenarios showing how inflation erodes value over time and how e.g growth investments have in the past at many times and might in the future return more of an inflation linked outcome, thus decreasing this investment risk.

4 Operational risk
I identified poor execution of the investment strategy as part of my definition of investment risk. From the investor perspective there can be considerable operational risk – losses from failed processes, people and systems or from external events. Conflicts of interest, poor advice, inefficient, ineffective or costly investment administration systems and processes, poor governance and fraud all come to mind. When an investor pays higher fees than necessary, they are bearing relative losses from this investment risk. Less than optimal fees can make a huge difference to members’ retirement outcomes. This investment risk can be reduced by clarity and transparency on fees, and by setting fees in $ terms rather than as % of funds under management which rise disproportionately when as happens more often than not, asset values increase at greater rates than wages.

Boards of directors are made up of people with a range of skills and expertise. You need to get your messages across to all of them not just the accountants or those with a finance background. You need to explain your investment and related risk messages in a way that relates to their organisation and its strategic intent so they can make appropriate decisions.

You will need to consider the level of investment risk awareness and expertise of the Trustees, investment committee members and senior management making investment recommendations, and how this communication of risk might be used to inform a fund’s members in their myriad of circumstances.

Is the message different for not for profits e.g. charitable trusts, profit for members such as industry super funds or shareholder for profit institutions? Yes, if these organisations have a different level of risk appetite, reflecting their capital reserves and degree of conservatism and prudence, which might be accentuated by different levels of skills and numeracy.

REGULATORY REQUIREMENTS
In superannuation APRA’s introduction of Superannuation Prudential Standard SPS 530 Investment Governance outlines prudent practices in relation to corresponding investment risk management arrangements with sections on investment risk management and stress testing. It focuses on a narrower definition of investment risk than I have – it defines investment risk in superannuation as the risk of an RSE (Registrable Superannuation Entity) licensee failing to meet its investment objectives due to adverse or inadequate investment performance. APRA expects assessment of the investment risks that might arise from factors such as:

<table>
<thead>
<tr>
<th>Investment Risk Factor (SPG 530 #128)</th>
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<tbody>
<tr>
<td>(a) volatility</td>
</tr>
<tr>
<td>(b) maximum drawdown</td>
</tr>
<tr>
<td>(c) sequencing risk</td>
</tr>
<tr>
<td>(d) inflation risk</td>
</tr>
<tr>
<td>(e) tail risk</td>
</tr>
<tr>
<td>(f) correlation risk</td>
</tr>
<tr>
<td>(g) liquidity risk</td>
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</tbody>
</table>

WHAT TO COMMUNICATE
So what do you need to communicate to your client / investor?
Firstly that you understand their specific circumstances, time frames, goals and risk appetite. Interface with this, information and discussion that helps them understand their unique investment risk appetite and its related tolerance for losses or return shortfalls.

Consider which risks matter most to them and why. Explain the implications of risk versus return trade-off for them. A key part of this is communication of historical and potential future price volatility and variability of returns by asset class and by investment option. Helpful quantitative measures to show are:

- the standard deviation of returns by asset class and investment option, and
- the Sharpe Ratio value which measures risk adjusted return defined as actual return in excess of the risk free rate of return divided by the standard deviation of returns.

Be clear on costs charged for specific investment management and related reporting services.

HOW YOU SAY IT
Figure 2: Mehrabian’s 7 38 55 rule

We’ve all heard that what we say is just a small part of effective communication. That is the ‘7 38 55 rule’ illustrated in Figure 2. It’s partly true and partly a myth. Mehrabian has been a pioneer in understanding communications for decades. His research on understanding body language and non-verbal communications found that only
7% of message pertaining to feelings and attitudes is in the words that are spoken, 38% in the way that the words are said, and 55% in facial expression. But Mehrabian himself stressed it only applies when there is inconsistency between the content, tone and body language – at which point our “like / don’t like” takes control.

So what you say is extremely important and the greater clarity here the better as you need that as the foundation for understanding and trust. How you say it is also very important and needs to be consistent with what you say. Finally to gain trust, and have your message accepted, you must believe in what you have communicated so that there is consistency in the message, delivery and interaction.

HOW TO COMMUNICATE WITH BOARDS ON INVESTMENT RISKS

Successful communicating with a Board is primarily about developing a trusted adviser relationship. This means tailoring your information and advice to the organisation starting with an understanding of its vision, mission and its strategic objectives, and what drives the organisation. Tailor your communication to each of the individual Board members recognising that each has a different set of skills and experience and only one or two at most will have the depth of investment knowledge you have.

Keep explanations simple, clear, relevant and be consistent over time. Set reasonable expectations for what can be communicated in the limited amounts of time Board members have to read Board papers and interact with you at Board and committee meetings.

Communicating matters on risk is always a challenge as risk means uncertainty and ambiguity; not indisputable facts. With investment risk these probabilities are quantitatively around distributions of investment return outcomes over time and qualitatively around people’s comfort with understanding their current position, goals and needs, and their likely future behaviour as events emerge, particularly their reaction to losses. So that the best decisions can be made.

Scenarios past and future including stress testing and reverse stress testing are excellent ways of communicating. Encourage an interactive discussion on those to draw out the areas needing extra explanation.

Given the variety of backgrounds on a Board some communication is more akin to education but no less important. Share examples of good practice you’ve observed or know work from other Boards’ experience. Draw analogies to non investment risk where you can – e.g. car insurance, life insurance, betting – where the people you are communicating with already have a base understanding of risk and uncertainty.

Keep it relatively simple means using pictures and colour rather than words, or to supplement words, where possible. Graphs which deal with a limited number of variables, ideally 2 but 3 at most at a time, help a lot. Put a lot of your time into deciding how best to get your core message(s) across and be ready with the why and how answers.

CONCLUSIONS AND RECOMMENDATIONS

1 Start by assisting the Board/investor to clarify and understand their investment goal(s) and risk appetite.

2 Communication of investment risk is as important as identifying and managing it.

3 Pay extra attention to the strategic / indirect risks and in doing so show how control over the ‘direct’ risks by the investment manager contains risk within appetite.

4 Tailor to your audience remembering a Board will have a range of numerate and not naturally numerate members.

5 Use pictures and words, analogies from familiar household risk and insurance, scenarios past and future and interact in discussion where possible.

6 Put the necessary communication preparation time in to maximise the effective use of Board members’ limited time.

Thanks to John Reid for his input and support for this article. All errors are mine.

Successful communicating with a Board is primarily about developing a trusted adviser relationship. This means tailoring your information and advice to the organisation.

Author: Sean McGing is the Director of McGing Advisory & Actuarial. He is an actuary and a Fellow of the Australian Institute of Company Directors. Sean provides risk management, investment and actuarial advice to superannuation funds and other boards and management.

1 See John Reid’s presentation at Risk Insights Session on ‘Superannuation – Risk Culture and Risky Communication’ – Melbourne 24 July 2014
2 Howard Marks on Risk and How to Handle It Today – CuffeLinks June 2013
3 Applying the techniques of Nobel Laureate in Economics Daniel Kahneman author of Thinking Fast and Slow
4 See Risk Insights discussion in Sydney on 16 September 2014 ‘Understanding and Communicating the Uncertainty and Ambiguity of Risk’ and forthcoming discussion in Melbourne on 4 December 2014
An Actuary Seeking Answers

Will Matthews is an actuary living in Melbourne. He has worked in the life insurance industry and more recently as a consultant. But it is his work as an expert witness in 2002 that is the subject of this article. The story concerns Will Matthews’ request for information from ASIC under freedom-of-information legislation – a request that was made more than a decade ago, and has yet to be fully answered. To understand the background to his request, we need to go back to 2001, when a company called Allstate Explorations NL was placed into administration.

All photography of Will Matthews – by Steve Ryan (www.steveryan.com.au)
INTRODUCTION

Allstate controlled the Beaconsfield goldmine in Tasmania, subsequently infamous for a disastrous collapse on 25 April 2006 and the miraculous rescue of two miners, Brant Webb and Todd Russell, after two weeks underground. Beaconsfield Mine operated from around 1877 to 1914, when it was first closed. It was re-opened in 1999, closed for some time after the 2006 collapse and operated until 2012. It produced approximately 1 million ounces of gold between 1877 and 1914, and a further 1 million ounces between 1999 and 2012. The mine was particularly profitable, reportedly producing 20.8 grams of gold per tonne of ore in 2004, compared to an average for most gold mines of around 3 grams per tonne. Subsequent indications are that the ore grades at some lower levels are even higher.

Allstate, which was a majority owner of the Beaconsfield Mine, was placed under administration in June 2001, under Michael Ryan and Anthony Woodings of Perth insolvency group, Taylor Woodings. In 2002 ASIC investigated the circumstances of Allstate and its 2001 administration, and as part of those investigations, ASIC retained Will Matthews to review the gold hedging contracts of Allstate and associated companies. ASIC subsequently found insufficient evidence to warrant further action. Following the abandonment of its investigations, ASIC has exempted the administrators from providing accounts for some of the periods since administration.

After ASIC ceased its investigations, Will Matthews and several Allstate shareholders sought details of the investigations:

1. Following his investigations of the gold hedging and the ASIC exemption, Will Matthews sought details of the reasons for the abandonment of the investigation by lodging a Freedom of Information request for ASIC to provide the background documents. That request has continued in several forums for over a decade and has outlasted three ASIC chairmen. He has won an order from the Administrative Appeals Tribunal that disallows ASIC’s claim that most of the documents that he has sought are exempt from the FOI request, but so far he and the regulator have not reached agreement on details of the supply of those documents.

2. In 2005, Allstate shareholder Jeffrey Knapp and other aggrieved shareholders sought to have a special purpose investigator examine the affairs of Allstate Explorations’ administrators. They sought the appointment of a special purpose administrator to review transactions that took place in September 2001 and March 2002, including the sale of $77 million worth of debt to Macquarie for $300,000. The action was financed by IMF Australia, a listed litigation funder. They were unsuccessful.

The irony of Allstate’s situation was that it owned 51.5 percent of the Beaconsfield Mine, and the junior partner, Beaconsfield Gold owned 48.5 percent. Allstate had a smaller initial debt than Beaconsfield Gold and also received an ongoing management fee that Beaconsfield Gold did not receive as the junior partner. Yet it was Allstate that was placed in administration, and Beaconsfield Gold was allowed to continue operating.

To understand what Will Matthews has been seeking since 2003, we first need to examine the structure of the companies that owned and operated the Beaconsfield Mine.

DETAILS

Otter Gold controlled Allstate, which had majority ownership of the Beaconsfield Mine. Macquarie was financier to Otter Gold and arranged hedging contracts for Otter Gold and Allstate. Will Matthews has estimated that the result of these hedge contracts was that Allstate lost as much as $10 million at the same time as Otter Gold gained about $30 million. These hedge contracts were bank authorised and required to insure against loan exposures, with the same management arranging both sets of hedges – Will Matthews said that these arrangements were ‘at best, nonsensical’.

Beaconsfield Gold was placed into receivership in 2001 when the mine struck production and cash flow problems. It was relisted subsequently following arrangements with its banks.

Allstate was placed under administration in June 2001. Creditors voted to accept an offer from Macquarie – the only secured creditor, with a debt of $21 million – to purchase $77 million worth of Allstate’s debt for $300,000 – on 19 March 2002. Several shareholders subsequently claimed that the information provided to them prior to the March meeting was insufficient for them to make an informed decision. Specific forecasts of gold production were not given. But according to Mark Trumbull, executive director of Beaconsfield Gold – writing in that company’s March 2003 quarterly report – a circular provided to shareholders prior to the meeting indicated annualised gold production of between 77,158oz and 78,236oz. Trumbull wrote, “what the administrators apparently neglected to point out to Allstate creditors in the circular or at the subsequent meeting was that the forecast rates of annual gold production ... bore little or no resemblance to the actual BMJV (Beaconsfield Mine joint venture) gold
production rates at the time ... “The mine was already producing at an annualised rate of 95,000oz, and the joint venture’s five-year plan indicated much higher rates of production.

Some of the information obtained from ASIC under the Freedom of Information Act included lists of emails. One of these suggests that the mine’s prospects were better than was indicated to shareholders prior to the meeting – an email dated 9 January 2002 was titled ‘Gold Gold Gold – confirmation of excellent Gold productions’.

Other shareholders have advised that the major concern at the creditors’ meeting was to keep the mine operating, since many were local businesses receiving income from the mine. There were claims that the threat of closure of the mine was used to persuade these creditors to accept the very low offer for the debt.

The bulk of the debt was intercompany loans from Allstate to its subsidiaries. These loans were lent to subsidiaries to finance mine redevelopment – by selling the loans to Macquarie they became external debt. By acquiring the debts, Macquarie acquired control of the Beaconsfield Mine and the right to more than half the cash it produced. This has amounted to up to $20 million a year.

Some creditors claim that had they known information that has subsequently come to light about the mine’s drilling results and prospects, they would not have voted to hand control of the mine to Macquarie.

**SUBSEQUENT DEVELOPMENTS**

In light of the knowledge he gained regarding the hedging contracts of Otter and Allstate, the investigation by ASIC, its finding that there was insufficient evidence and the exemption granted to the administrators from providing some accounts, Will Matthews sought access to background documents. Other shareholders sought unsuccessfully to investigate the administrators.

The story of Allstate and its administration attracted the interest of financial journalists. One, Michael West, wrote an article that appeared in *The Australian* on 5 March 2005. He has written several other articles questioning the operations of the Beaconsfield mine, the administration of Allstate and the acquisition of the $77 million loan for $300,000 – many of the facts for this article have been taken from Michael West’s articles over the years. But it was the March 2005 article that attracted the ire of Macquarie – Macquarie and executives Warwick Morris and Jonathan Rourke brought a defamation suit against News Ltd in March 2005, after the article was published.

The defamation suit failed – Justice Gray said in his 58-page ruling “... I have found, having regard to the onus that the plaintiffs bear, what was reported does not make out the plaintiffs’ claim that they were defamed.”

Macquarie, in a statement released afterwards, noted Justice Gray’s view that Mr West’s article was “emotive and sensational”. It also said the judgment “finds no impropriety on the part of Macquarie or its executives as alleged by *The Australian*.”

Indeed, Justice Gray was very critical of the article, stating that: “there is, in my view, no justification for the tone of the article or what can only be described as ‘cheap shots’ that the article takes at Macquarie’s expense.”

Despite Michael West winning a Walkley award for his article, it is not available to be viewed in the News Ltd archive.

In a request dated 12 October 2003, Will Matthews sought access under the Freedom of Information Act 1982 (FOI Act) to a large number of documents in the possession of ASIC. Those documents related, in essence, to the development of ASIC Instrument CO 02/968 (Class Order) and Policy Statement 174 (PS 174) and to ASIC’s investigation into Otter Gold Limited (Otter Gold), Allstate Explorations NL (Allstate) and Beaconsfield Gold NL (BCD) excluding documents which were publicly available or which have been circulated to creditors and shareholders.

The request covered approximately 1,226 documents: ASIC originally granted access to 40 of them and refused access to the remainder on various grounds. Subsequently, ASIC granted access to five additional documents in their entirety and to five more in part.

In August 2010, the AAT overturned 90 per cent of the ‘public interest’ exemptions claimed by ASIC. It framed its decision in terms of whether or not the documents were exempt under the FOI Act rather than whether or not Mr Matthews should be granted access to them. The Tribunal Deputy President said that, “I have done that deliberately for the legally enforceable right to obtain access is subject to all the provisions of the FOI Act and not simply those in Part IV relating to exemptions. Among those provisions is s29 which relates to charges ... if Mr Matthews is liable to pay a charge, in most circumstances he must pay that charge before ASIC gives him access to the documents.”

Will Matthews has still not received all of the documents that he sought, or even those that the AAT determined were not exempt under the FOI Act.

Actuaries are trained to apply rigour and logic to problems that they wish to solve. This requires them to reject information that cannot be supported by facts and to pursue the truth without being put off by evasion. Will Matthews has needed all of his actuarial training over the last 10 years to seek reasons for what he sees as actions which are unsupported by the available facts.

Photo montage: a current and a younger Will Matthews
The Annuity Puzzle

It is commonly accepted that lifetime annuities offer retirees a way to protect against longevity and investment risk, however, few buy an annuity with their retirement savings. This is known amongst behavioural economists as ‘the annuity puzzle’. Many authors have attempted to solve the puzzle, but while they continue to speculate, observations of market behaviour demonstrate that, on the whole, retirees in Australia and abroad are not buying.

Where previously the UK was a success story for the annuities sector, the landscape changed radically this year with a budgetary announcement that has drawn the final curtain on incentivised and compulsory annuitisation.

This article discusses the annuity puzzle in the context of the Australian and UK retirement income markets.

SOLVING THE ANNUITY PUZZLE

In 2012, the Actuaries Institute published a discussion piece, Exploring barriers to Australia’s annuities market which cited four key reasons why retirees do not annuitise, these being:

• lack of consumer awareness of the value of annuities at removing key risks;
• behavioural factors, including perception that annuities are expensive, loss aversion, fear of unexpectedly dying early, fear of not living long enough to get back their initial investment and the assumption the aged pension is a suitable fall back option;
• lack of incentives or compulsion; and
• legislative and political barriers, including barriers to product innovation.

Behavioural factors were also cited in the University of New South Wales Centre for Pensions and Superannuation 2008 paper, Australia’s disappearing market for annuities. More specifically, retirees view their pension savings as an investment rather than a means to fund future consumption. Other reasons cited in this paper follow a similar logic, for example, concern that annuity products do not provide a return of capital and wanting to bequeath assets.

Economic theory relies on the assumption that individuals behave in a rational manner. In fact, behavioural economics was born out of challenging this assumption.

Both economists and practitioners agree that, on average, retirees purchasing an annuity makes sense from the perspective of managing investment and longevity risk. However, consumer behaviour clearly demonstrates that individual retirees do not view themselves as average. Information asymmetry and anti selection come into play here with annuities therefore representing the ‘best value’ for retirees who perceive themselves as being in the ‘best health’.

DESIGNING AWAY BEHAVIOURAL FACTORS

Australia’s two annuity providers, Challenger and CommInsure, through product design attempt to subdue annuitants’ fears of losing their money if they die early. Challenger offers a 15 year withdrawal period on its lifetime annuities. This option also pays a lump sum to an annuitant’s estate on death within this period. Similarly, CommInsure allows annuitants to withdraw during a guarantee period. In the event of death, the estate can either continue to receive annuity payments for the remaining duration of the guarantee period or receive a lump sum.

Annuitants can increase their regular annuity payments by passing up these guarantees. Retirees, therefore, need to weigh up whether certainty in exchange for the regular income forgone represents value for money for their individual circumstances.

THE END OF INCENTIVES AND COMPULSION IN THE UK

In March 2014, the UK government announced the abolishment of tax restrictions, paving the way for pensioners to withdraw their pension pot as a lump sum rather than having to purchase an annuity. This follows the removal in 2011 of the requirement to...
purchase an annuity at age 75, previously known as compulsory annuitisation.

Presently, lump sum withdrawals above the tax free amount are taxed at 55%, which provides a strong incentive for retirees to purchase a retirement income stream product, with three quarters choosing an annuity. From April 2015, these lump sum withdrawals will be taxed a retiree’s marginal rate.6

Markets reacted decisively to this announcement with share prices in the two leading underwritten annuity providers, Partnership Assurance and Just Retirement, falling 53% and 43% respectively in one day of trading.5 These two specialist companies represent over 50% of the market share of the UK underwritten immediate lifetime annuities sector.

Furthermore, according to the Association for British Insurers (ABI), annuity sales volumes fell by over a third between the first and second quarters of 2014, or more specifically, between the quarters pre and post the budget announcement. The specialist providers have seen even greater reductions, with both Partnership and Just Retirement quoting a fall in sales volumes of around 50% compared to the pre-Budget period.7,8

While the outlook for UK annuities is uncertain, optimists view this as being on the edge of retirement innovation. Currently, providers, in particular annuity specialists, are working tirelessly to evolve their business to find new and innovative ways to continue to receive a slice of the USD 3.3tn pension assets pie.9

Australian retirement specialists would be well placed to monitor the transformation of this market, as it provides first-hand insight into the impact of compulsion and incentives on annuity sales. Lessons learned here could be used to help shape the future of the Australian retirement income sector.

A WAY FORWARD FOR AUSTRALIA
In August, the Actuaries Institute submitted a response to the Financial System Inquiry (FSI) interim report reiterating key recommendations, including that the Government:11

- adopt a comprehensive framework to manage all issues relating to a sustainable financing of our ageing population;
- establish a mechanism to develop, coordinate and drive retirement income policy;

- create an open data regime to allow increased access to relevant Government held data and modelling information to better manage macro risks to the financial system; and
- remove regulatory and other policy impediments to developing retirement income default options and a wider range of annuity products with risk management features that could benefit retirees.

The Institute followed this in September with a submission to the Treasury12 which responded to consultation questions raised in the Treasury’s discussion paper, Review of Retirement Income Stream Regulation13. This submission focuses on removing legislative barriers that prevent the development of innovative retirement income stream products.

Several of Treasury’s questions focus on deferred lifetime annuities (DLAs), as the Government is considering broadening annuity and pension rules so as to extend ‘to DLAs the same concessional tax treatment that applies to investment earnings on assets supporting superannuation income streams’.

ARE DEFERRED LIFETIME ANNUITIES THE ANSWER?
A DLA is an annuity that is purchased with an up-front single premium, but where regular income payments commence after a deferment period and continue for life. The deferment period may be a particular age, for example, 85 years or the annuitant’s life expectancy.

These products serve the purpose of managing longevity risk, but are also considerably cheaper for consumers than immediate annuities. As such, they may represent a closer fit to consumers’ needs and wants.

A key issue for insurers developing these products is access to credible data from which to develop mortality assumptions, especially at older ages. In addition, insurers may not have the necessary tools or information to be able to underwrite lives and so may have to rely on cross-subsidy and costly contingency margins. Underwriting can help make annuities more cost effective for retirees by attempting to price commensurate to an individual’s risk.

The timing of emergence of profit may be another consideration for Australian...
insurers, as using annuity payments as a profit carrier defers the release of planned profits.

**CONCLUSION**

UK insurers will find out just how resilient annuity sales are in April 2015 when tax rates on lump sum withdrawals and income stream products are equalised. The market’s initial reaction suggests that, without penalty tax rates, retirees are unlikely to purchase immediate lifetime annuities.

The Australian Government is considering extending to DLAs the same concessional tax treatment that applies to other retirement income stream products in an attempt to encourage retirees to self-manage their longevity risk. This begs the question as to whether this is enough to entice sales.

It would appear that the most effective way to sure up sales of income stream products is to impose penalty tax rates on lump sum withdrawals, but does this have to be an all or nothing proposition? Could a Government steer individuals towards insuring against longevity risk by legislating that a proportion of retirement benefits be annuitised? This scenario would leave spending of the remaining funds at the discretion of retirees.

Whether or not the Australian Government introduces compulsion or incentives, what does appear clear is the importance of understanding retirees’ needs and wants, and in doing so, designing products that consumers perceive as representing greater certainty of value for money. Time will tell if DLAs are one such option.

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1. For FY2014, Challenger’s lifetime annuity sales were $613m, “up 139%, and more than the entire annuity industry has sold in any year.” While CommBank publishes sales results for ComInsure separately, results are not split by product line.
2. As at end 2013, Australia’s total pension assets were USD 1.6trn, comprising 84% defined contribution. UK pension assets of USD 3.3trn include both defined benefit and defined contribution. Defined contribution assets estimated as USD 0.5trn.

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*November 2014 Actuaries*
In my role as an Australian equity fund manager, the measure of investment performance that mattered to me – for both personal remuneration and for client assessment – was the time-weighted rate of return of the equity portfolio. This is the ‘track record’ that most fund managers proudly report in their product disclosure statements, their advertising material and industry performance surveys.

It is a well-established industry position, that when comparing the returns of different fund managers, where the objective is to compare the investment capabilities of those investment managers, the time-weighted rates of return should be used. For example, in APRA’s reporting standard on Investment Performance for MySuper products it defines the net investment historic return as “the time-weighted rate of return on investments, net of investment related fees, costs and taxes, adjusted for cash flows as they occur”. The CFA Institute’s Global Investment Performance Standards (GIPS) requires the use of time-weighted rates of return “because the performance measurement attempts to quantify the value added by investment decisions”.

Despite my acceptance that the time-weighted return is the best measure for comparing the historic results of investment managers in the same asset class over a specified period of time, I felt somewhat concerned that there was a disconnection between the reported time-weighted rate of return (normally represented by alpha generated against the benchmark) and the actual return achieved by the client. The reported time-weighted rate of return excludes the impact of cashflows, while the actual return achieved by the client was dependent on the timing of the cashflows.

Fund managers cannot be held accountable for the client’s timing of cashflows into their fund. That accountability should be with the client and forms the premise for excluding cashflows from return calculations when measuring performance of fund managers. This case, however, relies upon the assumption that the fund manager does not have any control of the timing of cashflows in or out of the fund.

It is also worth considering whether investment managers really have ‘no control’ over investment cashflows. Investment managers often have large marketing and business...
development functions aimed at attracting new clients and inflows from existing clients. Investment managers often also have product development functions. If they wish, investment managers are able to place capacity limits on funds and ‘close’ to new business.

Essentially, you are always a ‘bull’ (or at worst neutral) on your product when accepting inflows into your fund. If the portfolio has just outperformed the market by a large margin over the past few years, the marketing department, of course, sees this scenario as a ‘godsend’. It is time to ‘push’ this product in the market with a typical view of “let’s get out and promote the good performance”. There is no doubt that the inflows are highly correlated with past strong performance. However, a strong performance – particularly that achieved over a short period of time – is also often highly correlated with ‘expensive’ portfolios. This is typically seen in products exposed to ‘hot sectors’ of the market. It is also evident when buying demand, the inflows to a product pushes up the share prices of any relatively illiquid stocks in the portfolio.

Alternatively, if the portfolio has just underperformed the market by a large margin over the past few years, the marketing department will, of course, see this scenario as a ‘disaster’. A few of the existing clients might consider ‘topping-up’, but the marketing department would not even bother trying to attract new clients. You certainly wouldn’t advertise your poor past performance, in fact, you might even try to launch a new product to distract investors from prior products with the poor investment performance.

Through this process, a fund manager’s portfolio may outperform the benchmark when the portfolio is relatively small in size; and on the back of the past strong alpha generation, with product promotion, the fund may attract cash inflows. Once invested the fund may then underperform the benchmark. Overall, by using the time-weighted rate of return, the fund may still be able to show an investment rate of return above benchmark. This is despite the period of negative performance when the fund held the larger part, resulting in overall poor experience for clients.

The timing of cashflows may well often be outside his or her control, but I think there is a case for at least measuring the dollar value of alpha added by a fund manager. The dollar value of alpha added could be calculated based on the size of funds in a product and the level of alpha generated (excess return above benchmark). If a fund manager underperformed when the bulk of their money was under management, then this would well outweigh any outperformance prior to the bulk of the money flowing into the fund. In this case, the dollar value of alpha added would be negative.

In addition to the time-weighted rate of return, the calculation of a dollar value alpha for an investment manager’s entire product suite would place the onus on the investment manager to only actively market a product when he or she considered the investment to be appropriate at that time. At the extreme, it may even encourage investment managers to return funds to clients when they consider the future investment returns from a product no longer appropriate for that client. It can be argued that the calculation of money-weighted returns or dollar value alpha would put back some onus on the investment manager to ensure products remain good investments for its clients. It may even discourage some of the more unsavoury industry practices, such as promoting ‘hot’ products at cycle peaks.

How well an investor times cashflows into and out of a fund will have a significant effect on that investor’s ultimate (money-weighted) investment return. I believe measures that address the returns of the investor, rather than the fund manager, should become the primary focus of the industry.

A positive example of this is that Platinum Asset Management’s Chief Executive Officer Kerr Neilson said in a recent investor roadshow presentation that of their long-term average reported return (time-weighted) of 13% p.a. compound, the average client return (money-weighted) was only about half of that. He said he would be delighted if his investors controlled their emotions and had some form of regular savings scheme.

In order to gain a better understanding in choosing the right solution to measure investment success, I would recommend reading the works of Yuri Shestopaloff and Alexander Shestopaloff – including A hierarchy of methods for calculating rates of return – 2007; Science of Inexact Mathematics, Investment Performance Measurement – 2009; and Solving the Puzzle of IRR Equation – 2011.

I hope this article encourages some industry debate. Please email any comments to the author at mjhickling@optusnet.com.au.
Hugh Sinclair has worked with several microfinance institutions around the world for over 10 years. In his book *Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor*, he paints a shocking picture of a system increasingly focused on maximising profits. Hugh details several scandals and describes what makes some microfinance organisations more effective at addressing poverty than others. Without fundamental reforms, Hugh argues that microfinance will fail to live up to its promise. Here Hugh talks openly about his book and his views on an actuary’s role in microfinance with Qinnie Wang.
Comment continued

**QW:** What prompted you to write the book “Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor”?

**HS:** I had worked in the microfinance sector for some years, initially as an advocate of the model. Gradually, I saw a disturbing level of fraud and deception in many institutions that I worked for. It dawned on me that the entire sector is built largely, not entirely, on a deception. We had created an industry, and this industry required a continual flow of capital, and countless companies sprung up to tap this flow. However, what was actually happening on the ground was rarely discussed outside of the sector.

We made lofty claims, which deep down we knew were largely untrue, but such claims paid our salaries. We developed a ‘standard rhetoric’ – the proverbial woman with a goat who took a loan for $50 and all her problems vanished, and her children lived happily ever after. Perhaps some of us even believed it. Then Yunus won the Nobel Prize, which somehow legitimised the otherwise fringe activity. And then Compartamos Banco did their ludicrously profitable IPO, personally enriching many individuals and institutions, albeit on the back of high interest rates charged to the poor.

Many of us were concerned with this trend. Poverty eradication was replaced with return on equity and PE multiples. People in smart suits replaced the casual attire at conferences. The atmosphere changed. I decided to confront my employer having discovered some gross negligence, if not outright fraud (depending on your definition), and eventually won a case against them, but nothing really changed.

The poor were increasingly being used as hapless vehicles in a money-making scam. Well-meaning, if not slightly naive donors were equally being deceived, and this seemed not only unethical, but a cruel irony: to exploit the poor in the name of poverty alleviation.

But how to shift such a large beast? So I started speaking to journalists and trying to get media coverage, and eventually the NYT picked up on a terrible case I had been involved in, in Nigeria. This created a moment of panic in the sector, and while it was short-lived, I saw a small opportunity to get people thinking laterally about microfinance. Around this time the Andhra Pradesh scandal struck, when 54 women in India committed suicide due to chronic overindebtedness, and the WSJ broke the story.

At the same time, I began to discover other people in the sector, journalists, academics etc. who were also questioning the wisdom of endlessly indebting poor people, which was empowering. But ultimately it was the simple disillusionment that I was doing anything constructive to actually help the poor that prompted me to take the gamble, and when I speculatively contacted a publisher, as an unpublished heretic, they immediately loved the idea and offered me a contract. At that point I couldn’t say no.

**QW:** What do you think has changed since the book was published in July 2012?

**HS:** Many things have changed, some for the better, others for the worse, and I would not like to take undue credit for my actions. Confronting microfinance has been a collective effort. I think my book was more accessible to the layman than many more academic texts challenging the sector, and also pointed out to the academics the fundamental role the investment community played in causing many of these problems.

Since 2012, the criticism of microfinance has certainly increased, and such criticism has reached the mass media. I think many investment funds are nervous of being associated with another scandal, and are acting more prudently. A lot of people have quit the sector entirely, and there have been tentative steps towards increased regulation.

The ongoing crises in the sector have perhaps driven away some of the more philanthropic investors and donors, but these have largely been replaced with hard-nosed investors seeking a decent return. The sector seems to be slowly splitting into two distinct segments which were previously merged. A genuinely social branch, that take the welfare of the poor as their primary focus, and a more commercial arm, who believe fanatically that the provision of financial services is development, and that there is simply no need to focus on poverty, because the invisible hand of capitalism will solve their problems, and thus these investors believe they can act with impunity and earn the returns without much regard for the poor.

I am exaggerating the two extremes here to make the point, but institutions that genuinely straddle both sides of the gulf are becoming increasingly rare. To the extent that this takes place in a regulated environment it is not necessarily a bad thing: MF was invented precisely because the traditional banks refused to lend to the poor. Now such banks increasingly are lending to the poor, and traditional MF institutions are converting to banks. But we risk forgetting a key difference: our clients are often vulnerable, often borrowing for emergencies, often they run small businesses that do not lend themselves to leverage, and they face other challenges in their lives that can radically upset an otherwise reasonable business, but made all the more catastrophic in the presence of debt. We cannot push an essentially ‘western’ model into these countries without also pushing the regulatory environment, financial literacy and client protection that we take for granted in the ‘west’.

**QW:** What opportunities are there for actuaries who are interested in microfinance?

**HS:** As the sector grows and becomes more competitive, markets become increasingly saturated and regulation (slowly) creates a more level playing field. It is increasingly hard for an institution to gain a competitive edge. It simply becomes a race to scale. However, with the expansion of decent computing power, software and skills within the institutions, and the ability to cross reference internal data with external data (such as from a credit bureau), there is a largely untapped field of analytics that is yet to be harnessed.

Banks are sitting on terabytes of data, but unaware how to use it for any purpose other than to see who owes them money this week. What any actuary is aware of is that with large samples of data over extended periods, patterns begin to appear. Which clients are not...
there are a host of cause-effect paradoxes to and the institution began to focus on this. Obviously to get there. Thus retention seemed to be the key, his loan as a women in her fifth cycle, only less likely A man in the fifth cycle was just as likely to repay likely to renew their loans and reach the later cycles. stayed at the institution longer, they were more generally declines (for a variety of reasons which is that at each successive cycle the default rate this initially appeared a mystery. What we observed difference between male and female default rates, second, third, fourth time – there was no significant renewing their loan, likewise. And those renewing a clients, male and female repayment rates were almost identical. When we looked at those clients the sector has changed, and still very few people are asking these questions. Client desertion is becoming a serious problem in the sector, and yet we can barely agree how to even define it, let alone look at the causal relationships behind it. Such analyses may sound simple, but in the messy day-to-day reality of MF it requires a certain mindset to filter through the data and uncover answers, and these are precisely the sorts of skills that actuaries possess. To give one example, from an un-named bank. This bank displayed the famous characteristic within the sector of higher repayment rates from women. But when we looked at the repayment rate of new clients, male and female repayment rates were almost identical. When we looked at those clients renewing their loan, likewise. And those renewing a second, third, fourth time – there was no significant difference between male and female default rates, and yet overall female default rates were lower. What we observed is that at each successive cycle the default rate generally declines (for a variety of reasons which are not so relevant in this example), but for men and women equally. However, female clients generally stayed at the institution longer; they were more likely to renew their loans and reach the later cycles. A man in the fifth cycle was just as likely to repay his loan as a women in her fifth cycle, only less likely to get there. Thus retention seemed to be the key, and the institution began to focus on this. Obviously there are a host of cause-effect paradoxes to resolve here, but this gives an insight into the type of complexity that an apparently simple observation can hide. **QW:** What are the unique challenges that set microfinance apart from other financial services? In your opinion, are these challenges being addressed effectively? **HS:** Unique challenges: poor data quality, high volume but small amounts, unstable samples, constant rotation of clients and staff, problems objectively capturing data, elevated levels of fraud, difficult working conditions (poor infrastructure, lack of basic services such as reliable internet and electricity, physical insecurity, long distances on bad roads in unreliable vehicles to reach a client etc.), little regulatory oversight in most cases, substantial deviations from best practice, unusual accounting practices, politicised working environments where talent does not always correspond with seniority, problems hiring specialised staff, nepotism,... the list goes on. The key skill is patience. Moving from mainstream finance to microfinance can be a shock, and there are no short-cuts, and no substitute for being in the field. But don’t expect to learn it overnight. In terms of the application of microfinance compared to ‘regular’ finance, the main problems include the relative vulnerability of the clients; lack of financial literacy; the inability for the client to separate personal expenses from work expenses (it is ‘one pot’); a lack of data on the underlying business; hidden borrowings from other sources; difficulty in enforcing a contract; questionable title over fixed assets; political interference; serious over-indebtedness; credit bureaus of varying degrees of reliability (a partially reliable credit bureau can be more dangerous than no credit bureau!); in some countries it is challenging to uniquely identify a client; again, the list goes on. Are these being addressed? To a great extent, not. Sometimes I feel like we are trying to run before we can walk. The financial sectors of the ‘west’ took hundreds of years to develop, and while leap-frogging such delays is a great thing, we need to identify where the problems may lie. For example, financial literacy needs to correspond with the sophistication of the loan and savings products. A line of credit is fundamentally different to a fixed-term loan, but if the client views both as ‘debt’, without fully understanding the difference, this will eventually lead to trouble. Sometimes we seem to focus too much on the innovation, such as mobile banking, without thinking of the more core question – when should a client borrow and when not? And the sector remains
Comment continued

too focused on loans and insufficiently on savings and other financial products such as insurance. We can create the most sophisticated financial inclusion opportunities in a country, but if that results in millions of over-indebted clients with insufficient savings, is that a worthy outcome, even if we did it using the latest i-Pad?

My most serious concern relates to client protection and informality. We pay no more than lip-service to this currently. By promoting microfinance, are we encouraging an ever-expanding informal economy? Are we considering the protection of vulnerable people within the community? Are children being denied an education in order to stack the shelves of a micro-enterprise which might, on paper, appear to be growing and repaying loans, but is causing an intra-generational problem? Are we siphoning scarce capital away from the small and medium enterprises and lending it instead to an army of basket-weavers fiercely competing with one another? Does society benefit from having such a large and potentially growing share of its resources involved in enterprises that do not employ many people, do not obey local employment law, do not pay tax, do not obey basic health and safety laws, etc.? We call this ‘job-creation’, but is it really? Are we simply reducing the pressure on governments to develop sensible industrial policies to create competitive industries, in favour of an informality that traps a country in a never-ending stagnation of low-skilled employment? And where is the training, the financial education, the advice on not complying with regulations governing its use, with contingency plans for when it is used poorly, directed at those that need it and restricted from those that do not, or who seek to abuse it.

In terms of savings and insurance, as long as these are fairly priced and offer transparent services and meet certain regulatory control, it is hard to think when these should not be promoted. But they are generally the most ignored aspects of financial inclusion. The focus is principally on the most dangerous financial tool – microcredit. This has led to catastrophic crises (Andhra Pradesh, Bosnia, Pakistan, Bolivia, Morocco, Nicaragua, etc.), and yet is the most profitable and thus most promoted branch of microfinance.

It is useful in carefully controlled doses, at fair prices, to a certain sub-set of the poor who are actively involved in a genuine business activity which can grow with leverage without causing excessive harm to those around him/her i.e. it does not lend itself to massification. Perhaps not surprisingly, when microcredit is offered to anyone with an ID card and capable of signing their name regardless of the loan purpose or level of indebtedness and costs 80% per year, this ends in tears. And yet this is precisely what we see, over and over again. Again, to use a medical analogy, is morphine a good drug? In some circumstances it is marvellous, but handing it out at street corners is not a good idea! The problem, at least in the short run, is that doing so is good for morphine producers (i.e. microfinance banks and their shareholders).

If we returned to the basis of what debt is, and when it should and shouldn’t be used, instead of becoming over-excited about delivering debt over a mobile phone or whatever the latest fashion is, then we might have a better chance of creating a healthy financial inclusion sector. But currently this is lacking, which is a great pity, as the few banks out there that are practising wise lending are tarnished with the same brush as the sector at large. And if a bank does a stellar job at nurturing good clients and helping them grow, but another bank offers the same client unlimited credit with a signature, the danger is that the client gives into the temptation and the implications eventually fall on both banks – good and bad, and the client.

Finance is a useful tool only in a regulated environment, and regulated well.

QW: Do you believe that microfinance can be an effective tool in poverty alleviation?

HS: Financial inclusion, in the full breadth of the meaning, is a useful function in a society. Financial exclusion is a curse. But finance is a tool, and can be used wisely or poorly. Financial inclusion is not the end goal. It needs to form part of a bigger picture, of macroeconomic growth, of skills development, of education and financial literacy, etc.

I liken it to a medicine – it is very useful, but the goal is not to simply produce as much medicine as possible and dump it across an entire country. It needs to be used carefully, with regulations governing its use, with contingency plans for when it is used poorly, directed at those that need it and restricted from those that do not, or who seek to abuse it.

In terms of savings and insurance, as long as these are fairly priced and offer transparent services and meet certain regulatory control, it is hard to think when these should not be promoted. But they are generally the most ignored aspects of financial inclusion. The focus is principally on the most dangerous financial tool – microcredit. This has led to catastrophic crises (Andhra Pradesh, Bosnia, Pakistan, Bolivia, Morocco, Nicaragua, etc.), and yet is the most profitable and thus most promoted branch of microfinance.

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Finance is a useful tool only in a regulated environment, and regulated well.
The Governance Review Taskforce was established following the events which led to the Extraordinary General Meeting in October 2013. The members of the Taskforce were: Steve Miles (Convenor), David Minty, Martin Mulcare, Ian Pollard, Chao Qiao, Graham Rogers, Helen Rowell and David Ticehurst, with Anne Peters providing HQ support.

The Taskforce’s Terms of Reference were:

“Review the systems that the Institute uses to engage with its members in the governance of the profession and make recommendations to improve member involvement, transparency and accountability of governance as well as communication with members in these areas. Systems include the election and terms of the President, Vice Presidents and directors, the filling of casual vacancies, the opportunities for re-election, as well as the appointments to committees.”

In addition to the Taskforce members reviewing corporate practice in Australian not-for-profit organisations and listed entities, as well as the practice of actuarial and non-actuarial professional associations, Institute Members were consulted through focus groups, surveys, online discussion forums on the Institute’s website and various LinkedIn groups and Insights sessions.

In September 2014, the Taskforce presented the following final recommendations to Council:

**RECOMMENDATIONS ON COMMUNICATION**

1. **More transparency in Council operations:** A reasonably large number of comments were received about Council and committees being a ‘closed club’. The solution is for Council/the Institute to be much more open, transparent and inclusive than it is currently perceived to be. This will require a considered and comprehensive communication/engagement strategy to be developed and effectively implemented. There is work available from other professions that can provide a guide for Council to develop this strategy.

2. **Publication of Council agendas and meeting summaries:** The recent move by Council to issue a summary note of Council meeting outcomes was well accepted by members and should be continued. 58% of survey respondents thought it was important to be informed of the outcomes of Council meetings and a further 40% thought it was interesting. Council should consider posting meeting agendas and other items that lead to more transparency.

3. **Establishing a discussion forum on issues for consideration by Council:** It should be noted that the Taskforce found that the discussion forum software used by the Institute has limitations. These limitations were due to the customised database that the
Actuaries Institute uses, as well as the website software and support. This cannot be regarded as satisfactory. Council should establish a discussion forum on issues, but at this stage there is no ability to let members know when there is an update.

4. Members should have the right to compel Council to review an issue: This seems preferable to having an Extraordinary General Meeting. A threshold of 50 Voting Members ‘petitioning’ seems like a realistic level to require such a review. A published response to all members within three months of such a ‘petition’ could be the required outcome.

5. Clarify the role of Council and Committees: Whilst Terms of Reference for Council and committees do exist, they are written more from a compliance perspective than a performance perspective. Further information on what committees do can be found in newsletters. Each committee should have a short statement of what has been done over the past year and what will be done over the next two years; something that would inspire members to get involved.

RECOMMENDATIONS ON ENGAGEMENT

6. Voting by Associate members: Associate members should have the right to vote for Council members, meaning that all members who can now call themselves ‘actuaries’ will have a vote. This would mean that Associates would account for 26% (721 Associates and 2007 Fellows at 8 July 2014) of members eligible to vote. It would be logical to also allow Associates to be Council members, but there is not a strong level of support for this and therefore the Taskforce has not made this recommendation.

7. Access to committee membership: There should be open access to membership of all committees and this should be promoted to members. The Actuaries Institute should continue the recent practice of advertising for committee vacancies as they arise. There is some feeling that committee membership is not open. Members also feel that some committees are too hard to join and also feel that they need to be invited to join committees and Council. The target time on committees is three years, but many committee members have served longer than this. Preference should be given for new members in these circumstances. The role of the Nominations Council Committee should be promoted in this renewal process, as its existence/purpose does not seem to be well understood.

RECOMMENDATIONS ON GOVERNANCE

8. Council terms: Council members should have a three year term and should be able to stand for re-election for a maximum of one further consecutive term. A three year term is the very clear preference of members now and is the most common term for overseas actuarial bodies.

9. Presidential trio: The Presidential trio system should continue with the Vice President being elected by Council. The trio system was supported in focus groups, discussion forums and the member survey. It is also the common system used by overseas actuarial bodies, although the trio is usually the President elect, President and Past President. Paradoxically, there is a similar level of support for allowing a President to stand for re-election even though this does not fit with the trio system. Whilst a two year presidency would be more consistent with Australian corporate practice, it is not the general practice of other actuarial bodies or other professions. A two year presidency is also a significant work load, especially if there is a two year Vice President lead-in period. 64% of survey respondents believed there should be a lead-in period for the President.

10. Council composition: There should be three Council members elected each year, making a total of nine elected members (a reduction from the current twelve), together with the members of the Presidential trio who are not Council members.

11. President as Council member: If a member of the Presidential trio is not on Council at any time during his or her term, then he or she should be co-opted as an additional member of Council. This is the usual practice in overseas actuarial bodies and supports the election of three Councillors each year.

12. Non-members on Council: A further one or two positions on Council could be appointed by Council from outside the profession. The term of these appointments would be for twelve months, with the option for Council to renew each appointment up to a total term of six years. This would help extend the influence of the profession, as well as enable Council to fill skill gaps. 28% (close to 30%) of members thought this was a bad idea, so this is still a controversial issue. This practice is, however, quite common in larger not-for-profits.

13. Casual vacancies on Council: Casual vacancy rules should not impact on the number of Councillors elected each year. The Taskforce did not ask members how to deal with casual vacancies as it was felt that the answer would be dependent on other issues. On balance, the Taskforce recommends that Council fill casual vacancies for the remaining term of the vacating Councillor, first considering the unsuccessful candidates from the most recent Council election. Having an election to fill a casual vacancy would mean having a variable number of Councillors elected each year. Council is currently considering the Taskforce’s recommendations in further detail as part of its review of the Institute’s 2015-17 strategy.

Interested to know more? Like to indicate your preference on each recommendation? Check out the Taskforce’s website page: http://www.actuaries.asn.au/about-us/governance/governance-review-taskforce.
Group of Retired Actuaries in Melbourne (GRAM)

GRAM has again met four times this year at KPMG’s Melbourne Boardroom. The average attendance has been 19 members, just up from the first full year in 2013.

The topics that have been discussed include:

- financial and legal issues for retirees;
- future jobs (generally and for actuaries);
- energy; and
- forward planning for our towns and cities.

The meetings are informal with members contributing their views with enthusiasm.

This month, members attended the inaugural gathering of similar members and their partners from around Australia.

In 2015 it is likely that five meetings will be held with at least one topic being more technical than to date. GRAM remains an excellent opportunity for retired and partly retired actuaries in Melbourne to meet with old friends and colleagues, whilst enjoying discussion and lunch kindly provided by the Institute.

Retired Actuaries Group, Sydney (RAGS)

Retired actuaries in NSW continue to meet 11 months of the year at the Institute’s office. The numbers in attendance vary, typically from 12 to 17. New members join but sadly a few of our members have passed away since our last report a year ago.

We feel proud that 75 written papers have been discussed by our enthusiastic group in the last seven years.

The papers discussed in the last 12 months are listed below. All papers were written by RAGS members except those identified.

- Limits to Growth – Risk Management Issues – Actuaries’ Input
- Superannuation reform
- The sun is forcing changes in natural risks
- The terms of reference for the Financial System Inquiry
- DB Liabilities, AASB119 and Investment Strategy by Professor Craig Ansley
- Investment-linked lifetime annuity
- The longevity paper from ICA 2014, by Dr Jay Olshansky
- Technology for retirees
- Benazhen Avanz’s paper in AAJ 2010 Vol 16 Issue 2: What is it that makes the Swiss annuitise?

At our October meeting we discussed John Croucher’s biography of Professor Alf Pollard. The discussion was led by John and Ian Pollard.

This month we will hold a Gathering in Canberra of older actuaries, convened jointly by RAGS and GRAM. The purpose of the Gathering is to renew old friendships. Two ‘business’ sessions will be held at ANU, but priority will be given to socialising in conducive surroundings.
The Digital Era

We’d like to share with you more about our plans to go digital...

IT’S ALL ABOUT CONTENT ...AND ALL ABOUT YOU

At the Actuaries magazine, our focus has always been on providing relevant, high quality timely content to our members.

KEEPING UP WITH THE PACE OF CHANGE

Over time our monthly hardcopy format has started to challenge our ability to deliver timely content with articles taking at least two months to go from conception to print.

One facet of this has been that practice committees have developed separate newsletters to communicate more rapidly with their members. We expect that the issues we face as actuaries working in our respective industries will continue to increase in pace, leaving the current magazine format very much behind the curve.

CONTINUOUS CYCLE

At the start of 2015, we will move away from a monthly cycle to a continuous cycle. As well as allowing for immediate publishing of articles on the issues of the day, we will no longer be restricted to numbers of pages or word limits for our articles. We can have as much content as is necessary to provide insight and quality reporting that each topic deserves. We can dispense with words entirely and use videos, audio recordings, visual presentations and other formats to provide exciting and interactive content to our members. We will also channel through relevant content from other sources on a daily basis.

DESIGN BRIEF

Our new website for the magazine is well on the way. The design reflects our connection with the Actuaries Institute, but also reflects the dynamic and interactive future of the magazine. Members will be able to comment and like articles. Anyone will be able to sign up for weekly emails summarising new content. And for those of us who like that sort of thing, we’ve made it super easy to forward an email to a colleague with a great article you just saw that’s relevant to what the company’s doing.

VISION

Our ambitious vision is for the magazine to be the first port of call for members.

When you arrive at your desk, or pick up your laptop to begin a day’s work, we want to be the first website you visit to catch up with the news, see who has commented on your article, or catch up on the latest questions your practice committee wants feedback on.

And we have an even greater ambition for our website – we want to be the first port of call for people working in the industries we serve as actuaries. We want to be a platform for actuaries to showcase their talent and thought leadership for their industries. We want to do our part in promoting brand actuary.

PRINT COPIES

At the start of 2014 we asked members to opt-in if they wanted to continue to receive the magazine in hardcopy, and only 420 of 4516 members did that. Today, most of our readers come to us from our monthly email.

Members who still want to receive a print copy of the articles posted each month will be given the opportunity to opt-in for this service.

IT’S STILL ABOUT CONTENT

No matter how many bells and whistles, like buttons and comment boxes we add to our website, nothing will be as effective in reaching our vision as having high-quality relevant content.

The practice committees have agreed to be responsible for content in their areas and each practice committee will have an editor on the magazine editorial committee.

Thought-leaders in the industry have agreed to contribute on a regular basis to the website. This includes actuarial and other consulting firms.

We will publish a news feed that links into relevant articles from the mainstream press. There will be synopses and summaries of relevant research plus commentary on current industry issues.

We expect (and hope) that members will make full use of the commenting facility to provide thoughtful and constructive commentary on articles. We will moderate out any comments that are not consistent with the high quality we wish to promote.

Now that you have read about our plans, share your feedback via editor@actuaries.asn.au and tell us what you think. We look forward to hearing from you.
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

REPORT GENERATED ON 20 OCTOBER 2014, 289 RESPONSES.

Thank you to the 289 of you that responded to our request for feedback on our plans for the digital era. It has made valuable reading, and we’ll be putting the results to good use on our new platform in the New Year.

WHO ARE YOU
Overall we appeared to have a good representation from the profession. 72% of respondents were male, and 28% female. There was a good spread of males across the age groups, but as I mention in my editorial this month, the number...
of females fell rapidly for older ages. Nearly three quarters of respondents were Fellows or accredited members, whilst associates made up 14% and students 12%. Nearly half of respondents were from Sydney, 79% from Australia somewhere, and the remainder from overseas.

HOW MANY ARTICLES DO YOU READ A MONTH? (Figure 4)
I was very pleased to see that 25% of respondents read most of the magazine each month, and 52% read a few articles. Interestingly, older members appeared to read more articles than younger members.

HARD COPIES (Figure 5)
Nearly half of respondents said that they continue to receive hard copies, and unsurprisingly older members preferred that format. This differs from our total population, as we know that most members have not requested hard copies of the magazine. Of those respondents that no longer received the magazine, 71% said that they read fewer articles, whilst 29% said they read more. It will be interesting to see how this changes when we move to our digital magazine.

Will people prefer a website to the current monthly email? My conversations with many members have suggested people would prefer a shorter list of articles on a weekly basis to a long list every month.

Of course we will continue to provide a hard-copy option on a monthly basis for those who still want that – however, this will be in a different format from previous magazines. We'll also continue to create a monthly pdf file for people to view offline or print out if they want to.

FREQUENCY OF ARTICLES (Figure 6)
There was clearly a higher demand for news – both from industry and from the Institute on a more regular basis. It is precisely this demand that we hope to meet with our digital format. News that is two months old is pretty much not news, even if it is in hard copy. Dr Bruce was particularly pleased to see that equal numbers wanted to see more of him as less of him – “Working as intended”.

I was surprised to see that members wanted Pulse Surveys more often than bimonthly. Personally, I think we may have dried the well of topics for Pulse, and may have to run them on specific issues as they arise, rather than scheduling them in on a regular basis.
We’ll also look to run our Excel Musings more regularly, as this has proven to be a popular new feature of the magazine.

**DO YOU WATCH/LISTEN TO VIDEOS AND AUDIO CONTENT ON THE CURRENT WEBSITE?** (Figure 7)
I was disappointed to see that videos and audio content was not as popular as we hoped.

Quite a few respondents seemed unaware of the videos (which perhaps coincides with 47% still receiving a hard copy), and the main impediment seemed to be the time it takes to watch a video compared to reading an article. We’ll look to make video segments shorter and snappier in future.

**WHAT DO YOU MOST ENJOY ABOUT THE MAGAZINE?**
Overall there was a lot of support for the variety of articles we have in the magazine. I was also pleased to see that many people felt our articles were accessible and easy to read. Respondents also seemed to enjoy the social aspect of the magazine – in particular the profiles of individual actuaries.

As always we had a lot of support for our puzzles corner. Sadly, we won’t be able to meet the demand for more articles by Gae Robinson, as she has retired.

**WHAT DO YOU LEAST LIKE ABOUT THE MAGAZINE?**
Again, there was a wide variety of responses, and many things that some respondents enjoyed were equally disliked by other respondents – my editorials fell in to this particular category! Respondents generally felt that there was a lot of content in one go, and that they didn’t have time to read it all each month. Again, this supports our strategy for spreading the articles across the month rather than releasing them in a monthly batch.

**WHAT ADDITIONAL CONTENT WOULD YOU LIKE TO SEE IN THE MAGAZINE GOING FORWARD?**
There was a varied response to this question, but one clear trend was the demand for professional and industry news – again, this supports our digital strategy.

There was also a demand for more articles on actuaries working in non-traditional roles. We’ve made that a focus this year, and will continue to do so going forward.
HOW ARE YOU MOST LIKELY TO ACCESS THE MAGAZINE? (Figure 8)

Given our sample of respondents, it was not surprising to see that 40% would continue to read the hard copy version of the magazine. 47% of respondents expect to use a desktop computer or laptop. Only 13% would use smartphones or tablets, which is fewer than I expected. This suggests that there is less demand for smartphone or tablet apps for the magazine, so we won’t treat that as a priority.

Once again, I’d like to thank all the respondents for sharing their views. There were many kind comments of support for the magazine, and it’s clear that many of you value what we do. I’d also like to emphasise that there will continue to be a hard copy option available for people who prefer that format.

Lastly, do contact me if you’d like to talk about any aspect of the magazine. I’m always open to ideas for articles, submissions and general feedback.
As we are approaching the end of the calendar year many readers may be undertaking annual or semi-annual performance appraisal conversations. These are important meetings and provide a great test of people leadership skills.

Let’s begin by differentiating management and leadership. One succinct quote claims: “Management is doing things right. Leadership is doing the right things.” I think this reminder is very apt when we think about performance appraisals…

Good managers operate good performance review processes. They ensure that all of the company templates are fully completed and that each team member is treated fairly and consistently. They will also organise the outcomes so that the results will neatly fit in with the subsequent steps (e.g. remuneration review, bonuses or promotions). These are important skills and critical for human resource management.

Good leaders, on the other hand, understand the core purpose of the performance appraisal. They know that the most important outcome is that each team member is better equipped and more motivated to contribute to the business. They recognise that templates are necessary and that human resource processes are valuable. However, they don’t allow the process to undermine the quality of the human interaction. They understand the value of tailoring the process for different team members. These are much rarer skills.

Let’s look at how this might play out in the appraisal process. Whilst every organisation adopts a different approach, most are based on the interaction of the following two dimensions:

<table>
<thead>
<tr>
<th>TIMEFRAME</th>
<th>Retrospective</th>
<th>Prospective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspect of Performance</td>
<td>Assess Actual Results Against Original Objectives</td>
<td>Set Objectives for Next Period</td>
</tr>
<tr>
<td>What is Achieved</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How it is Achieved</td>
<td>Consider Style, Behaviours and Attitude</td>
<td>Identify Areas for Development (or Further Success)</td>
</tr>
</tbody>
</table>

In my experience, most team leaders are competent when it comes to the ‘what’ line. Assessing actual performance against clearly defined objectives, especially if they are supported by suitable key performance indicators (KPIs), is not particularly difficult. Similarly, assuming that the business has a clear plan and roles are well understood, setting clear objectives for the team member for the next period is usually not a challenge.

It is the implementation of the ‘how’ line that clearly differentiates leaders from managers. Any discussion about how a team leader behaves in the workplace is inevitably linked to the nature of that person. Once we are focusing on a human being (rather than an objective KPI), the personal nature of the interaction, especially if the subject is one of ‘areas of improvement,’ may present challenges.

This is when leaders, who believe that their responsibility is to empower and enable the team leader to perform more effectively, will outperform managers, who believe that their responsibility is to record feedback and development plans. In this context I would like to focus on the subject of feedback and present a supplementary step for people leaders.

There is plenty of helpful material available on how to deliver feedback and I agree that it is important. However, the problems with feedback include:

- discussions about a team member’s past behaviour often produce defensive responses;
- a focus on the past is not that helpful because we can’t change the past; and
- the feedback is as seen through the perspective of the team leader, with his/her own personal frames of reference.
Let’s think about leading actuaries who, as employees, are generally professional, motivated, intelligent and have some degree of self-awareness. Feedback is still valuable to identify blind spots and provide specific examples of behaviour, both positive and negative. It is also helpful to provide a different perspective, even if only for reassurance.

However, I believe that Marshall Goldsmith’s concept of ‘Feedforward’* could be adapted for appraisal conversations to capitalise on the actuarial team member’s self-motivation. (*See http://www.marshallgoldsmithfeedforward.com/)

Here is my suggestion to supplement that part of the appraisal conversation that deals with the team member’s behaviour:

1. The team member asks something like, “Do you have three ideas for improving my … this year/quarter/month?”
2. The team leader provides three ideas, without any judgement on the aspect that the team member is seeking to improve.
3. The team member listens, without interrupting, and takes notes of the ideas (and says “thank you” at the end).

This approach addresses the three problems with feedback that I listed above:
- It is about solutions so defensiveness is removed;
- the discussion focuses on the future not the past; and
- the choice of areas to improve emanates from the team member not the team leader.

The following diagrams (below) may help compare the two approaches:

The Feedforward approach is about solutions, not defensiveness; focuses on the future, not the past; and emanates from the team member rather than the team leader.

Good people leaders empower and enable their team. Using this simple, modified version of the original ‘Feedforward’ concept bestows each team member with the responsibility to select the areas that they wish to work on. These areas could be behavioural (e.g. “improving my patience”) or skill-related (e.g. “improving my report writing”) or practice-related (e.g. “improving my time management”). It is up to the team member to identify the areas — and it is up to the team member to choose which ideas to implement.

I suspect that the likelihood of successful improvement is far greater than if the team leader delivers feedback on past shortcomings and requests attention in the future. Of course, it would be delightful if the team member’s choice of areas to address were aligned with the team leader’s perceptions. In the event that they are not, the team leader is expected to trust the team member and uncritically provide his/her ideas.

This potential lack of alignment has material implications for the order in which behaviour is discussed. Should the team leader provide feedback first or should the team member seek Feedforward first? I think it depends on the relationship and I also think it depends on the degree of self-awareness in the team member. I suggest that the choice may also reflect the confidence of the team leader. Either way, please think carefully about who goes first.

For team leaders, I invite you to trial the technique at your next appraisal meeting. For brave team members, perhaps you can suggest it to your people leader at your next appraisal meeting. I would be interested in your feedback!

*The Team Leader gives feedback to the Team Member
*It is firmly based on the Team Member’s past experience
*It is expected that the Team Member will apply lessons to the future

*The Team Member requests specific ideas from the Team Leader
*It is firmly focused on the Team Member’s future behaviour
*It is expected that the Team Member will consider past experiences
Seven participants from the Professionalism Course held in September talk about their current roles and future aspirations.

“I am excited about being a member of the actuarial profession. Being able to provide the analysis and the insight in an uncertain environment to support and contribute to decision making in a range of contexts is a real privilege.”

TRAVIS DICKINSON
My path to becoming an actuary has been a little bit different to most. I studied Aerospace Engineering in Melbourne and, after graduating, worked as a research scientist for the Defence Science and Technology Organisation (DSTO).

After a couple of years of testing and analysing the structural fatigue characteristics of the Air Force’s fighter aircraft, I decided to do some travelling and work abroad — something that I had always wanted to do. I ended up in the UK and secured a job with Airbus.

Whilst I enjoyed my time at DSTO and Airbus, I soon realised that engineering wasn’t for me and it was at this point that I saw the light and decided to become an actuary. I joined Hymans Robertson, a UK-based actuarial consultancy, and whilst employed there helped a wide variety of clients develop funding and investment strategies to manage their superannuation obligations. During this time I was also able to pass the UK actuarial exams and become a fully-fledged actuary.

More recently I’ve returned to Australia and I am now working for Russell Investments. I love the challenge of working with different clients and engaging with the various parts of their business.

Attending the professionalism course is one of the requirements that I need to fulfil in order for my UK qualifications to be recognised in Australia. However, more importantly, it was a great opportunity to meet some Australian-qualified actuaries and it was fun. Who’d have thought!

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BRENDAN JONES
My career started a long way from the typical environment of an actuary. After studying civil engineering and mathematics, I began my professional life as a project management consultant. I spent plenty of time wearing a hard hat, safety vest and steel capped boots while contributing to the development of road, water treatment and port infrastructure in Sydney and around Australia.

Throughout that time, I developed an interest in the management, assessment and quantification of risk. I enjoyed the challenge of determining how much to set aside for the inherent uncertainty in estimating the costs of constructing complex assets. I also enjoyed the subsequent stage of translating a client’s desired risk profile into a procurement strategy and a construction contract.

The decision about how much to allocate to contingency involves the assessment of many inter-related risks, in a process that is not dissimilar to setting reserves in an insurance context, and no less important to the health of the affected organisation. As a result I decided that furthering my education with a Masters of Actuarial Studies at UNSW, and continuing on to qualify as an Associate of the Institute of Actuaries of Australia would add value to what I was able to offer my clients.

I am excited about being a member of the actuarial profession. Being able to provide the analysis and the insight in an uncertain environment to support and contribute to decision making in a range of contexts is a real privilege.

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Comment

I am an Actuary

Seven participants from the Professionalism Course held in September talk about their current roles and future aspirations.
Comment continued

**ALEX LEUNG**
Most of my actuarial experience to date has been fairly ‘non-traditional’. After I graduated in 2009 from ANU, I worked in a number of fields including investment and market analytics, and commodity consulting in both Hong Kong and Sydney. I am now relatively more ‘traditional’, working in the Wealth Actuarial team at ClearView. In addition to the actuarial qualification, I also hold the CFA designation.

Actuaries are unique. Perhaps the most valuable qualities that I gained from the Institute’s Part II & III education are the ability to think qualitatively and to judge materiality. Such qualities helped me to make a difference when I was working at a commodity consulting firm, comprising technical engineers and economists, to develop a standardised costing model for alumina/aluminium production. Equipped with both quantitative and qualitative competency, actuaries can certainly act as strong coordinators/managers/leaders (whatever you want to call yourself) in a group with diverse backgrounds.

In the past, I have met a number of actuarial graduates who feel hesitant about continuing their actuarial education as they don’t feel that the qualification is being well regarded in their ‘non-traditional’ fields. My response is, “That is not the right perception so let’s change it, together!” There are now an increasing number of actuaries I know who are keen to demonstrate our unique qualities outside the ‘traditional’ shell, including hedge funds, health and environment planning, and even property development!

I also remind people that the so-called ‘traditional’ was once regarded as ‘non-traditional’. So be pioneers and tell the world that actuaries can make significant impact in places beyond the ‘traditional’ fields!

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**MARC MER**
I am not going to lie and tell you how happy I am that I can finally be called an actuary. The truth is, I’ve been able to call myself an actuary for a while now, having qualified in the UK a couple of years ago.

I have had the privilege of being able to live on three different continents in my relatively short actuarial career to date. Let’s rewind a bit. I grew up in sunny South Africa, and spent most of my life in the rainbow nation. It was there that I started my actuarial studies through the University of the Witwatersrand (aka Wits). As South Africa still operated under the UK actuarial system at the time, I started writing the UK exams whilst at university in SA (subsequently South Africa did launch their own actuarial curriculum and qualification, which is now mutually recognised in both the UK and Australia).

After university, I moved over to London to begin my working life and finish my actuarial qualification. It was fairly straightforward to continue my exams and start working given that I was already enrolled in the UK Institute and Faculty of Actuaries. I qualified in the UK and spent the first years of my working life there, whilst enjoying everything that the UK and Europe have to offer.

I only recently moved over to Australia with my employer, Deloitte, to continue my career in actuarial consulting.

This just shows how global our profession is, and how easy it is to transfer your skills and knowledge to other countries. I strongly encourage you all to get a taste of living and working abroad at some point in your lives... take advantage of the global reach of the actuarial profession!

marcmer01@gmail.com

**LAUREN QIAN**
Even though I have started my actuarial path in a traditional manner I have still enjoyed all the challenges along the way. Without knowing what it was, I chose actuarial science simply because I was ‘inspired’ by my high school maths teacher, who had also studied actuarial science.

After a couple of great internship experiences in general insurance and the banking industry, I landed my first graduate role in OnePath’s life insurance valuation team. I found this to be an ideal position to apply what I had learnt from university in practice. The learning from experienced actuaries was superb, especially during the tough time after the GFC in the area of asset and liability management, bonus declaration and managing capital guaranteed business, etc.

Currently I am working for Swiss Re, a dynamic global reinsurer. The excellent reputation and global opportunities attracted me. A lot of people have asked me what the differences are. I am proud to say that I have broadened my horizon tremendously in the past two years in both the general insurance and life insurance space as well as via global connectivity. In particular, the recent challenges in the life insurance industry equipped me with actuarial skills to deal with ‘crisis’. I am looking forward to working in Hong Kong for a short while to learn about the Asian market.

The professionalism course was fun and I met a lot of new friends. Now I am really grateful that I can call myself an Actuary. I will never stop seeking challenges to utilise my professional knowledge.

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“A sure-fire way to score yourself 15 seconds of fame is to make it to the Professionalism Course and be rabidly excited about finally being able to call yourself an actuary.”

PAUL REHILL
A sure-fire way to score yourself 15 seconds of fame is to make it to the Professionalism Course and be rabidly excited about finally being able to call yourself an actuary. Yeah!

My actuarial career started in corporate superannuation services with Mercer in 1997. Mercer provided an opportunity to work on many projects with outstanding and diverse individuals from the consulting, actuarial, administration and accounting teams. The work varied from triennial DB valuations and projections, DB to DC offerings including building benefit comparison models, long service leave valuations, calculating investment returns/crediting rates and preparing investment monitoring service quarterly reports.

In 2002, this actuary wannabe left the profession to work on an entrepreneurial venture developing high school eLearning maths software predominantly for use in schools in Australia but also for students in 45 countries. Running a business had strong appeal, challenges and opportunities to broaden skills through sales and marketing exposure. After more than a decade working on the business, I decided to return to financial services for a better work-life balance as another software product development cycle would be time consuming. It was also becoming increasingly difficult to compete with the number one player that was ready to list on the ASX.

In January, I gladly returned to an interesting actuarial role in ANZ’s Wealth Division, making the move from Melbourne to Sydney. The role involves investment product pricing, profitability and NPV analysis relating to various operational and capital expenditure decisions affecting wealth products. Returning to the actuarial fold and being able to call myself an actuary is exciting. Now I need to summon Lleyton Hewitt to fire up for the final FIAA exams. C’mon!

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TEJAS SHAH
When I was in high school and putting down my preferences for university I chose everything from medicine to dentistry to engineering. So the question is why did I finally choose Actuarial Studies? Well the initial choice was a simple one – 10 years of medicine didn’t seem too appealing but more broadly I always saw myself as a problem solver and at the time it’s what I imagined actuaries to be: predicting unpredictability and quantifying uncertainty.

I began my career at CBA in a risk management role where I provided strategic support for funds management and defined benefit superannuation. Currently I am in a strategic role in Treasury at Macquarie Group where I am involved in a variety of capital related projects. My roles have given me an immense breadth of experience and I have worked on projects related to insurance, superannuation, funds management, investments, capital, credit ratings and global regulation.

Looking back, becoming an actuary was definitely the right decision. I consider myself a non-traditional actuary, constantly in the pursuit of applying the skills I gained in actuarial science to different projects. As the recognition of the actuarial skill set increases I hope to be part of the growing body of actuaries who are immersed in a diverse range of non-traditional fields.

tejas.shah1001@gmail.com
Under the Spotlight

Andy White

Title... Group Head of Capital Modelling
Organisation... QBE

Summarise yourself in one sentence... A terrible golfer who still enjoys a walk in the park

My interesting/quirky hobbies... I gave heliskiing a go last year, and it was the most terrifying experience of my life, mainly because my mate told the guide that we were advanced powder skiers (and I’m not!)

My favourite energetic pursuit... Trying (and failing) to keep up with my girlfriend at ocean swimming (being English is an unfair disadvantage)

The sport I most like to watch... Football, the proper one, i.e. the one you play with your feet! That said I’m an Everton fan so I don’t normally enjoy watching it!

The last book I read (and when)... The Diceman, best book I’ve read in years

My favourite artist / album / film... Team America

The person I’d most like to cook for... Myself, preferably a spicy Indian curry

I’m most passionate about... Everton FC (unfortunately)

What gets my goat... Slow walkers, especially when they zigzag and you can’t get past them

I’d like to be brave enough to... Roll a die and do what it tells me

In my life I’m planning to change... My socks more often

Not many people know this but I... Once worked in Africa with baboons (good training for working in the insurance industry!)

Four words that sum me up... Nil satis nisi optimum

What I wanted to be when I grew up... A professional footballer, even though I was useless I always figured I might get better. Given I’m now past the retirement age of most footballers I might have to accept that I’m stuck being an actuary!

Why and how I became an actuary... My dad knew someone who was an actuary and earned lots of money, I liked the sound of that

Where I studied to become an actuary and qualifications obtained... I did a physics degree (well actually I did lots of electives in Spanish, philosophy, business studies, and anything else easier than physics) at Warwick University and then did the actuarial exams while working

My work history... I started at a consultancy in London but really wanted to move to Australia so moved to the London office of QBE. When they offered me a six month secondment to Sydney that took approximately two seconds to decide on, and that was seven years ago

What I find most interesting about my current role... Using my brain every day, I’d get bored quickly if I was just turning the handle

My role’s greatest challenges... Running meetings with five different time zones and keeping everyone from falling asleep

Who has been the biggest influence on my career (and why)... My dad, from a young age he always supported and encouraged me

My proudest career achievement to date is... Managing to extend my six month secondment to Sydney to over seven years (and counting)

10 years from now, I will be... Finally able to keep up with my girlfriend at ocean swimming (hopefully)

The most valuable skill an actuary can possess is... The ability to spout impenetrable jargon to fend off questions you don’t know the answer to

If I were President of the Institute, one thing I would improve is... The next GI seminar would be back on the Gold Coast

At least once in their life, every actuary should... Live in another country

My best advice for younger actuaries... Boundless enthusiasm is more important than the ability to solve a partial differential equation

If I could travel back in time I would... Win a lot of money gambling

If I win the lottery, I would... Take a big group of mates to the Oktoberfest

andy.white@qbe.com

Andy White
Initially Speaking

“Tell me, Actuary,” I wondered aloud, one afternoon. “Are there any other time travellers out there, or are you the only one?”

“There’s at least one other time traveller that I know of,” replied the Actuary. “An Earthling by the name of Herb. Nice guy. Wrote a book about it, although if you ask me, I think he exaggerated a bit.”

Herb? Why did that name ring a bell?

“Wait a minute. By Herb, you don’t mean Herbert George Wells, do you? As in H.G. Wells?”

“Oh, you’ve heard of him?”

“Everyone’s heard of H. G. Wells. I’ve read his book, too, but *The Time Machine* was a work of fiction.”

The Actuary grinned. “That’s what you think. Herb just pretended it was a novel so people wouldn’t think him crazy. Speaking of Herb, the first time I met him, I was so fascinated by the fact he wrote under his initials instead of his name, it inspired me to write a puzzle about it. Would you like to give it a go?”

The answers to this crossword relate to the works of writers with one or more initials in the name under which they wrote.

For your chance to win a $50 book voucher, solve the crossword and email your solution to: inthemargin@actuaries.asn.au.

MEET THE BEGHILOS

ACTUARIES 193 SOLUTION

In *Actuaries* 193, you were given three equations and asked to replace phrases within those equations with Beghilos (numbers that map to words when entered into a calculator and viewed upside down) in order to make the equations balance. The solutions are as follows:

1. \[ \text{OBOE} + 11 \times \{ \text{GOOSE} + \text{ISIS} + \text{IBIS} \} - 64 = \text{HELIOS} \]
   \[ \Rightarrow 3080 + 11 \times (35006 + 5151 + 5181) - 64 = 501734 \]

2. \[ \{ \text{BELIZE} + 828 \} \div \{ \text{BOISE} \times 10 + \text{LOIS} \times 2 + \text{HELL} + 972 \} = \text{BILBO} \]
   \[ \Rightarrow \{ 321738 + 828 \} \div \{ 35108 \times 10 + 5107 \times 2 + 7734 + 972 \} = 0.8718 \]

3. \[ 2 \times \{ \text{SLEIGH} - \text{HOBBES} - \text{ZELIG} \} + \{ \text{GOOGLE} - \text{GILES} - \text{BELLE} \} + 0.5 \times \text{GLEE} + 160 = \text{BLOB} \]
   \[ \Rightarrow 2 \times (461375 - 538804 - 61732) + (376006 - 53716 - 37738) + 0.5 \times 3376 + 160 = 8078 \]

Eight correct answers were submitted. The winner of this month’s prize, selected randomly from among the correct entries, was Chris Barry, who will receive a $50 book voucher.

*I have discovered a truly marvellous proof of this, which this margin is too narrow to contain* – Fermat.
When visiting art galleries, do you prefer guided tours or would you rather wander around aimlessly? Do you read the descriptions of each artwork or just admire from a distance? Do you share your thoughts with others? Do you try to see everything on display or are you content to spend time contemplating a select few? Do you like to take selfies with portraits?

These questions were on my mind as I made my way to the Art Gallery of NSW one evening in September for an Actuaries Institute networking evening. The event was already in full swing as I arrived fashionably late, with about 100 or so members in attendance. This was a great opportunity to catch up with familiar faces and build new connections over drinks and canapés. It seemed there were at most two degrees of separation between all of us.

After a short welcome from Vice President Lindsay Smartt, the second half of the evening comprised of exclusive access to see the finalists of the Archibald, Wynne and Sulman prizes, and even more networking inside the exhibition.

With 128 paintings to see, I made an attempt to view at least each of the prize winners. It was an interesting challenge trying to identify the portraits – for example, Barry Humphries, Adam Goodes and Gladys Berejiklian (admittedly, those are the only three I recognised – perhaps I will try to improve on this next year!).

Whichever way you like to experience art, the evening was enjoyable and went by very quickly. And if you’re wondering, I didn’t see anyone taking any selfies.
The Confirm: Why Breaking the Bamboo Ceiling is Proving More Difficult Than we Thought

Ironically, study of the current workforce situation appears to indicate that you are more likely to get a job where Asian capability is required if you are non-Asian.

Why then, are Asians not progressing to the loftier heights of corporate success? The answer to that question would not be a simple one to answer, but it is almost certain that bias plays a significant role. In an environment where they must work harder in order to dispel preconceptions about their English proficiency, leadership capability and cultural identity, it is not hard to see why Asian talent is struggling to find success.

“By understanding, appreciating, and leveraging the cultural diversity Australia has to offer we will collectively advance local and global business opportunities for Australian businesses in the Asian Century,” —Giam Sweigers, CEO Deloitte

Putting aside the importance of equality in this day and age, it is worthy of mention that it is vital for businesses to acknowledge, and utilise the wealth of untapped cultural capital at their fingertips. It seems painfully clear to say, but must nonetheless be said, that in the Asian century, Asian capabilities will become the most sought after asset in those seeking graduate and executive positions.

“The irony that our research revealed was that you are more likely to get a job where Asian capability is required if you are non-Asian” —Lisa Annese, CEO Diversity Council of Australia

The future of Asian talent in Australia will reach a crucial turning point, wherein it will thrive and, in turn, see the economy reap the rewards, or it will simply move elsewhere. One thing however, is for certain. It will require change on an institutional level before the bamboo ceiling comes even close to breaking.

Student Column 1

The confirmation bias is widely acknowledged as the tendency to search for evidence or information, in order to validate one’s own beliefs or hypotheses.

And for those of us who hold ambitions of reaching the upper echelons of the corporate ladder, the belief is, and always has been, rather oversimplified: Work hard. Get good results in school. Get good results in university. Where possible, try to stay active and maintain a healthy social life. Maybe even do some networking. Where possible, try to be a good person, and perhaps the most difficult of all, try to get enough sleep.

My mother would always point to successful people on the news, turn to me and say some variation of “You see that person? They got to where they are by working hard, being smart, and paying their dues. If you want to be that successful, that’s exactly what you must do”.

Of course, being the son of two migrants who had to claw and scratch for a living in a strange new country, I understood exactly where she was coming from. However, a new study from the Diversity Council of Australia proves that there are other, unexpected determining factors when it comes to the attainment of success.

INTRODUCING ‘THE CONFIRM-ASIAN BIAS’

In their latest report, Cracking the Cultural Ceiling: Future Proofing Your Business in the Asian Century, the DCA found that, amongst ASX200 companies, only 1.9% of executives identify as having Asian cultural origins, compared to 9.6% of the Australian community, which subsequently makes up 9.3% of the Australian labour force.

The survey, which comprised 300 ‘leaders and emerging leaders’ of Asian background, confirmed what many had already suspected about the Asian-Australian work ethic: 84% plan to advance to a very senior role, and an incredible 97% have ‘Asia capabilities’, including 77% having Asian language proficiency across 37 languages, and 72% having experience working, living, and/or studying across 20 Asian countries.

However, when asked about their level of work satisfaction, another statistical disparity emerges. Only 22% of those surveyed reported that they have worked in organisations that value cultural diversity, and only 20% are satisfied with their career progress and opportunities.

The effects of this are already being seen; with the report showing that Asian talent has begun moving elsewhere, with 30% reporting that they were likely, or very likely to leave their employer in the next year. What is perhaps most frightening about this, is for one in four about to leave, “negative cultural diversity factors in their organisation significantly influenced their decision”. In other words, race is the issue.

“Only 18% of Asian talent feel their workplaces are free of cultural diversity biases and stereotypes. Many regularly experience bias and stereotyping, including about their cultural identity, leadership capability, English proficiency, and age. Women from Asian backgrounds experience a ‘double disadvantage’.”

It seems shocking, especially considering that people of Asian cultural backgrounds make up a large proportion of university students, and being very well represented in graduate positions in businesses. In fact, a quick peruse through the ‘New Members’ page of this very magazine shows a significant proportion of those who possess names of Asian origin.

Why then, are Asians not progressing to the loftier heights of corporate success? The answer to that question would not be a simple one to answer, but it is almost certain that bias plays a significant role. In an environment where they must work harder in order to dispel preconceptions about their English proficiency, leadership capability and cultural identity, it is not hard to see why Asian talent is struggling to find success.
Impacts of Performance on Cash Inflows in the Asset Management Industry

With the slowdown of Emerging Market (EM) economy growth and the volatility of the European markets at the end of 2013, both investors and fund managers alike are optimistic of the coming 2015 year. As the asset and investment management industry matures over time, firms that have weathered the 2008 GFC are optimistic on the financial conditions in 2015.

The asset management industry faces many challenges as new regulations and financial reporting standards are being enacted. This article focuses on how this affects cash in and out-flows in the industry, particularly in a British/European setting and whether or not these in/outflows are as a result of out/underperformance or by marketing means.

WHAT’S IN IT FOR INVESTORS?
Although advertising and marketing are one of such ways to attract potential investors, survey shows that investors have a higher likelihood to allocate more capital to asset managers under positive economic conditions.

Unfortunately it appears that from the EY Global Funds and Investors survey, investors appear not to share the optimism that their fund managers have on the global economy which has resulted in either no change in capital allocation or, in some cases, a decrease in capital allocation, as “investors uniformly appear to say that they are unlikely to increase allocation”.

Furthermore, fees and performance continue to be the biggest obstacle for investors followed by risk tolerance, as investors are still cautious after significant underperformances in years after the GFC, particularly in an industry that builds itself on performance promises.

OTHER SIDE OF THE COIN?
Fund managers are always looking for new fund raising strategies where traditional marketing tactics are slowly decreasing in use, especially in current economic conditions as the majority of investors have a bearish view on the global economy.

In the KPMG Investment Management Outlook Survey 2014, 57% of fund managers agree that political and regulatory uncertainty pose the biggest threats to their business models, while only 38% of companies are prepared for these changes (This is a result of new financial regulations and reporting standards being enacted in the industry).

This risk of increase in cost to accommodate these new regulations have created negative sentiment among potential and existing investors which has dramatically affected cash inflows for asset managers.

However, it is also suggested that performance (although a key factor) is not the only factor that encourages investor capital allocation into asset management firms. There is a growing demand for customised investment portfolios and strategies from investors, and survey is of the opinion that the demand for customised solutions is being met.

EY hypothesised that a firm’s ability to meet a customised portfolio for the individual investor with personalised risk profiles and investment needs is an attractive feature for potential investors.

Further, as smaller AM firms struggle with meeting the demands of their client’s individual needs through CIPs as compared to their larger competitors, it will eventually result in more investors changing their capital allocations to AM firms that are more likely to facilitate their personal investment needs.

Naturally with this, larger AM firms will gradually attract more capital and clients until they reach a potential critical mass amount of capital and clientele-base that would result in the decrease of the firm’s TER (Total Expense Ratio), as they capitalise on the economies of scale.

From a forward looking perspective, as AM firms delve into the new regulatory environment, both investors and managers must be aware of the increased expense implications of this. While managers must also recognise the importance of individualised CIPs as a capital attraction feature to remain competitive in a somewhat volatile operating environment.

<table>
<thead>
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<th>Investors</th>
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<td>Do you plan to increase, decrease or maintain your current target allocation to hedge funds in the next three years?</td>
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![Graphs showing changes in hedge fund allocations from 2012 to 2013.](source: Ernest & Young Global Funds and Investors survey 2013)
I’ve always loved cosmetics but I particularly got into nail polish after I left university. I found it a great way to add some fun to my otherwise conventional office attire. Every few days I would try a different look – from hot pinks to cool blues and ‘greiges’ (grey beige tones).

I found myself researching my next nail polish purchase by browsing blogs. I started to think maybe I’d like to share my interest with others too and try to show a different perspective to the typical nails and beauty blog by documenting the life of a student actuary as well. About a year and a half ago, the day after I sat a reserving exam and had some free time again, I thought why not finally do it?

Mainly I feature whatever is currently on my nails. I own over 150 polishes, in a rainbow of colours, so I’m never stuck for ideas. Sometimes it’s just a plain colour but other times I might try out a leopard print pattern or sponge multiple colours on together to get a ‘gradient’ effect. I like to keep it current by buying some of the many new releases the major brands issue every season.
The wonderful thing about nail art is that the options are limitless. Each nail is like a tiny canvas. There’s huge innovation in the blogging world and I often take inspiration from the countless other blogs I follow. There are so many tools and tricks you can try – stamping, taping and studding are just some of the examples.

Nail polish and blogging fitted in easily with actuarial exams – it’s some time to wind down and relax after a day of study. It was also nice to turn my mind to something completely different like taking photos and writing blog content after a day of working with GLMs and the BF Method. Thankfully I qualified this summer so I have time to try more complex designs now.

In true actuary form, one of my favourite parts of blogging is reviewing the ‘statistics’ section of the blog user interface. Here I can see what keywords drove people to the blog, what country they live in and even what browser they used to view the blog! This month for example, the most visits have been from countries that include the USA, China and the Ukraine.

I see myself as somewhat of a nail polish collector. I am always on the lookout for a rare or discontinued colour. I often spend time scouring eBay during my lunch break for hard-to-find colours. I love to travel and when I am away, I like to peruse local shops to see what new treasures I can find.

An unexpected bonus from blogging has been meeting other bloggers. It’s really great to be able to talk specifics with people who are as excited as you are about your latest purchase or appreciate just how much time went into creating that last look. I’ve also connected with lots of other actuaries around the world through blogging. It’s been such a worthwhile experience; I’m really glad I took the plunge.

You can visit my blog at www.nailsbynumbers.com.
Welcome to New Members

October 2014

NEW MEMBERS – AUSTRALIA

Elizabeth ANGKOLA WA
Xiaohang CAO NSW
Benjamin Jit Ming CHAN NSW
Sibin HUANG VIC
Tao LIN NSW
Changyu LIU NSW
Jia LIU ACT
Mark Christopher O’SHEA ACT
Bhuvish SEEBURRUN WA
Richard Paul STROMMER NSW
Timothy Chun Yin WONG NSW
Yuyang WU NSW
James Pek En YAP NSW
Nan ZHANG VIC
Yichu ZHANG ACT
Shuyuan ZHOU WA

NEW MEMBERS – OVERSEAS

Stephen Ernest BINNS
Khawaja Khalid Athar HASSAN
Feng Yuan WONG
Saudi Arabia
Singapore
Malaysia

H M Jackson Prize

The Research Council Committee has awarded the 2014 H M Jackson Prize to Aaron Bruhn, Bridget Browne and Alex Huynh for their presentation Catastrophic Mortality Bonds: Analysing Basis Risk and Hedge Effectiveness, which was presented at the 17th East Asian Actuarial Conference in Singapore. View their presentation at http://bit.ly/1utxN5X

The prize will be presented at the Canberra Presidential Dinner on 1 April 2015.

Congratulations Aaron, Bridget and Alex.
On Tuesday 7 October President Daniel Smith hosted the Sydney Fellowship and Graduation Dinner at Dockside. This was a pleasant evening shared with colleagues, friends and family to celebrate this momentous milestone.

Gavin Moore delivered a thoughtful vote of thanks, highlighting the journey to graduation and thanking the people that helped along the way. This support showed with the highest rate of attendance we have had at a Graduation Dinner since 2010. We also had an overwhelming number of graduates attend the Graduation Dinner with 28 new Fellows and one new actuary attending.

Education Officer Karenna Chhoeung, commented “It was nice to attend an evening focused on commemorating the achievements of members and to see how proud family members and colleagues attending were.”

A big congratulations to all of the new Fellows and Actuaries.
Why is Studying Mathematics on the Nose?

Writing a November article to be relevant for November but having to submit it before the Spring Carnival is particularly difficult. I can’t tell you about my winners, I can’t tell you about the horses that were harshly done by, and I can’t tell you about those that should be sporting the next Pal label*.

So, what to write about?

The Spring Carnival brings gambling to the fore and many people, not otherwise interested in mathematics, start to get enthused and wanting to understand how those close to the industry can calculate the cost a multi-leg quadrella or boxed trifecta etc. They are often astounded when the cost of a multi-leg parlay bet is calculated without any apparent thought.

It would be great if the attraction was to understanding the mathematics and not in regarding that the ‘genius’ quoting the figures to be some sort of savant.

Disturbingly (and note that this is coming from a punter), every sport now seems to be dominated by the odds and how much you could win by backing your team etc. I find this concerning from a social perspective on the basis that relatively few people truly understand the odds and our kids (well, at least mine) are growing up potentially thinking that sport is all about betting. I know one of my good friends would support that comment – though I discount his view because he doesn’t like horse racing and barracks for North.

I consider that the issue would be less of a problem if mathematics was growing in popularity and a greater proportion of people really understood what they were getting in to. Consider the simple calculation of the probability of picking the winning numbers in a Tattslotto draw. What proportion of people can accurately work out that calculation? I’d suggest it’s pretty low given the number of tickets bought each week!

At the IAA meetings in London the President of the South African Actuarial Society outlined the current situation in South Africa where universities use entrance exams and first year results to determine who will be allowed to continue in mathematics because the high school teaching is typically inadequate. Surely we do not want to reach this position in Australia?

Our Senior Vice-President has done a bit of research into the decline of mathematics in high schools and, in particular, the reduction in girls taking up the high level mathematics subjects. Some high level statistics for the 10 years from 2004 to 2014 in NSW are:

- There has been a 14% decrease in the numbers of students studying 2-unit mathematics (note that the decrease in numbers coincides with a period when the number of students sitting year 12 has increased by around 7%).
- Of additional concern is that the number of students undertaking the mathematics extensions (ask someone from NSW if you need to know what that means) have decreased by 6%.
- This reduction in mathematics students is more worrying when looking at females. Females made up 47% of the students sitting 2 unit mathematics in 2004 in 2004 and 46% in 2014 – this is despite representing more than 50% of the population.
- Further, of the reduction in mathematics extensions (outlined above), about 80% is due to the reduction in females taking up the extension option.

I consider this to be a great concern for the actuarial profession. At a time where there is increasing demand for numerate people (as part of the ‘big data revolution’) we are finding a smaller proportion of students wanting to take up a ‘serious’ mathematics option. Will we be willing to accept a lesser level of mathematical knowledge and understanding going forward in order to maintain growth in the number of actuaries? I know there is more to a good actuary than mathematics alone but it still seems like a risky strategy to me – a natural understanding of mathematics and being particularly numerate are key characteristics of all good actuaries in my view.

What to do? I consider that the Institute should be proactive in encouraging mathematical training at schools and in monitoring the level of mathematical understanding to ensure that our standards remain high. I would hope that members would support the Institute in various initiatives such as speaking at schools, encouraging high standards in marking Institute exams and in corresponding with universities regarding their handling of any drop in standards.

Some people will think that I am being a bit alarmist. Having heard about the situation in South Africa, and seeing the way that my son is taught mathematics in primary school, makes me consider that this is a real issue that requires action. Does anybody know of any studies on the proportion of people who are good at mathematics who then go on to be primary school teachers? My suspicion is that the percentage would be pretty low – of course that is my (potentially uneducated) opinion. I think it is worth pushing for a higher level of numeracy to be taught in both primary and secondary schools.

So, should the Institute develop a public policy position on the teaching of mathematics within schools and seek to influence our educators? *

* I am an owner of a few horses (ok, a part owner – I think I own a few front left fetlocks) and would not send a horse to the knackery!
Former US Federal Reserve Chairman, Alan Greenspan, apparently said: *The free lunch has still to be invented.*

So with that in mind, I would like to thank the 120 or so Members who I have caught up with over lunch (sandwiches mind you), and the invaluable feedback and advice that I have received from them. The lunches have been held in Brisbane, Melbourne and Sydney.

I am going to continue them next year and extend them to one each in Canberra, Adelaide and Perth, when I am visiting for other Institute business. Registrations are open now either through the ‘Events’ tab on the Institute’s website, or you can email events@actuaries.asn.au.

On a more light-hearted note I will let you know the five clichés I try to avoid during a business meeting (or, in fact, at any time) in my ‘Please explain!’ segment, and hope that I don’t cause offence on the way through.

I have attempted to summarise the key issues that have been raised with me during the lunches, both positive and negative, and my response to the points that were raised. I think it’s important in terms of transparency that I do so.

As you can appreciate I haven’t included everything that has been talked about. That doesn’t mean I haven’t acted upon the feedback you have given me. Sometimes the most important things are the smaller operational matters which can cause irritation or confusion, and can be easily fixed.

**EDUCATION AND LEARNING**

There has been a lot of discussion about the education and learning role of the Institute. Some of the thoughts and feedback provided to me were:

- There is a need to broaden the skills of actuaries, particularly young actuaries, so they can function and compete in the modern workplace.
- Better ties and communication with the university sector are required when designing education programs.
- Actuaries will need to build their skills to take account of the growth industries of the future, e.g. digital disruption, big data, health, genetic testing, energy and investments.
- It is important to design the best possible education, and entry processes, for qualification, so that the Profession attracts the best and brightest talent.

Some Members said that our education system seemed to be working well, and change should only be made, after careful consideration. Each of these points is being addressed in some way by the ‘Educating the actuary of the future project’. The Education Strategy Working Group, which has been running this project, provided its final report to Council in September. One of the key points is to address international issues (such as exemptions and the International Actuarial Association’s review of its minimum educational standards). This work would be undertaken by a new working group under the Education Council Committee’s umbrella (focusing on Parts I and II), working in tandem with the Presidential Committee which would liaison with international organisations. Critically university representatives will be included on the new working group. A second working group will consider Part III courses, including data analytics and banking.

Related to these points were suggestions that we need to make our CPD program more systematic and comprehensive. This is a matter which the Council is likely to address during its strategy review for 2015-17, at year’s end.

**THE WORLD IS CHANGING AROUND US**

A number of the lunch groups picked up on the theme of change (though not all agreed on the extent of this change), and what this means for the Profession. This also picks up the education and learning points from above, as well as the interests of most Members in making sure we promote the Profession and the skills of individual actuaries. Some of the feedback has been:

- Actuaries are facing competition for jobs – it is important for the Institute to be promoting the transferable skills and uniqueness of the Profession.
- The Institute needs to anticipate new business and societal trends.
- The Profession is not changing as fast as the world around us.
- The Profession should better promote itself and raise awareness about the contribution that actuaries make to business – public policy is an important element of that exercise.
- The development and appropriate communication of public policy is a very important way for the Institute...
to project positive image of the Profession.

- It was suggested that the President/CEO have briefing sessions with key journalists.
- For those who had seen the brand marketing campaign ‘See what we see’ it was generally acknowledged as an effective way to promote the Profession. Some Members, however, were less convinced about the value of a brand marketing campaign for the Profession, on the basis that ‘deeds not words’ were more effective in securing the reputation of actuaries.

There are a number of threads to pick up here on what we communicate and how we do so.

The Institute continues to look at communicating externally on a number of different fronts. These include: promoting relevant public policy, and responding to the key issues of the day – in particular the Financial System Inquiry being chaired by David Murray. The public policy team will continue to address this. There are two more white papers in the pipeline – on the future cost of providing health and, retirement incomes and superannuation. These will be published soon. There were also some other great suggestions about other topics that the Institute could develop.

We continue to engage with key government officials (particularly Treasury) on public policy issues so that we are relevant and up-to-date.

The ‘See what we see’ campaign continues and the second round will start in November – this has been improved following feedback and analysis of the first round.

Furthermore we are making sure that we stay in touch with key media to ensure that they understand our interest in key issues, and publish any commentary we choose to make.

MEMBER ENGAGEMENT IS CRITICAL

Some of the feedback I have received has been:

- Member communication should be enhanced so that it is more interactive, timely and makes use of new technology. Response: There is a project underway by the Institute to do this – our digital communication program which I have previously written about in Actuaries Magazine.

Actuaries not working in the mainstream of the actuarial profession should be better supported. This has been a sustained piece of feedback, and is related to the earlier point about the emerging practice areas. Response: As a part of the Council’s review of the Institute’s strategy for 2015-17, we are making sure we get input from representatives of the different areas of actuarial practice.

There is a need to ensure that younger Members, and less well engaged Members, are encouraged to participate more in the affairs of the Institute. Response: There is widespread recognition of the need to do this. Committees and HQ are always on the lookout for younger Members to participate.

I also acknowledge the feedback from some Members that the Institute needs to strike the right balance between keeping Members informed and not over communicating by email.

WHAT ABOUT ASIA?

There was acknowledgement that there are benefits to the Institute engaging in Asia, given 15% of our Members are based there. Others said that the Institute needs to be clear about what it wants to achieve in Asia, and how best to do this with the limited resources available. Some thought that while it was important to provide services to all of our Members, we should not forget that the Institute is primarily an Australian based organisation.

Council is addressing this matter and the Asia Strategy Working Group will be submitting its proposal for Council to consider as part of the review of the Institute’s strategy.

SUPPLY AND DEMAND

There is an increasing over-supply of actuarial graduates. This is something I do need to grapple with and understand the drivers and implications of this apparent trend, including the role of universities.

Connecting with High School students – we need to build a more comprehensive program. This is related to the point above. The Institute does have a High School program in place. I will be looking to see if we can improve it in any way.

PLEASE EXPLAIN!

Five sayings that are the equivalent of fingernails on a chalkboard (to me anyway):

<table>
<thead>
<tr>
<th>Saying</th>
<th>Translation/Comment</th>
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<tbody>
<tr>
<td>“Reaching out”</td>
<td>– as in “Let’s reach-out to our members”. Omg did he/she really say that? How about “let’s contact our Members”?</td>
</tr>
<tr>
<td>“Let’s right-size it”</td>
<td>– (or indeed any of the other clichés that refers to dismissing staff). Enough said.</td>
</tr>
<tr>
<td>“I’m going to sound like a broken record here…”</td>
<td>– Well yes you are!</td>
</tr>
<tr>
<td>“At the end of the day…”</td>
<td>– No! Stop! Why do people say that? It adds nothing.</td>
</tr>
<tr>
<td>“It’s the old 80-20 rule…”</td>
<td>– Hang on, I say that! …but really shouldn’t.</td>
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Actuaries can make a valuable contribution to the development of the sustainability of the microfinance industry.

Are you interested in, working or volunteering in microfinance?

Check out our hub of information and connect with like-minded people.

Get involved at:
www.actuaries.asn.au/microsites/actuaries-in-microfinance