Newsletter
August 2008
The Society of Actuaries in Ireland

Council 2008-2009 & the SAI's 1,000th Member

Back Row: L to R: Council Members Paul O'Faherty, David Harney, Mike Claffey, Damian Fadden, Pat Ryan, John Armstrong, Gerry O'Carroll, James Maher & Richard O'Sullivan.
Front Row: L to R: Council Member Dick Tulloch, Anne Emily, 1,000th SAI member, Philip Shier, SAI's President, Yvonne Lynch, SAI's Director of Professional Affairs and Vice-President, Kevin Murphy.
Council Members absent from photo: Derek Bain, Jim Murphy, David O'Connor & Evelyn Ryder.

Contents:

The President, Philip Shier, presenting Anne Emily, the 1,000th member of the SAI, with a Waterford Crystal Vase.

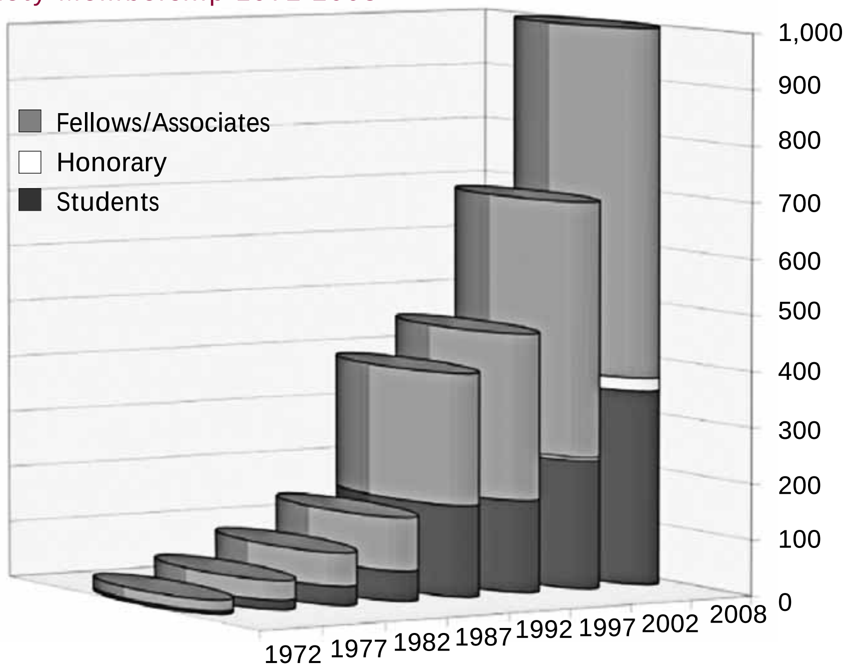
Prior to the first meeting of the 2008-2009 Council, on 14th July, the Society made a presentation to Anne Emily in recognition of the fact that Anne became our 1,000th member of the Society in May 2008. It was very fitting to make this presentation on Bastille Day as Anne is a French actuary working with Partner Re in Paris. She was admitted as an Associate Member of the Society under the Groupe Consultatif's mutual recognition agreement. With a BSc in Mathematics from Brest University, Anne is a Fellow of the French Institute of Actuaries (1994) and Associate of the Singaporian Actuarial Society (2007).

continued

Council 2008-2009 & the SAI's 1,000th member *(continued)*

The Society has grown much since it was founded by 17 members in 1972. The graph on the right outlines the growth in membership.

Society Membership 1972-2008



New Qualifiers

Our number of Fellow Members continues to increase with 21 new qualifiers from the April 2008 exams:

Sarah Byrne	AXA MPS Financial Ltd.
Ambrose Carr	Imagine International Reinsurance Limited
Eavan Clancy	Capita Life & Pensions
Grainne Clarke	Hibernian Insurance
Sall Fagan	Irish Life
Eamon Howlin	Allianz
Caroline Lynch	Canada Life Assurance
Eamonn Mernagh	Irish Life
Olan Mooney	Barclays Insurance Dublin
Bernard Mulkerrins	Generali International Limited
Ciara Murphy	Ernst & Young
Stephen Nugent	Irish Life
Pol O'Briain	Eagle Star Life
Fiona O'Mahony	Mercer
Daniel O'Regan	Hibernian Life & Pensions
Pamela O'Reilly	Canada Life Assurance
Shane Power	Avoca Capital
Naomi Reville	Watson Wyatt (Ireland) Limited
Grace Sweeney	Hibernian Life & Pensions
Niamh Tyrrell	Standard Life Assurance Ltd
Orla Walsh	Watson Wyatt (Ireland) Limited

The Society will celebrate their success at a reception in Dublin Castle on 2nd October 2008, when the President, Council Members and representatives from UCD & DCU will join the new qualifiers and their families.

An Honorary Fellow Member of the Society is Honoured

The Society was delighted with the Institute of Actuaries' announcement that Professor Phelim Boyle, an Honorary Fellow of the Society, is to be awarded the Institute's Gold Medal. Full report on page 3 of this Newsletter.

Council 2008-2009

Council is currently finalising its Strategy Plan. The draft Plan was discussed at the Plenary Session of the Society's Convention in May. Feedback from this session has now been incorporated in the Plan and the final Plan will be put to Council in October for approval and circulation to members.

In the next issue of the Newsletter there will be a midterm review from the President.

Professor Phelim Boyle

It was announced in May that Professor Phelim Boyle is to be awarded the Institute of Actuaries' Gold Medal, in recognition that his research has been of pre-eminent importance, in originality, in content and in consequence, to actuarial science. He is the fourteenth recipient of the Gold Medal, and first Irish actuary to be so honoured. A list of all recipients is given in the box below, together with a reference summarising their signal contribution to our profession.

There will be a formal presentation of the medal at Staple Inn at a date yet to be confirmed, with an opportunity for Phelim to make a short speech. Phelim's career was, of course, celebrated by the Society when he was made the seventh Honorary Fellow in March 2006 (see, *Phelim Boyle,* The Actuary (UK), September 2006, 27-28).

Professor Boyle is known throughout the world of finance for his pioneering work on options and, in 1977, he published one of the most important papers in the field of finance. This paper introduced the Monte Carlo method to price options, the method still primarily used to this day. Over subsequent years, he developed new valuation methods for more exotic financial derivatives and modelled market frictions such as transaction costs. He was also a co-inventor of the Asian option.

Professor Boyle's research output has been as broad as it is deep. He has published almost 100 papers and he wrote or contributed to several books. Another research theme that runs through his career is optimal portfolio selection, which can be traced back from his 2007 paper in the North American Actuarial Journal to his 1977 paper in the Journal of Risk and Insurance. He publishes in many other aspects of actuarial science mortality, fertility, assessment of damages in court cases, life assurance accounting, reinsurance pricing, immunization. The 1986 paper with Cormac Ó Gráda (UCD), Fertility Trends, Excess Mortality, and the Great Irish Famine, can be regarded as the construction of Ireland's earliest life table - to date, the most accurate assessment of the number who perished in the famine, and, to my knowledge, the first analysis of the gender and age incidence of excess mortality from famine.

Professor Boyle has recently retired as Professor of Finance from the University of Waterloo, but, in the manner of many modern retirements, he continues to publish, give talks, advise a hedge fund run by his son Feidhlim and is, in fact, now Professor of Finance at the School of Business and Economics at Wilfrid Laurier University, just around the corner from his former University where his wife, Professor Mary Hardy, also pushes out the boundaries of actuarial science.

Shane Whelan

Recipients of the Gold Medal of the Institute of Actuaries

1927	George KING FIA FFA FAS (JIA 59, 1)
1929	George James LIDSTONE LLD FIA FFA FRSE (JIA 61, 1)
1937	Sir William Palin ELDERTON KBE FIA FFA (JIA 69, 1)
1964	Wilfred PERKS FIA (JIA 91, 16)
1964	William PHILLIPS OBE FIA (JIA 91, 16)
1968	Frank Mitchell REDINGTON MA FIA (JIA 94, 345)
1975	Professor Bernard BENJAMIN DSc PhD FIA (JIA 103, 1)
1980	Ronald Sidney SKERMAN CBE BA FIA (JIA 108, 3)
1985	Gordon Vernon BAYLEY CBE FIA FSS FIMA CIMgt (JIA 113, 1)
1985	Professor Sidney BENJAMIN MA FIA (JIA 113, 3)
1991	Colin Stewart Sinclair LYON MA FIA FSocAntiquaries (JIA 119, 1)
1995	Professor Alasdair David WILKIE HonDSc MA FIA FFA FSS FBCS FIMA AIIMR (BAJ 2, 1)
1998	Christopher David DAYKIN CB HonDSc MA FIA FFA(Hon) FSS ASA (BAJ 4, 421)
2008	Professor Phelim P. BOYLE, MSc PhD FIA FCIA HonFSAI

Source: The website of the UK Actuarial Profession, www.actuaries.org.uk.

Pandemic Mortality – An update on Current

On 30th April, James Maher and Gareth Colgan gave a review of the considerable analysis, literature and industry and government response that has been produced over the last 24 months as to the risk of a pandemic event.

The key areas covered were:

Avian Flu (H5N1) Update

The actual impact on humans to date has been low, with little more than 350 cases incepting, although the aggregate mortality rate has been around 60%. There has been a significant variation in the mortality experienced by different nations, with Indonesian experience being significantly worse than the others at 81%. This suggests that there may be an economic or social aspect at play in respect of mortality experience.

The World Health Organisation (WHO) is continuously monitoring the progress of Avian Flu and other diseases and provides support and guidance to public bodies. They have indicated that the spread of H5N1 in wild birds and poultry is extensive. Over 2007, H5N1 continued to impact Indonesia and Egypt in particular, and there have been many human cases and fatalities during 2008, so although it has fallen out of the headlines, it has not gone away.

Pandemic Influenza

A pandemic is a disease that infects humans, causes serious illness, and passes freely from human to human. It is important to note that Avian Flu is not a pandemic, although it could convert into a pandemic if human transfer became sustained and efficient. The current WHO pandemic alert ranking for Avian Flu is 3 (on a scale of 1 to 6).

Empirical evidence suggests that we get around 3 to 4 pandemic events per century. There were 3 such events in the 20th century:

- the two milder U events of 1957 and 1968 where there was an elevated mortality at older and younger ages, giving a U shape to the extra deaths with an aggregate extra mortality of between 0.2 and 0.4 per thousand; and
- a severe V\ event, that skews all estimations and leads to greatest disparity in projecting future experience - the 1918-1920 event (or Spanish Flu). Extra mortality did not follow the traditional U shape but instead had a significant impact on a younger population. It is the presence of this peak at younger ages, 25 to 35, that creates significant additional uncertainty for the insurance industry.

From an international perspective, it is worth noting:

- the significant variation in mortality experience from this event. Such evidence again points to the relevance of environmental and economic factors in terms of impact on mortality. To illustrate this, additional mortality of 55 per mille was experienced in India compared to 5 per mille in the US and other western states.
- the pandemic occurred in 3 waves, reflecting both mutations in the virus and resurgence of the initial variants. The most aggressive phase was the second wave.

The challenge going forward is how to take this scant data, that has been skewed to such an extent by a single event, and try to make sense of it in the world of today and in particular the insured population of today? We can identify broad factors at play to be taken into account, although the degree of credit taken is open to significant discussion. A number of different papers have been written, with differing approaches as to how to address these challenges.

Review of Industry and Professional Analyses

There appears to be a significant amount of analysis and literature in circulation, produced by various reinsurers, rating agencies and industry bodies. James focused on the main papers in the presentation.

In May 2007, the Society of Actuaries in the US produced an analysis of the potential impact of pandemic events on the US life insurance industry. It was conducted with industry participation and a comprehensive suite of data, spreadsheets and literature is available.

The exercise modelled two events:

- A Moderate U Event, +0.7 per mille to the general population (based on the 1957 pandemic), with a 57% adjustment for insured life mortality; and
- a severe V\ event, +6.5 per mille to the general population (based on the 1918 pandemic), with a 77% adjustment for insured life mortality.

The results outlined below suggest that a moderate pandemic would not overly affect the industry, although the industry would be highly impacted by the severe event. In fact, the results have suggested that the severe event would exceed the capital and financial resources of the North American reinsurance industry, leading to a 9% shortfall in recoveries under reinsurance programmes to the direct insurance industry.

The main industry paper, produced by Swiss Re, is "Pandemic Influenza: A 21st Century for Mortality Shocks". The presentation within the paper outlines clearly the building blocks used to develop its approach. It is clear on the limitations of the projections and in particular the uncertainty over the nature of the pandemic itself, in terms of: differences between the general and insured population; the insight we get from past experience given advances in medical treatments; and any regional variations that exist. Under a 1 in 500 event scenarion, the Swiss Re modelled extra mortality for western populations indicated a range of +1.6 to +3.1 per mille mortality adjustment in aggregate across the population, highlighting the variation that can exist within these models (compared to the US Society of Actuaries model).

Regulatory Approaches

Gareth then discussed the current regulatory positions towards pandemics by working through the results of the Individual Capital Assessments (ICA), Augmented Solvency Model (ASM), and Solvency II.

This has been an area that has been evolving over the past number of years. The results of the recent Pandemic Working Party update in September 2007 showed that, on average, pandemic risk was 4.5 per mille addition to mortality, compared to a 2 per mille currently used for the ASM. A 1.5 per mille addition is being tested

Experience, Practice and Responses

in the current QIS4 calibration for Solvency II purposes, which has been calibrated by reference to the 1918 Spanish Flu adjusted for medical advances. The impact on the Irish insurance industry of these capital requirements would be to add €493m (€223m net) to reserves.

Governmental Responses

Addressing the pandemic alert, there have been a number of governmental responses to the threat around the world.

The UK performed a market-wide exercise in November 2006 involving 70 companies with 3,500 employees actually participating. The purpose of this exercise was both to educate employers on the risks involved and to assess issues raised by market participants. Simulated absenteeism levels of 15% rising to 49% had the heaviest impact on customer-facing roles. As a result, there would be considerable bottlenecks in the system, a particular issue for insurers, who would face difficulties paying the expected increase in claims.

A similar exercise, although on a much larger scale – involving 2,700 financial services organisations was performed in the US in October 2007. The exercise highlighted an undue optimism by respondents to be able to conduct business as usual. It also highlighted the limited effectiveness of business continuity plans, particularly as the pandemic persisted.

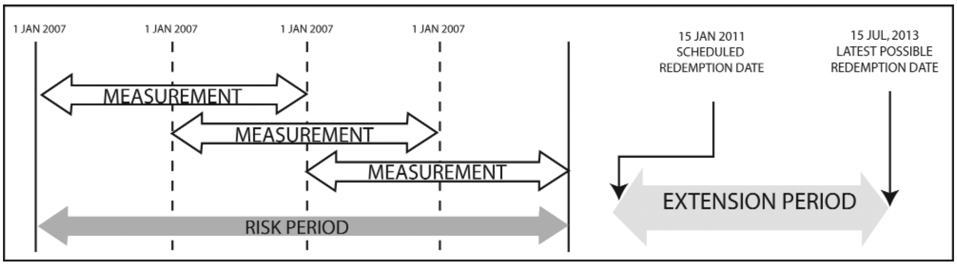
Turning to Ireland, the Irish government has recently produced a pandemic influenza plan as part of its overall risk management response. Scenario modelling results have suggested that over a 15 week period, we could expect to see between 25% and 50% of the population falling ill – depending on the severity of the pandemic. We could also expect to see fatalities of between 0.37% and 2.5% (equivalent to the 1957 and 1918 pandemics respectively). Full details can be found on the risk management website.

Extreme Mortality Bonds

Extreme mortality bonds typically pay a cash return based on LIBOR with an adjustment (increase) to reflect the event risk of non-repayment of principle in the event of a pandemic event which creates a claim. Extreme mortality bonds are an offshoot of the natural catastrophe bonds, which investors have bought since the 1990s to bet against hurricanes and other natural disasters.

Swiss Re has been the primary issuer of such bonds, using the structures to protect their peak exposures to a pandemic event, starting in 2003 with further issues in 2005 and 2007. To date there have been limited issuances of bonds, the majority of bonds being issued with mortality exposure across a number of territories. As one would expect, the bonds have mainly been issued by reinsurers, the exception being the AXA bond issued in 2006.

Due to the relatively low occurrences of pandemics, and the uncertain severity which unfolds over an extended period of time, there is a need for a structure that provides protection to the bond issuer over a multi-year period, where risk periods are extended beyond calendar year boundaries and where there is an extension or development period to allow for IBNR.



James also discussed the work involved in pricing one of these bonds. Each issuance has used a mortality index whereby actual observed population mortality, as weighted for age and gender, is linked to a reference year's mortality. The trigger happens when mortality exceeds this level. As such, it acts like a stop loss agreement with protection in respect of aggregate all cause mortality.

A large number of stochastic simulations, based on the Milliman "all cause" mortality scenario generator, are run through the model. The base mortality projections are then adjusted to allow for additional mortality due to pandemics and terrorist attacks. The combined results enable the price to be calculated by summing the relevant loss probabilities times the loss amounts.

James then went on to discuss the results of the AXA issue, which clearly showed that the probability of payment was highly weighted towards pandemics (96.1% probability for an A rated bond), with very low or nil probabilities attaching to the baseline and terrorist attack scenarios. This is largely due to the high attachment point on these bonds with a consequent increase in ratings as the attachment point increases. For example, the credit rating increases to A for an attachment point of 119% compared to a BB+ rating for an attachment point of 106%.

Brendan McCarthy

Proposed Merger & Actuaries as Risk Managers

On Tuesday 15 April 2008, Nick Dumbreck, President of the Institute of Actuaries, gave a 'two for the price of one' set of presentations to the Society.

Proposed Merger

Nick's first presentation dealt with the current merger proposals between the Institute of Actuaries and the Faculty of Actuaries. The aim of the presentation was to encourage members of the Society who were also members of one of these bodies to exercise their vote in the future planned plebiscites on the merger.

Nick began by outlining the reasons for the merger. In 1856, it took 12 hours to commute from Edinburgh to London and these communication difficulties were one of the main rationales for developing a separate actuarial gathering in Scotland.

The two organisations have developed increasingly closer links in recent times in creating a joint examination system and then establishing the umbrella of the Actuarial Profession. The separate activities that do remain are in the areas of sessional meetings, dinners and prize giving.

Nick then outlined the benefits that a merged entity would bring, namely more efficient streamlined operations, greater democracy, greater stability and opportunity for a better defined public image.

He explained the terms of the merger proposed at present and outlined the next steps that will take place. Then followed a question and answer session in which, amongst other issues, Nick explained the consequences of the merger on the international representation of the UK profession and also some of the details of the voting majorities required for both bodies to proceed with the merger.

Actuaries as Risk Managers

Nick's second presentation explored the opportunities actuaries have to use their training and skills in the management of risks in the wider financial services sector. In order to examine what type of risks we are talking about, Nick brought us on a global journey through the wreckage of the recent troubles as well as through a few of the larger disasters that occurred in the last two decades.

Starting with the subprime crisis in the US, we see that this was caused by the lending spree to individuals with poor credit histories fuelled by high commissions and low initial loan repayments. These loans were then securitised, which disguised the real nature of these assets. For example, one issue of so-called AAA rated debt was trading at 30% below par value a few months after issue. The net result is that money markets have collapsed and many banks have had to seek capital though Sovereign Wealth Funds and rights issues. It has been noted elsewhere that Sovereign Wealth Funds, especially from the oil producing countries, provided the cheap money that was one of the main sources of liquidity that encouraged the lending spree in the first place.

Staying in the US, Nick explained what has been going on in Goldman Sachs. Putting it mildly they have had trading strategy problems which they didn't expect. 25 standard deviation events three days in a row one of their spokespersons explained, to which a commentator quipped that we are beginning to see these one in one hundred thousand year events every year now. Fair to conclude that there aren't too many actuaries hanging around in Goldman Sachs' press office.

Closer to home, we heard how Northern Rock had the dubious honour of hosting the first run on a British bank in over one hundred years, while in France we found out what happened when Société Générale promoted Jerome Kerviel to a junior trading position for doing such a good job on the settlements desk.

Referring to more distant times, Nick brought us through the events that occurred in Canada's Confederation Life, Australia's HIH, and in the UK, Equitable Life and Independent Insurance - then back to the USA with Long Term Capital Management and proof that Nobel prizes aren't all that good after all. A show of hands showed quite a few of the audience enjoyed the book on this one. Last stops on the disaster tour were Japan (guaranteed rates) and Jamaica (non-performance of banking assets in a high interest rate environment).

Nick classed all of these disasters into risk failure classifications including market risk, operational risk, credit risk, liquidity risk, insurance risk and group risk.

So what can actuaries do to help manage all these different risks? According to Nick, actuaries are in a prime position to create a role in quantifying some of these risks due to their unique skills, including a rigorous analysis of data, modelling ability, development of killer scenarios, ability to stand back to view situations and ability to clearly communicate complex problems.

Furthermore, the profession is acting to promote this by developing qualifications in Enterprise Risk Management and giving risk management greater prominence within the education syllabus. The aim is to position actuaries as a natural choice for complex risk quantification work.

Q & A

Nick then took questions from the floor and a lively discussion took place among the members present with a wide range of views expressed. It was suggested that actuaries in the past have missed some of the risk which existed in insurance and pension liabilities (e.g. mortality improvements, guarantees and falling equity returns). Nick responded that methodologies have evolved since these days and actuaries are much better equipped to value these risks now.

The culture of organisations was discussed and how important it is that the person with responsibility for risk management operates in an environment where issues can be raised with the board. It was felt that before an actuary accepted an appointment in this area, that he or she would need to ensure proper communication was in place with the board. The discussion further explored the point that the board were ultimately responsible for risk management and that the short term nature of rewards structures at board level can affect the risks that are taken within a company or group of companies. In closing the meeting, the Society's President Philip Shier thanked Nick for coming over to give the two presentations.

Ceall O'Dunlaing

Suing the Actuary - Managing Litigation Risk

On 8th May 2008, Rory Kirrane of Mason, Hayes & Curran presented to the Society of Actuaries in Ireland on the topic of 'Suing the Actuary'.

Rory currently specialises in the area of construction law and has previously worked as a shipping lawyer in London, where he was involved in acting for insurers in such high profile cases as that of the Ikarian Reefer.

Introduction

Perhaps with the aim of helping his audience to feel more at ease, Rory had decided to rename his presentation to the more positively entitled 'Managing Litigation Risk' rather than the previously advertised 'Suing the Actuary'.

In his introduction to the topic, Rory highlighted a number of areas where actuaries can experience problems: incorrect data, modelling errors, incorrect assumptions etc. and the possible litigation risks associated with these. The aim of his presentation was to give an overview of some of the key features of litigation risk and also to provide some risk avoidance measures which can be employed in an effort to reduce this risk.

Contract & Tort Law

Rory began with an introduction to Contract & Tort Law.

Tort Law refers to those obligations imposed by law. It deals with civil wrongs and, as such, it is not a voluntary undertaking. The primary Tort Law under which litigation is pursued is negligence. Negligence is the failure to use due skill and care. In determining whether negligence has indeed occurred, the defendant will be judged by the standards of a reasonably competent person within that profession. Items such as our own Professional Conduct Standards can be used in evidence here. Rory also highlighted how small factors can often accumulate to create a negative picture and hence careful procedures and documentation can help here.

In contrast to Tort Law, the obligations under Contract Law are voluntarily assumed. Rory was keen to highlight that, in designing a contract with clients, we should take the opportunity to limit liability where possible. He emphasised that we should create the conditions to protect ourselves and the contract should be audited from a risk perspective.

Jurisidiction

Where parties to a contract are located in different countries, then the contract can, and should, be extended to include a clause which states the jurisdiction of the law which will apply to the contract. However, it should be borne in mind that, when being sued, it might not always be in your interest to have the laws of Ireland apply because, in other states, the rules might be less strict!

Court/Arbitration

Contrary to my previously held belief that arbitration was always preferable to taking action through the Courts, Rory expressed the opinion that one was effectively as bad as the other. Arbitration can be just as time consuming and expensive a process as court action. In certain cases, the commercial court can even be quicker and cheaper. However, one of the advantages of arbitration is that it is good for maintaining confidentiality which is often a key motivation for parties to choose this option.

Defending a Claim

Should one ever be faced with a litigation claim, the good news is that you, as a defendant, do not have to prove anything. The plaintiff must prove the case on the balance of probability. It must be shown that the defendant had a duty under either contract or tort law and that this duty was breached. It is important to show the causation link, i.e. the breach of a certain duty led to a loss. In certain cases, experts will be required to prove this. Rory mentioned that, in some cases, figures and statistics are often used to baffle rather than explain so presumably we must have an advantage here?!

Costs of Litigation

Rory was very much of the opinion that litigation should be used as a last resort. The more protracted the case, then, of course, the higher the expense and the less satisfied one is with the outcome. However, where one's reputation is at stake, the costs involved might not be a factor.

As well as the costs involved, the following factors should also be considered before taking a decision to proceed with litigation:

- Management time and effort spent;
- Reputation;
- Unpredictability of outcome;
- Destruction of business relationships.

Mediation

An alternative to litigation which Rory was keen to promote was the process of mediation. A benefit of mediation over arbitration is that the decision is not usually binding, so the parties can retain an element of control. If mediation is unsuccessful in reaching a resolution and the case goes to court, then the decision of the mediator can be used in evidence. Mediation has now effectively become a business process and it is common for contracts to include a requirement to enter into mediation, should a dispute arise.

Following Rory's presentation, there was an opportunity for questions, which many took advantage of. One particular question of interest related to our Professional Conduct Standards and Actuarial Standards of Practice and the level of detail that should be contained in these, bearing in mind their possible use to prove negligence. Rory believed that the more detailed these were, then the easier it was to show that they were not complied with. Depending on whether you expect to find yourself on the side of the plaintiff or defendant, then you might have differing viewpoints as to how to interpret this!

Ramona Dolan

Credit Crunch: Causes, Effects and Implications

Presentation by Ian Clarke, Economist and Director, Deloitte and Touche LLP

Ian Clarke gave a fascinating presentation setting out his thoughts on the much debated “credit crunch”, the factors leading to it and what it might mean for the future.

Causal Process

Ian discussed in detail the background to the “sub-prime bubble” in the United States (US). Banks who were selling risky high loan-to-value mortgages and under pressure to drive up volumes were apparently paying little attention to the true risk associated with the counterparties with whom they were dealing because they were passing on such exposure through selling mortgage bonds. To compound this, rating agencies were rating significant numbers of mortgage-backed investment vehicles (e.g. Commercial Mortgage Backed Securities (CMBS)), most likely due to the fact that they were rating them based on, what turned out to be, rather optimistic projections. This situation contrasts with corporates, for which objective data is publicly available as a “sense-check” on ratings. Thus, the true risk was misrepresented.

Based on these ratings, CMBS investors thought they were getting a high return for an instrument carrying little risk. However, once homebuyers started to default, the banks couldn’t make their bond payments and hence the bond market dried up. It is now apparent that many banks barely knew their own sub-prime exposure, let alone that of other banks. The credit crunch was the result.

Impacts

The loss of trust between banks caused a huge increase in the differential between LIBOR/ EURIBOR (the rates at which banks lend to each other) and the risk-free rate. In fact, the differential referred to reached a high of nearly 200 bps at the time of the fall of Bear Stearns, compared with a normal spread of 30 bps. This made it very tough for banks to borrow, with inter-bank lending now down to a trickle. This was also a major driver of Northern Rock’s collapse, as its business model was reliant on short-term borrowing.

The sub-prime problems are not restricted only to mortgages. Many companies have been leveraging significantly over the last number of years and now have to refinance this debt at much higher rates.
Sub-investment grade bonds are still being issued and, in fact, Ian mentioned that the US bond market recently had its biggest day ever.

Since the middle of 2007, spreads on US BB bonds have shot up to around 500 bps from approximately 150 bps previously. However, historical analysis shows that the 2004 to 2007 period, when spreads were down at that level, was, in fact, perhaps an irrational period. Notwithstanding this, companies who took loans during that time could be in real trouble when they begin refinancing. It was suggested that perhaps bond yields are now back at their correct levels, thus offering some comfort to pensions’ actuaries.

From a purely domestic point of view, the Irish stock market lost €26bn during 2007 (and indeed has continued its downward spiral in 2008). Speculative attacks have been mounted on banks whose short/long-term funding models or capital adequacy ratios are uncertain. It is notable that 50% of commercial lending is in the property and construction sectors. Ian reasoned that we are also likely to suffer knock-on effects from what he expects to be a nasty US recession, while at the same time getting little assistance from the European Central Bank (ECB).

Implications

Ian sees trouble ahead for capital-dependent sectors, in particular commercial property. There may be further central liquidity injections in the UK and US to follow those which have occurred already. If banks can reach the point of realising that their balance sheets are looking reasonable and that the worst is over, inter-bank rates may fall and liquidity may unfreeze. If not, a recession is likely to follow.

Royal Bank of Scotland (RBS) undertook a rights issue to alleviate potential balance sheet problems but Irish banks have, as yet, resisted. However, as refinancing time approaches, there might well be a few more who take the course of action pursued by RBS.

As a result of the credit crunch crisis, it is inevitable that more regulation will be implemented and that increased capital adequacy levels shall be required.
Ian commented that, while Basel II capital adequacy ratios are based on risk-weighted assets, if those risks aren’t properly understood and quantified by the rating agencies, how reliable are they really? What is the point of Basel II requiring an increasing degree of modelling when these models have been shown to be unreliable as a result of this crisis?

Questions

James Mulrooney asked if Ian saw a shift away from straight debt to convertibles by companies with refinancing difficulties. Ian felt that, in the current climate, complicated arrangements are not likely to be welcomed.

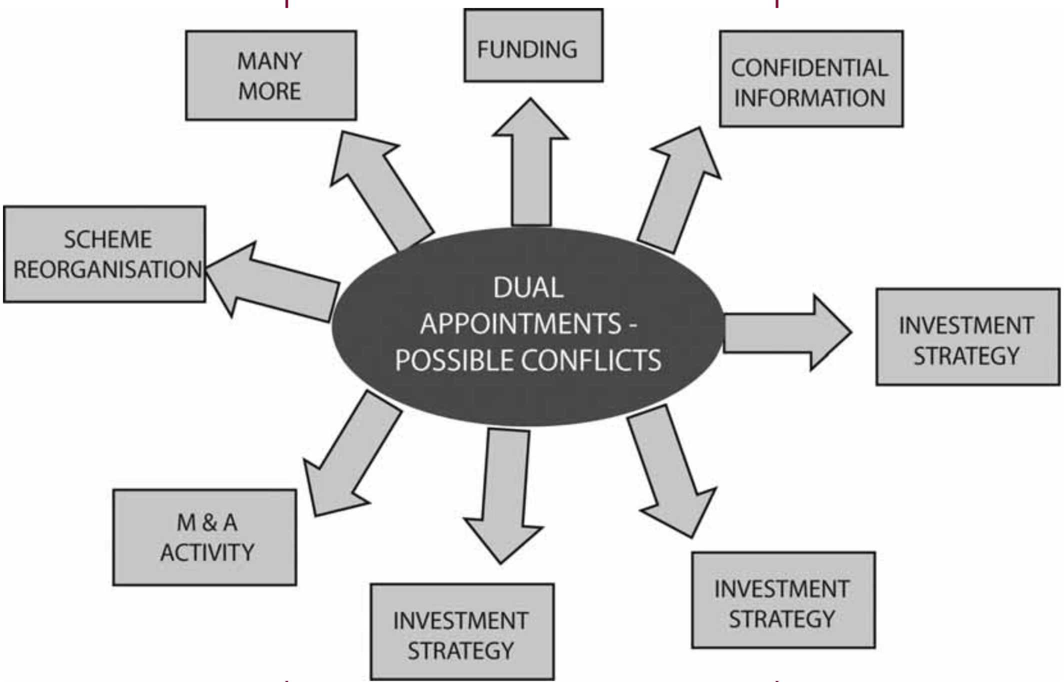
Kevin Murphy felt that, if companies’ business models were robust in 2002 and financial conditions have reverted to those levels, most of them would surely survive. Ian agreed, provided they can service their interest repayments.

Gerry O’Carroll asked if Ian saw the possibility of non-banks buying up banks. Ian mentioned that GE has bought up millions of dollars’ worth of debt in the last few months.
He felt it could be possible given sufficient liquidity.

Ross McCarthy

Conflicts of Interest for Pension Scheme Actuaries

An audience of legal professionals and actuaries gathered on 13 May 2008 to hear Patrick Needham and Philip Smith present on the topic of 'Conflicts of Interest for Pension Scheme Actuaries'. Patrick is an actuary specialising in pensions and Philip is an experienced pensions lawyer. The event was jointly organised by the Society of Actuaries in Ireland and the Association of Pension Lawyers.



Despite an earlier power cut, the event did eventually kick off with Patrick outlining how recent developments in the pensions world have served to focus significant attention on the various conflicts that a pensions actuary can face in his/her working life. It was also noted that the challenges faced by actuaries in maintaining public confidence are similar to those faced by other professions in recent times, e.g. medical, accounting and legal professions.

Patrick then shared some of the lessons he has learned from his exposure to recent developments in this area in the UK. In particular, he drew out the differences between the regulatory/ professional framework in the UK and that which applies in Ireland. He then moved on to comparing how the solicitors' code of practice on managing conflicts of interest compared to that operated by the actuarial profession in the UK. Perhaps the most significant difference related to the onus on a solicitor to cease to act where there is an actual conflict or a significant risk of conflict whereas the actuarial code of practice simply requires the actuary to consider the nature and extent of the conflict and whether it is improper to give advice.

Philip then took the audience through a very practical review of how conflicts can arise, how the scope for conflict can vary over time and how the professionals involved need to tread very carefully to manage the various conflicts and ensure that an appropriate trail remains should the process ever come under external review.

Philip also drew an interesting distinction between those individual discrete events (e.g. M&A activity) where the scope for conflict of interest is readily apparent compared to a more routine activity (e.g. formulating Investment Strategy) where the potential for conflict of interest can be less obvious and can vary considerably over time. The challenge posed to the pensions actuary is to continuously register where a particular issue lies on the conflict spectrum and act appropriately. It was also interesting to hear Philip describe how little case law exists in this area.

Patrick then completed the presentation by outlining what the future may hold in this area for pension actuaries. Hopefully, the audience registered the need to be constantly aware of one's client in a particular scenario and the need to identify/monitor/manage conflicts of interest on an ongoing basis.

Following the presentation, there was a lively Q&A session with contributions evenly spread between the legal and actuarial sections of the audience. Philip Shier, President of the Society of Actuaries in Ireland, then brought the evening to a close by thanking Patrick and Philip for their thought-provoking presentation.

A copy of the presentation is available on the Society's website.

Noel Coughlan

Coast to Coast Cycle Challenge

In June of this year, Sheelagh Malin, FSAI and Managing Director at St. James's Place International in Dublin, successfully completed the St. James's Place Foundation Coast to Coast Cycle Challenge, raising over stg£3,000 for charity. The event was organised by the Legal Department at St. James's Place and there were 41 participants, all from the UK based wealth management group. The route covered 136 miles from Whitehaven in Cumbria to Sunderland over 2.5 days, with a total ascent of 4,819 feet.

Until Sheelagh started her training regime at the beginning of April, her cycling experience was generally limited to the short and flat 10 minute commute to and from work. She built up her fitness and stamina each weekend, starting with some flat routes around the coast to Dollymount and then Sutton, before adding tougher climbs like the road up to Ticknock Mountain. Despite the best efforts of Virgin Trains, she managed to escort her own bike via Holyhead to the starting point in the Lake District.

Sheelagh recalls many highlights along the way to seeing her front tyre finally dipping into the North Sea at Sunderland - the magical scenery of the Lake District, the thrill of the zig-zag descent through steep forest tracks, being blown (no pedalling required!) through the moorland with the sun lighting up the skeletal branches of scorched bushes, and the endless banter and laughter.

Participants in the Cycle Challenge have so far raised over stg£34,000 for the St. James's Place Foundation and the company itself will double this by making a matching contribution for each stg£1 raised. You can continue to make donations until the 30th September and find out more information and links at Sheelagh's "justgiving" web-page at *http://www.justgiving.com/smalin*

Sheelagh Malin

Continuing Professional Development (CPD)

Reporting Year 1st July 2007 to 30th June 2008

We have passed the end of the second year of the Society's CPD scheme (30th June 2008). The requirements of the scheme are set out in ASP PA-1, Continuing Professional Development, which applies to Fellow and Associate members as a Mandatory ASP. Full details are available on the Society's website, at *http://www.actuaries.ie/Careers_Education/CPD%20Scheme/cpd_new_page.htm*.

The online forms for submitting your declaration of CPD category and the details of CPD completed are available in the Members' Section of the website, under "CPD"- *http://www.actuaries.ie/member/login.asp.* Your category declaration and details of CPD completed must be submitted to the Society, using the online forms, no later than **Monday 25th August 2008.**

Submitting your CPD records

Some things to remember when you submit details of your CPD events/activities:

- It is essential to input a date for each event/activity. For events/activities that took place over several dates, input the first date.
- "External" means external to your own firm. So, any CPD event that is attended by a mix of people from several firms – rather than being attended mainly by people from your own firm – is an "external" event. Thus, the Society's CPD events, for example, are "external" events.
- "Outside specialism" means CPD that is relevant to your work but is outside your actuarial specialism. It may include non-actuarial technical skills. It may also include "soft" skills, such as communication and people management skills. It should include professionalism skills from time to time, though not necessarily every year. Under the CPD scheme, most working actuaries are required to complete some CPD on skills that are outside their specialism.
- If you have questions about the CPD scheme, you might find the Guide and Frequently Asked Questions on the website useful: *http://www.actuaries.ie/Careers_Education/CPD%20Scheme/cpd_new_page.htm.* If you can't find the answer to your questions there, please contact the Society at *info@actuaries.ie*. Please note that the Guide includes information on the requirements that apply if you are also a member of the UK Actuarial Profession.

CPD events during the 2007/2008 CPD year

A list of the CPD events organised by the Society during the 2007/2008 CPD year was set out in the June 2008 eNews bulletin, which is available at: *http://www.actuaries.ie/About_the_Society/Society%20Publications/eNews%20Bulletins/eNews%20June%202008.pdf.*

Students' Night at the Dogs

L to R: David Woods and Cathriona Callan

L to R: Eamonn Mernagh, David Woods, Vincent Kelly, Stephen Nugent and Karl Dooner

L to R: Eamonn Mernagh and Eve-Anna Cooney

John Groarke

L to R: Pamela Doran, James Moran, Laura Robertson and Catherine Casey

At the start of July, the Student Society hosted a night out in Shelbourne Park Greyhound stadium. It was a great night, with roughly 70 people attending from a wide range of companies.

The big winner of the night was the perennial student attendee, Mr John Groarke, who managed to scoop a triple forecast netting a nice little win (see photo).

Other winners of the night included a syndicate of Cathriona Callan, Stephen Nugent and David Woods, who correctly predicted the winner in an amazing 4 races in a row, prompting allegations of race fixing.

Unfortunately, not every punter was as blessed with luck. However, there was plenty of opportunity for sorrow drowning at the trackside bar. When the racing finished, the evening continued with the usual hard-core element making their way to Wexford Street.

The organisers would like to thank all those who attended and hope to see everyone again at the BBQ in August.

Daragh Burns

Inaugural Insurance Vs Pensions Golf Match

The Society's own Ryder Cup was played on the beautiful course of Rathsallagh on Thursday 26th June. The similarity with the Ryder Cup probably ended with the fact that both teams consisted of 12 players! Each team divided into pairs and the match consisted of 6 fourballs, so the goal was to achieve more than 3 wins.

There was much debate between the team captains, Kevin Reynolds and Neil Guinan, over the handicaps of the various teams, with Kevin pointing out the noticeably lower handicaps of the Insurance team, and wondering if any work was being done in the Insurance sector!

The going may have been "soft", with persistent showers, but the competition was firm to hard. The Pensions team got off to a good start, winning the opening match, but the Insurance team then won the next 3 matches. Pensions then won the fifth match, so it was all to play for in the final match which pitted the two team captains against each other. In a match played with a very friendly spirit, Insurance came out on top, leading to a 4-2 winning margin.

All in all, it was a most enjoyable day, and hopefully paves the way for the renewing of rivalry next year!

Neil Guinan
Golf Captain 2008

SAI Annual Luncheon

The inaugural SAI Luncheon took place in the Westin Hotel on Thursday 24th April. We were delighted with the attendance and are currently finalising a date for next year's luncheon. It was a very enjoyable occasion, so if you could not attend this year, watch this space and come along next year.

SAI Annual Convention

The 3rd Annual Convention of the Society took place on 22nd May with a huge attendance. In order to cater for our increased membership numbers, we have booked all meeting rooms in the Alexander Hotel for next year's convention, which will take place on Thursday 21st May 2009, followed by lunch in the Davenport Hotel.
Don't forget to diary this date!

Captain's Day – Thursday 28th August – Killeen Golf Club, Kill, Co. Kildare

Enter online at www.actuaries.ie/ Events.& Papers / Upcoming Events or contact the Society for further details.

On the Move

Fellows:

Marian Keane joined PricewaterhouseCoopers from London Life.

Martin Kelly has moved from Canada Life to ESG Reinsurance.

John O'Neill has moved from Royal Bank of Canada to Partner Re.

John Feely and Maurice Whyms have established Attain Consulting along with HR specialist Tara Flynn. *This new business will provide strategic consulting services in the Retirement, Employee Engagement and Financial Services sectors.*

Student:

Seamus Fearon joined KPMG from Hibernian.

Susan McKay has moved from Eagle Star to Canada Life.

Society of Actuaries in Ireland
102 Pembroke Road, Dublin 4. Telephone: +353 1 660 3064 Fax: +353 1 660 3074 E-mail: info@actuaries.ie Web site: www.actuaries.ie