

Newsletter

February 2004

The Society of Actuaries in Ireland



Pat Healy, President of the Society of Actuaries in Ireland, relaxing following the recent meeting of the International Actuarial Presidents' Forum in South Africa

International Presidents' Meeting in South Africa

One of the more pleasant responsibilities I have as your President is the opportunity to attend the International Actuarial Presidents' Forum. The Presidents' Forum is attended by the Presidents of the actuarial organisations in the UK, USA, Canada, Australia, South Africa, and Ireland. Continental Europe is represented by the President of the Groupe Consultatif and the IAA is also represented. The meetings take place twice yearly, and I had the great privilege of attending the meeting in South Africa in November last. This was doubly useful as it coincided with the Actuarial Society of South Africa's annual convention.

The Presidents' Forum is a great opportunity to discuss current

professional issues in the various countries. It is remarkable how common these issues are, and indeed most of the issues and problems we are facing are also very much alive throughout the global actuarial profession. It is very helpful to be able to draw on the resources of the overseas organisations and on the experience and wisdom of their respective Presidents.

While the formal meetings of the Forum were helpful and relevant, the opportunity to discuss issues informally with the various representatives was invaluable. The topics on the Forum agenda look remarkably like the recurring

continued

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International Presidents' Meeting in South Africa continued...

items on our own Council agenda:-

- Changing public expectation of actuaries
- Mutual recognition and discipline
- Pension Fund governance
- International Accounting Standards
- International Actuarial Association
- Peer review

Prior to the Forum, each participating organisation submits a report on current issues. Again, the commonality of issues is striking. If anyone is interested in these reports, please contact the Society office.

The Actuarial Society of South Africa's convention was a fascinating event. The ASSA has a number of interesting parallels with our own Society. It is broadly similar in size and indeed demographic profile. Its members are also members of the Institute or Faculty, although it has taken on a limited educational and examination role. Most impressive though was the attendance at the convention, with some 470 members turning out for the two-day event.

Once again, for a number of the convention sessions, one could have been in the Stephens Green Club.

Governance of the profession and peer review, pension funding issues, transfer values, capital adequacy for insurers and the role of actuaries in non-life insurance were all on the agenda. Local issues included Black Economic Empowerment and a tremendously impressive national HIV/AIDS model.

I would like to express my thanks to outgoing ASSA President Joubert Ferreira and to incoming President, Janina Slawski for their tremendous hospitality during the visit.

International

A new Committee, the International Committee, was formed in Autumn 2003. The terms of reference for the Committee set out three main objectives:

1. To promote actively the contribution which the Society can make to the profession internationally and to reinforce relationships with other associations, particularly through active support of the International

Actuarial Association and the Groupe Consultatif.

2. To assist other bodies that can influence European and International policy making, notably Irish financial services regulators, insofar as such policy may impact on the role and standing of the Society.

3. To keep the Society's members informed of European and

International developments, insofar as such developments impact on the role and standing of members.

With the third objective in mind, we will endeavour to cover international issues of interest to members, through our website and newsletter articles and updates. The current International Committee members and Society representatives on international matters are as follows:

Chairman: Jim Murphy
Members: Ger Bradley, Michael Culligan, Jim Kehoe, Aisling Kennedy, Bruce Maxwell, Duncan Robertson, Pat Ryan

Members representing the Society on the International Actuarial Association (IAA)

Jim Kehoe IAA Council Member & Member of Audit Committee
Pat Healy Society alternate for the IAA Council
(the President of the Society at the time)
Bruce Maxwell Member of Committee on Insurance Regulation
Richard O'Sullivan Member of IAA Insurance Accounting Committee
Bill Hannan Member of Actuarial Standards Sub-Committee of the Insurance Accounting Committee
Aisling Kennedy Member of the Health Committee and Secretary of the Health Section of the IAA
Liam Quigley Member of the sub-committee on accounting standards under the committee on Pensions and Employee Benefits, looking at the implications of proposed changes to IAS19

Members representing the Society on the Groupe Consultatif

Pat Healy Membre Suppleant
(the President of the Society at the time)
Bruce Maxwell Membre Titulaire
Pat Ryan Member, Investment and Financial Risks Committee
Philip Shier Member, Pensions Committee
Duncan Robertson Member, Education Committee
Ger Bradley Member, Non-life solvency II sub group
Michael Culligan Member, Life solvency II sub group
Jim Kehoe Member, Freedoms and General Purposes Committee

Members representing the Society on IFSRA's Solvency II Consultation Panels:

Ger Bradley Non-Life
Michael Culligan Life

Equity Release Schemes

On 19th November Colin Murray conducted a presentation on Equity Release schemes to a small but varied group, with representatives from Pensions and Benefits Consultancies, Life Companies and the Treasury Departments of banks.

Colin defined home equity release as "financial schemes, normally mortgage or reversion based, which enable a householder to draw down some of the equity in the house". Equity release products are becoming increasingly mainstream in the UK, while the Irish market is small but growing. The purpose of the CPD session was to look at the products available in the Irish and UK markets, discuss the key issues and risks that affect profitability of these products, and outline the potential ways in which they can be mitigated.

Products

A variety of products are available in the UK:

- A Roll Up Mortgage is where a lump sum is loaned to the homeowner. Interest on the loan rolls up and is added to the outstanding debt, which is cleared by the sale of the house on death.
- In a Home Reversion Scheme the ownership of a percentage of the property is exchanged for a lump sum. The original homeowner is entitled to live in the property for life but the lender insists on the property being maintained to a certain standard in order to protect their interest.
- A Shared Appreciation Mortgage is where the bank advances a percentage of the value of the property, interest free, in return for a stated percentage of the capital appreciation of the property.
- A Home Income Plan is a variation on the home reversion scheme or roll up mortgage that offers the homeowner a regular income rather than a lump sum.
- An Additional Mortgage is simply

where a second loan is advanced when the value of the house is in excess of the existing mortgage. A variation of this is the Drawdown Mortgage where the homeowner had approval to draw down payments up to a pre-defined borrowing limit.

Market

The main target market for Equity Release schemes is people with low incomes, often aged over 65, who have a medium to high value house that is mortgage free.

Sales in the UK were around ST£100m in the late 1980s. The market shrank significantly in the early 1990s following a misselling scandal surrounding products where the loan advanced was invested in the stock market in the hope that investment gains would pay the interest. Sales have increased very significantly since 1999, with the market in 2002 estimated to be ST£852m by the trade body, Safe Home Income Plans (SHIP).

The Irish market for Equity Release schemes is currently very small, although there is a significant potential market as a result of increases in property values in recent years together with projected increases in the number of over 65s. However, potential planholders may be deterred by a desire to leave their home to their heirs, or if they already have sufficient retirement income. In addition, the schemes may be perceived as poor value for money: for example, in order to raise 25% of the value of the property, the homeowner might have to give up ownership of in excess of 50% of the property. Potential customers may also be put off by the UK experience in the late 1980s and early 1990s, and by the lack of regulation.

Risks to Providers

The major risks faced by the product provider are house price inflation and mortality.

House price inflation is volatile and subject to regional variations. The

increase in the value of the provider's portfolio is affected by the standard of maintenance of the properties. The mortality risk is similar to that faced by annuity providers. However, it is the combined risk of low house price inflation and increased longevity that differentiates these products.

Another risk is the lack of liquidity, as the provider receives no cashflow until the homeowner's death (or earlier repayment).

The potential solution to the provider's funding problems is securitisation.

A Vanilla Securitisation occurs when the reversions are packaged and sold to investors through a bond issue. The redemption proceeds distributed to investors is the value of properties reverting to the scheme. A variant of this is a Collateral Mortgage Obligation structure where the funding is divided into tranches, each with a different priority of repayment when redemption occurs. There is also potential to use swaps or derivatives to hedge some of the risks.

Colin completed his presentation with an anecdote that summarises the risks to providers of home equity release schemes.

In 1965, Jeanne Calment entered into an equity release arrangement with her local solicitor, M. Raffray. He would pay her a weekly sum of money and in return when she died her apartment would revert to him. She was 90 years old at the time and he thought it was a good bet. Mme Calment died in France in 1997 at the age of 122. Not only did she enter the Guinness Book of Records for the longest life but also outlived M. Raffray, who died 2 years previously, had paid her over the years twice the value of the apartment, and who never got the benefit from all those payments!



*Colm Fagan, Vice-President, Society of Actuaries in Ireland;
Pat Healy, President, Society of Actuaries in Ireland & Paul Turnbull, Watson Wyatt*

An update on Irish & UK Regulation

Colm Fagan's & Paul Turnbull's presentations on Irish & UK Regulation took place on the 13th January to a packed audience in the Stephen's Green Club.

Colm's presentation looked at the role of the Appointed Actuary in life assurance in Ireland. Firstly, he reviewed the current state of play, before speculating on what the future might hold following the formation of IFSRA and the recent rejection of the Society's proposals for Peer Review.

Paul's presentation summarised the radical regulatory change for life assurance business in the UK over the last 3 years and outlined the latest position on proposals for a new integrated regulatory regime including governance and management of With-Profits business, realistic valuations, capital adequacy, the With-Profits actuary, the actuarial function and the reviewing actuary.

There was a very lively discussion at the conclusion of the presentations.

A full report of the meeting is available on the Society's website.

There were many comments following the recent result of the ballot on Peer Review. In this regard, the President, Pat Healy, has written to members with an indication of the proposed action at this stage. The President stressed that significant further consultation will be required to determine the precise way forward.

Members enjoying the Christmas drinks in the Stephen's Green Club



Aisling Kennedy, Jonathan Gool, Pat Healy & Jim Kehoe

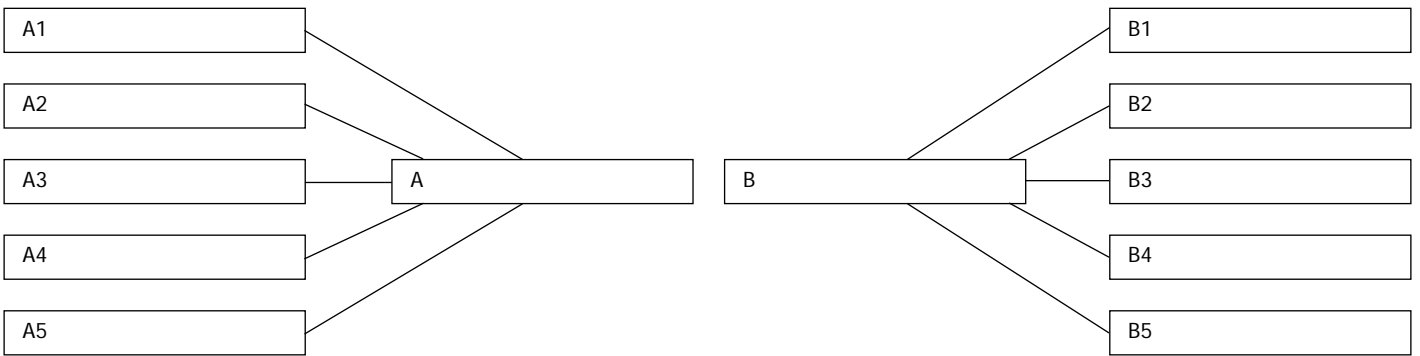


Paul Dalton & Neil Guinan

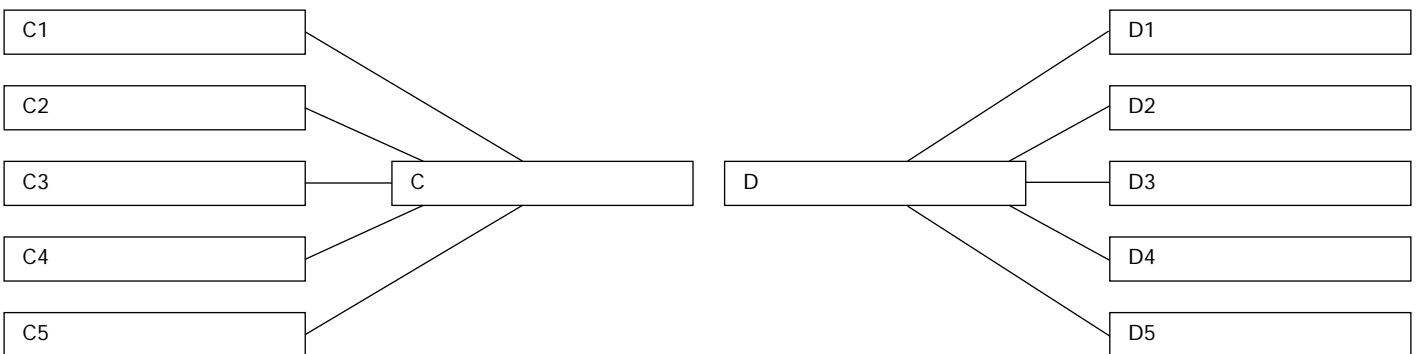
Twenty Questions

Answer the twenty questions below. The answers for each section A, B, C and D will have a common link. Find that link and insert it in the appropriate box below. Finally, the four links that you have found will also have something in common. Insert this in the centre box marked X. Completed entries (with all 20 questions and all 5 links filled in) should be mailed to the Society or faxed to the Society at +353 1 660 3074. **Closing date for entries is Friday 27 February 2004.**

- A1** 224 ounces = 1 ?
- A2** First name of TV presenter Theakston
- A3** Surname of the actor from Babe and LA Confidential
- A4** Reportedly Admiral Nelson's last word
- A5** Starting at the south pole, travel in this direction
- B1** She was nominated but did not win the best supporting actress Oscar for Chicago!
- B2** He won the 1984 Nobel peace prize
- B3** Irishman who co-wrote the 1984 Christmas number 1
- B4** He had a dream...
- B5** Where Posh and Becks had their wedding reception
- C1** He had a hit with Jack and Diane
- C2** Smashing Pumpkins album from 1993
- C3** Daughter of Michael Hutchence and Paula Yates
- C4** Cartoon character associated with Peter Sellars
- C5** Airline from the Isle of Man
- D1** Kodiak, Brown and Grizzly (plural)
- D2** Tallest building in the USA
- D3** In stockmarket terms these are the opposite of D1
- D4** Played by Robert DeNiro in The Untouchables
- D5** Young lions



X



Name: _____

Company: _____

Report of the Working Party on Expense Reserving

(a sub-committee of the Cross Border Life Committee)

Presented at an evening meeting on 2nd December 2003

Members

Peter Caslin (Chairman)
 Martin Kyne
 Sheelagh Malin
 Colin Murray
 Ceall O'Dunlaing
 Ian Rogers

Peter Caslin and Colin Murray did the presenting, and thanked both the rest of the working party for their input, and Colm Fagan and Paul Turnbull for their additional comments.

Peter outlined the background to the working party i.e. the closure to new business of a number of recently established companies in the IFSC. He kicked off the evening by defining a RED (or Renewal Expense Deficit) Company as *"a Company where the margins emerging from the existing business are not sufficient to meet the ongoing costs."*

The key questions the working party sought to address are how to reserve for expenses in these companies in accordance with the regulations, and what are the implications of doing so.

Peter took the unusual step of setting out conclusions of the working party up-front:

- The Appointed Actuary should discuss with the board the assumptions underlying the minimum expense provision in the "closed to new business" scenario.
- The Appointed Actuary must allow for Third Party Agreement Contractual Obligations in determining the provisions.
- In reserving for RED Companies, there are a number of different possible interpretations of the regulations in setting up expense reserves, and four methods are outlined in the paper. The Appointed Actuary needs to be satisfied that whatever method is used satisfies the regulations.
- The working party recommended a requirement for the preparation of a Financial Condition Report (FCR) in cases where the company is outside the optimistic and pessimistic business plan forecast

made at the time of its submission for authorisation.

- The working party recommended incorporation of UK guidance in relation to closed fund expense reserving, i.e. if a portfolio is decreasing in size (which will be the case in a closed to new business environment) a "no lapse" assumption may not be more conservative than a "with lapse" assumption.
- The working party recommended the use of the Gross Premium Valuation method because it more easily demonstrates the avoidance of future valuation strain and ensures expense inflation is adequately allowed for.
- If credit is to be taken for increasing discretionary charges then it must be based on clear precedents or it must be clearly outlined in the product literature /policy conditions.

Peter then outlined the relevant parts of GN1, GN7, GN8, the 1994 EU Framework regulations, IFSRA guidance for statutory valuation, 1996 Regulations and the EU Third Life Directive for Companies Act accounts.

Colin then took the floor. Firstly why RED? Because life is not black and white, as his first slide proclaimed!

Colin then put some flesh on the macro level issues outlined by Peter using an illustrative example of a company with expenses of €700k and income of €100k (hence an overrun of €600k).

Colin talked about the "strict approach", the Expense Overrun approach, the Transfer of Business approach, and the Buyout approach. The Working Party felt all could be justified except the Expense Overrun approach.

He then dealt with PRE issues and the signing of the premium rate adequacy certificate, and then moved on to cover Company Act Accounts reserving and how it differed from the statutory valuation. The EU directive is less onerous than the 1994 regulations

and among other things there is no requirement for closure reserves.

A lively debate ensued with, among others, Colm Fagan and Michael Culligan putting forward some counter arguments to some of the working party's conclusions. The main point was that if closed to new business these RED companies may have some commercial value through tax losses and "grand-fathering" in relation to required solvency margin, and that if the portfolio was relatively simple/market standard it would be easier to transfer the business. Peter Caslin showed he could think on his feet and dealt admirably with the counter arguments.

A number of speakers felt the requirement for a FCR in the case of a company whose business plans fell outside the tramlines was over the top. They felt that IFSRA was informed quarterly of the company's new business volumes, and if the Company went outside the tramlines the regulators would require the submission of a revised business plan anyway, so the same aim could be achieved without the rigour of a FCR. The problem with this approach is that the Appointed Actuary has no power to insist on the production of a revised business plan/FCR unless the Company decides to commission one. The FCR also looks to 5 years rather than a 3 year time scale, and requires testing of various scenarios over and above just the optimistic and pessimistic business plan volumes.

Nick Dumbreck felt cognisance needed to be taken of the fact that any transfer of business may take place at a difficult time. He congratulated the working party on the clarity and readability of the paper and stated that he could not disagree with any of the conclusions.

Members then retired to the bar, with many staying for on for a delightful dinner.

The report of the working party is on the Society's website.

Martin Kyne

Review of CPD

A working group will shortly be formed to carry out a complete overview of CPD and to review the Society's CPD Scheme dated 1995.

We are anxious to receive the views and recommendations of members on:

- Issues and topics which the Society should cover
- Format of CPD meetings
- Amendments to the current CPD Scheme

Meanwhile, we would ask members to ensure that they are fully aware of the current CPD Scheme which is on the Society's website under Careers & Education.

In addition to the CPD Scheme, Council introduced the following requirement for practising certificate holders in 2001:

"that the annual CPD requirement for practising certificate holders would be 15 hours, of which 10 should be relevant to their role as Appointed Actuary, Signing Actuary or Scheme Actuary and of which 3 should be specifically relevant to their role as Appointed Actuary to an Irish life assurance company, Signing Actuary to an Irish non-life undertaking, or Scheme Actuary to a scheme governed by Irish legislation".

www.actuaries.ie

Our new website was launched in November last. We are very anxious to receive your comments, good, bad or indifferent! We will be reviewing the website in March and will consider all suggestions and recommendations received from members.

Please email your views to info@actuaries.ie

Student Society

We have added a new section to our website for the Student Society. The Student Section is under Careers & Education. You will find contact details for the Student Society representatives as well as a section for Upcoming Events and Important Notices. There's not too much in the Upcoming Events section, students must be studying! But watch this space once the April exams are over. An update on the Education Strategy 2005 is posted under Important Notices.

Social

In the Members' Section, you will find our Social Section. Dates for Golf and the Annual Ball are posted there. We are about to set up a new sub group to consider organising other social events. If you have any ideas, please let us know at info@actuaries.ie

Call for Papers

The Scientific Committee of the IAA invites authors to submit papers for the 14th International AFIR Colloquium to be held in Boston, Massachusetts on 7-10, November 2004.

Information can be found at <http://www.afir2004.info/>

The Colloquium is co-located with the SOA/CIA Investment Actuary Symposium. Conference delegates share general sessions as well as networking opportunities, and can attend Investment Symposium sessions, if they wish.

2nd International Health Colloquium, Dresden, Germany, 27 - 29 April, 2004

Details on the IAA website www.actuaries.org



Book on-line for events in the Society

We are delighted that so many members are using our on-line booking system.

It's easy –

- Log onto www.actuaries.ie
- Click Resources
- Click Events & Papers
- Click on the burgundy coloured title of the meeting and you will get a pop up window which will give you a description of the meeting.
- Scroll down the pop up window, and click on **Reservation Form** and fill in your details
- For convenience, you can supply your credit card details. The reservation form has been secured by Geotrust SSL certificate to ensure the utmost security.
- Click on **Book Now** and you will receive confirmation of your booking.

Golf

The Matchplay Competition

This competition will commence in April.

Golf in the West

Jonathan Goold, this year's Golf Captain, has arranged golf at Connemara Golf Club on Friday 28th May and Oughterard for Saturday 29th May. A number of members have already expressed their interest in heading West for this outing. If you are interested in playing and have not been in touch with Jonathan, you can contact him at Jonathan.Goold@acornlife.ie. The invitation is open to all members including students.

Captain's Day

Date: Thursday 22 July 2004
Venue: Malahide Golf Club
Tee Booked: From 1.00 p.m – 3.30 p.m

Invitation to Members to Submit Articles for the Newsletter

The editorial team would very much welcome articles from members. If you have any ideas and would like to discuss them with the editorial team, please contact Frances Kehoe, Gareth McQuillan or Mary Butler.

Time of Evening Meetings

The time for evening meetings is still 6.00 p.m. for 6.30 p.m. The only difference this year is that all evening meetings will **start at 6.30 p.m. sharp!**

Annual Ball

Don't forget to diary Saturday 22nd May for our Annual Ball which will take place this year in The Four Seasons Hotel.

On the Move



Fellows

William Shortt has joined Hewitt & Becketts in Cork.



Society of Actuaries in Ireland

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