Newsletter
November 2008
The Society of Actuaries in Ireland

New Qualifiers' Reception in Dublin Castle

Seated: Sally Fagan, Grainne Clarke, Eavan Clancy, Anna O'Toole, Pamela O'Reilly, Teresa Mernagh & Jenny McDonnell
Standing: Sarah Byrne, Ambrose Carr, Fiona O'Mahony, Stephen Nugent, Bernard Mulkerrins, Eamonn Mernagh, Philip Shier (President of the Society), Shane Power, Brian O'Sullivan, Ian Mooney, Eamonn Howlin, Niamh Tyrell, Ciara Murphy & Grace Sweeney

Contents:

Midterm Review from the President, Philip Shier

As my second year as President of the Society is now in full swing, I asked the editors for the opportunity to give a brief summary of some of the highlights of my first year. On a personal level, it has been a rewarding and challenging experience, and has taken rather more of my time than I had anticipated.

I have been honoured to represent the Society at a number of international meetings, most recently at the opening of the new offices of the Dutch association in Utrecht, and at the address by the new Faculty President, Ronnie Bowie, in Edinburgh. I also attended the IAA meetings in Quebec in June where I was one of the leaders of the Presidents' Forum. At home, I have had the pleasure of attending dinners of other professional and industry bodies as one of the "chain gang" at the top table, and have enjoyed the opportunity to discuss issues of mutual interest with the heads of kindred organisations and key figures in Government departments and regulatory organisations.

At the first meeting of Council, we agreed to develop a Strategic Plan for the Society to cover the next 3 years, and asked Kevin Murphy to lead a working party to do this. I am grateful to Kevin and to the other members of the group for the effort they put in, and to those members who participated in the discussion session at the Convention in May, which provided much useful input. The Strategic Plan has been adopted by Council, and the priority short term objectives identified, and steps have begun to action these.

In particular, we have established new committees to deal with CPD and new areas of actuarial practice which I hope will enable us to meet the needs of more of our members going forward.

A key role for the Society is the development of the next generation of actuaries, who will have different skills, a wider range of opportunities and probably greater challenges than in the past. We do not have the capacity to

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Midterm Review from the President, Philip Shier *(continued)...*

become an examining body and will continue to rely on the UK profession to provide this service for Irish actuarial students. However, we are endeavouring to develop a relationship with actuarial students as they work their way through the exams, and we have recently had the first seminar for new students which was very well attended.

Since I took over as President, I have had the pleasure of presenting certificates to three sets of new qualifiers, most recently a few weeks ago (see picture on front page). These are always most enjoyable occasions, where we can recognise their success in completing the exams, wish them well in their careers, and encourage them to contribute to the Society in the future. It is immensely gratifying to see the pride which their parents and family take in their achievement of becoming an actuary.

At the other end of the age spectrum, I hosted a dinner for retired members, Past Presidents and Honorary Fellows, of which the highlight was a presentation to Professor Philip Boland Hon FSAI on his retirement as Director of the BAFS degree programme at UCD. Phil has been a tremendous influence on many of our current members and I am delighted that he is still playing an active role in the university and the Society.

Over the course of the last year, there have been a great number of meetings on many and varied topics which I hope have made it relatively painless for members to accumulate CPD hours to meet the new requirements. I have chaired most of the evening meetings, some of which were on topics well outside my usual practice area which I found very stimulating. I would urge members to attend meetings which may not appear to relate to their normal day job as there is always something useful to be learned – not to mention the opportunity to meet actuaries working in other fields. Among the meetings which I particularly enjoyed were "What Happened at Scottish Re?" by David Howell, the Hot Topics paper by some of our recent qualifiers and the lunchtime presentation on Micro-insurance in India by Eamon Kelly. I am sure that we will have many interesting meetings in this session as the new CPD Committee gets into gear, and that the large attendance and high levels of audience participation will continue.

The Society achieved a milestone in July of this year when we admitted our 1,000th member and I made a presentation on behalf of the Society to Anne Emily, ASIA, who has become a member under the mutual recognition agreement within the EU.

The Society was honoured to host the meetings of the IAA in October 2007. The highlight was a dinner given by the Society in the Shelbourne Hotel for about 250 guests, with optional Irish dancing for afters!

The Society makes a major contribution to the work of the Group Consultatif, which plays a key role in promoting the actuarial profession with the European Commission. In recent years this has been in the context of Solvency II for insurance companies, but is increasingly likely to move to a European standard for pension fund solvency, which will be a major challenge for some countries, including Ireland. At the recent meeting of the Group in Zurich, I was re-elected for a second 3 year term as Chairman of the Pensions Committee and I look forward to interesting times ahead in that role.

I was pleased to welcome, on behalf of the Society, the UK profession's Healthcare Convention held in Dublin in May, and the Pensions Convention in Killarney in June. Both were well attended both by UK visitors and our own members and provided a valuable opportunity to explore a wide range of issues of interest as well as some social networking!

I am very grateful for the support of Council, Committees and members generally during the past year, and in particular I must once again thank, on your behalf, Mary Butler and Yvonne Lynch who put in an enormous amount of effort in a whole range of areas which I have only fully appreciated in the last year.

I would also like to thank my employer, Hewitt Associates, for enabling me to spend a considerable amount of time working for the Society over the past year or so. We are indebted to the many employers who encourage actuaries working for them to contribute to the Society, for without this volunteer effort and employer support, the Society would not be able to function as it does.

The current economic climate creates a challenge to the actuarial profession

There was much discussion at the recent IAA meetings in Cyprus about the steps actuarial associations around the world are taking to address the issues arising from the unprecedented events of the last couple of months in world banking systems and financial markets. These have created challenges for all those involved, particularly Governments and regulators. Actuaries too face difficulties in advising their clients and employers on the impact of falling share values on the reserves and solvency of financial institutions.

In Ireland, this is particularly the case for defined benefit pension schemes which have traditionally been considered as long term investors, not overly concerned with short term solvency. However, the very real possibility of an employer failure, leading to the winding-up of a defined benefit scheme with insufficient assets to provide any benefits for employees, makes the current financial crisis a major concern for Government, regulators, social partners and advisers.

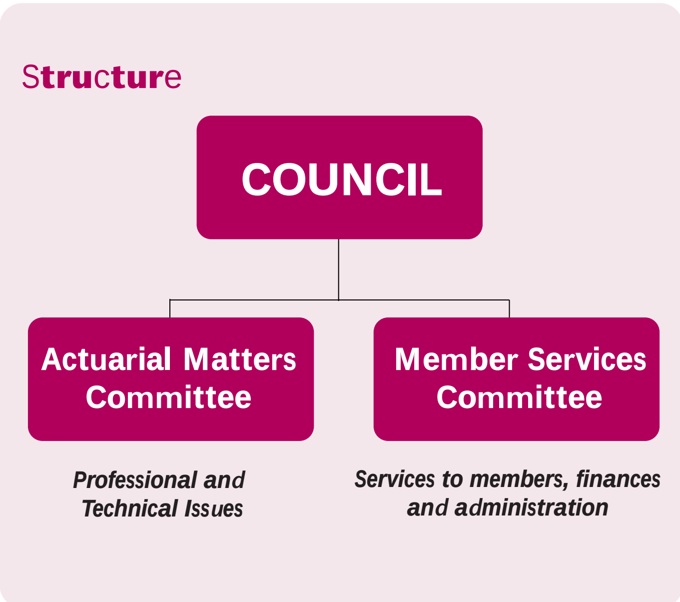
It is not the Society's intention to make any public statements at this time but I can assure you that we are in discussion with the relevant Government Departments and the Pensions Board about ways in which this issue can be addressed. We will continue to work behind the scenes with Government and regulators in all our practice areas and be prepared to react publicly to relevant issues as they arise.

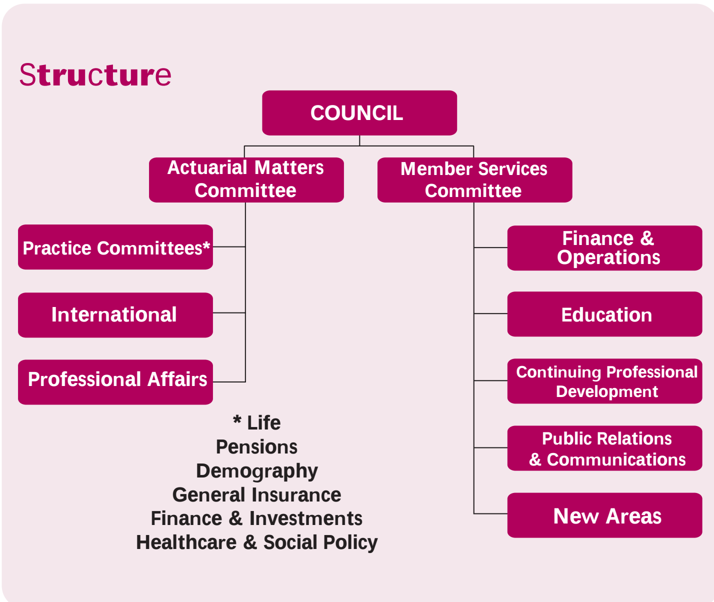
The crisis also creates an opportunity for the profession in the area of enterprise risk management, particularly in the banking industry. The first two sentences of the description of an actuary on our website say:

An actuary designs solutions to problems that involve financial risk or future uncertainty. This makes actuaries among the most influential professionals in the financial world.

Whilst the influence of actuaries in some areas has been limited to date, this crisis has shown that the proper and prudent management of risks is key to long term financial strength and stability. In insurance, the Solvency II framework gives actuaries the opportunity to play a key role in risk management, and the Groupe Consultatif has issued a public statement recently urging the early adoption and implementation of the draft Solvency II Directive. Actuaries are ideally placed to be the leading risk professionals in the financial services arena and beyond. We must accept this challenge – because there will be financial crises again, and as a profession, we must do all we can to minimise their damaging effects.

Philip Shier
SAI President





How to join a Committee:

Please contact the Society if you would like to be involved on a future committee or working party.

Micro-insurance in Action – A Case Study

On Friday, 29th August, Eamon Kelly of UpLift India presented a very special lunchtime session of the Society of Actuaries in Ireland that was both inspiring and thought-provoking.

Using his experience working as a Programme Manager on UpLift India's Micro Health Mutual Fund initiative in Pune, India, Eamon introduced the audience to the concept of "Micro-Finance" and "Micro-Insurance" in the developing world and UpLift India's initiative in Pune. He described how his actuarial training proved invaluable in this challenging environment.

Micro-Insurance Models

In popular western culture, insurance is much maligned; it being perceived, at best, as a necessary evil and, at worst, as a waste of money. However, what socio-economic value does insurance bring to individuals and to society as a whole?

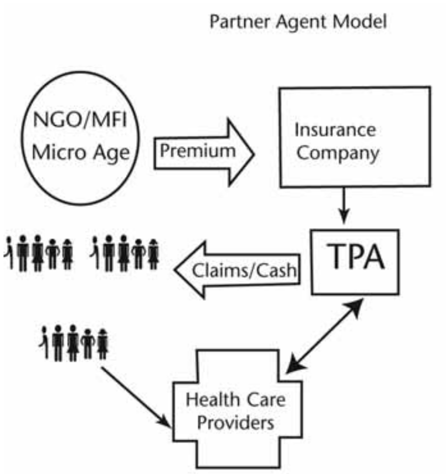
Perhaps, amongst the clutter of our increasingly complex western lifestyles we lose sight of the how insurance provides an economic safety net for some of our most important and basic economic needs whether that is our health, our housing or our investments.

Traditionally, financial institutions have not provided financial services to clients with little or no cash income. Financial institutions incur substantial fixed costs to manage a client account, regardless of how small the sums of money involved are. There is a break-even point when providing services below which banks lose money on each transaction they make. Poor people usually fall below this point.

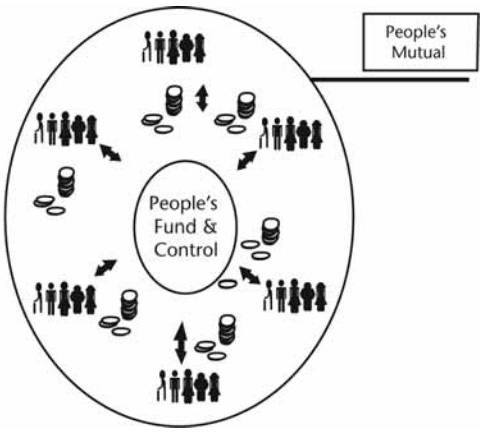
It has long been accepted that the development of a healthy financial system is an important catalyst for the broader goal of economic development. However, national planners and experts focus their attention mainly on developing a commercial banking sector dealing in high-value transactions, neglecting the delivery of services to households of limited means, even when these house holds comprise the large majority of their populations. Micro-finance refers to the provision of financial services to poor or low income clients, including consumers and the self-employed.

Eamon provided background to the healthcare landscape in India and to the two primary models of micro-insurance health protection in the developing world.

The dominant model is known as the "Partner Agent" Model, which typically involves a private insurance company distributing regulated products through a micro agent network.



The second model is known as a "People's Mutual", which is community organised and controlled and is owned by the insured.



90% of India's population have no healthcare coverage. This means that when the primary income earner falls ill and cannot continue to work, families are faced with financial ruin and indeed starvation. Therefore, having access to affordable health cover provides families with an economic safety net when they need it most. Micro-insurance attempts to address this human and economic need.

Pune, India

Eamon introduced the audience to Pune in India. Pune is the second largest city in the State of Maharashtra in western India, around 160 kilometres southeast of the state capital, Mumbai. Pune is the administrative capital of the Pune district and the eighth most populous metropolitan area in India.

Pune is a city of 3.5 million people. Driven by immigration, its population has grown by 176% since 1991 resulting in a city where 1.4 million people live in a total of 553 slum settlements – second only to Mumbai and Meerut in terms of Indian city slum populations. 93% of employment is in the unorganised sector. The resulting shortcomings in public sanitation aligned with a tropical climate result in a high incidence of disease in the Pune slums. For the economically disadvantaged slum dwellers, hospitalisation is the last resort and in any event, public healthcare facilities are poorly resourced and provide a poor quality level of treatment.

UpLift India in Pune

UpLift India is a non-profit company formed in December 2004 – although it can trace its origins to the work of Inter Aide, a French NGO that specialises in the implementation of development programmes that support the most under-privileged families in developing countries.
It is an association of autonomous organisations working in the areas of micro-finance, micro-insurance and family development in the urban and rural areas of India focusing on the unorganised and the poor. It is funded through the contribution of its member NGO's and other donors including the EU.

UpLift operates a number of community based healthcare mutuals whose mission is to smooth out the financial shock that a family may face due to an unexpected health event through the mechanism of community risk pooling.

Its guiding principles are:

1) Inclusive risk poolings, as opposed to risk transfer, that is community rated.
2) Community owned, where the community is represented in the mutual's management structure.
3) Technically sound, leveraging modern actuarial techniques, in house data warehousing and risk management expertise.
4) Needs focused, where products are designed to reflect the needs of the community and its capacity to pay.

In Pune there was a need for a low cost solution that would provide the community with access to quality healthcare. Insurance, as a concept, is not well understood in the slum communities and there was a perception that insurance companies' primary concern was for profit rather than for the healthcare needs of the communities – with obvious parallels in the developed world!

When Eamon arrived in Pune to establish a healthcare mutual, there were a number of technical challenges that had to be overcome if the mutual was to succeed. They included:

- How can a product be designed and priced with no data – "blind underwriting"?
- How can a product be distributed?
- How can claims be fairly administered?
- What are the technology needs of the organisation?
- How can cultural suspicions of insurance companies be overcome and transparency be provided to the community?

What is fascinating about these challenges is that these are often faced by actuaries in more developed markets.

Eamon explained how his actuarial background proved invaluable in providing a solution to some or all of these challenges. He emphasised the following aspects of his actuarial training:

- Technical know how;
- Taking a holistic risk view;
- Pricing and product development;
- Financial management;
- Risk management;
- Close cooperation with other professionals – doctors are de facto risk and claim managers.

To price the cover, Eamon was supported by two actuarial students. They used a questionnaire sent to 2,000 people to provide a rough estimate of frequency and used negotiated rates with hospitals for each ailment covered for the severity assumption.

Claims are decided by the community using available funds at a local level. However, it is possible to borrow from other branches.

Eamon provided some insight into the personal and cultural challenges faced by him and UpLift in Pune. These include:

- His office is a three bed apartment without air conditioning - only fans. There is no power on Thursday – "a bit different from consulting".
- Using logic is not the only way to convince people. With meetings lasting four to five hours, often you have just to tire people into agreement.
- In India, everything is negotiable.

Today in Pune, 40,000 members share a reasonable level of health protection through a network of 130 healthcare providers that provide accessibility to quality healthcare to the slum population. The resulting socio-economic benefits to the slum population are obvious.

A lively Q&A session followed with members showing an interest in how they may contribute to the effort of UpLift in addition to trying to understand the role of the government in healthcare provision.

More information can be found at www.upliftindia.org or by writing to kellyejm@gmail.com.

James Deegan

Variable Annuity Working Party Report

On September 17th 2008, Colin Ledlie, Dermot Corry, and Gary Finkelstein gave an excellent presentation to a well attended evening meeting in The Alexander Hotel. The President, Philip Shier, opened the meeting by introducing the three speakers who were presenting the report of the UK working party on variable annuities to the Society of Actuaries. The group presented to the Faculty and Institute of Actuaries (the working party also included A.J. Ritchie, K. Su and D.C.E. Wilson) in March 2008.

Colin Ledlie who chaired the working party opened the presentation. He explained that the term "variable annuity" is not a new concept within the insurance industry and it can potentially be applied to a wide range of product types and guarantees. Life insurance companies have often provided guarantees on their products, a feature which is valued by customers. As with-profits and defined benefit pension schemes continue to decline within the insurance industry there is a need to create a range of products which meet customer needs and offer attractive guarantees. However these products also need to be transparent and free from the apparent drawbacks of with-profits business.

An industry standard definition does not yet exist for variable annuities; Colin described it as any unit-linked or managed fund vehicle which offers optional guarantee benefits as a choice for the customer. While the traditional annuity offers a valuable guarantee to customers once purchased, they can also be perceived as expensive due to their increasing cost (longevity improvements, lower bond returns, etc). Variations on conventional annuities such as income drawdown provide a method of investing in risky assets but there is no protection for customers from the downside risks of market falls and also the possibility of a decrease in income if they live longer than expected. Thus customers are faced with taking on more risks than they would traditionally have been at ease with.

With this in mind several companies have launched variable annuity products in 2007 for defined contribution pensions. The main feature of these guarantees has been to provide a minimum income, but with the potential to continue to benefit from investment growth. The product designs have been brought in from other markets where they have been a great success with customers, particularly the U.S.A. and Japan.

In light of the above and the strong growth currently enjoyed by variable annuity products in Japan and the U.S.A. the prospects for the product in Europe, where life companies are beginning to launch products, are very favourable.

Types of Variable Annuity

The term GMxB is often used to refer to variable annuities and the guarantees offered fall into four main classes:

GMDBs - Guaranteed Minimum Death Benefits: guarantee a return of the principal invested upon the death of the policyholder. However this is a minimum guarantee, if the underlying investment has performed better than this then the death benefit would be the fund value;

GMABs - Guaranteed Minimum Accumulation Benefits: these are similar to GMDB's, however the guarantee is not conditional on the death of the insured. The guarantees usually bite on specified policy anniversaries or between specified dates if the policy is still in-force;

GMIBs - Guaranteed Minimum Income Benefits: guarantee a minimum income stream from a specified future point in time. The amount of the guaranteed minimum income benefit may be fixed in absolute terms at outset, or could be expressed as a percentage of the premiums invested by the policyholder, or some function of the account balance at annuitisation. The customer loses access to the unit-linked fund value if he or she annuitises and converts to income;

GMWBs - Guaranteed Minimum Withdrawal Benefits: guarantee a minimum income through regular withdrawals from the fund. The income continues even if the fund runs out. GMWBs differ from GMIBs in that the remaining fund is paid to the estate of the deceased on death.

There are variations on all of the above products. For example, for GMDBs guaranteeing the amount invested accumulated at a pre-specified minimum rate of return. GMDBs are very popular in the US where the range of guarantees has grown over time. GMWBs are now very popular also.

Sample Product Design

The group carried out a range of analyses on pricing, customer with outcomes, reserving and hedge effectiveness. In order to carry out this analysis they used a sample product design. They choose a unit-linked pensions contract with an optional guaranteed minimum withdrawal benefit (GMWB) which provides the customer with a guaranteed minimum income for life. Income is paid out through the cancellation of units while the customer continues to benefit from investment return on the fund. If the customer lives longer than expected, or the fund is depleted through poor investment performance, the insurer will continue to pay a guaranteed minimum level of income.

The fund invests 60% in equities with the balance invested in fixed interest securities. The customer can receive a guaranteed income of 5% from age 65 onwards. So if the customer's fund value at age 65 is €100,000 the income level starts at €5,000 p.a. The charge for the guarantee is 0.75% p.a. The customer can then withdraw this amount of income each year even if their fund value has reduced to zero. There is also an annual step-up to the current fund value if this is higher, resulting in a higher income level up to the policyholder's 75th birthday. This step-up is subject to a maximum increase in any one year of 15%. So if the fund value increases to €110,000 the customer will receive an income of €5,500 p.a. However, the customer's income does not reduce if the fund value falls. On death the remaining fund is used to provide benefits for the customer's dependants. If the customer chooses to withdraw then they will stop paying the 0.75% p.a. charge for the guarantee. They then have the choice of continuing to take income as supported by the fund or buy an annuity.

Consumer Outcomes/Treating Customers Fairly

For the purpose of demonstrating the performance of the product the group showed the behaviour of the variable annuity in two selected scenarios from a range of stochastic projections. These outcomes were compared to the income drawdown product which had the same asset mix and where the same level of income is taken. The sample product design as described above was used in the two projections. The income taken from the drawdown product is the same as that taken from the variable annuity product (as long as a fund exists). It is worth pointing out that for all scenarios tested the drawdown fund exceeds the variable annuity fund due to the additional 0.75% p.a. charge for the guarantee on the variable annuity product. As outlined above, on death the fund value is paid to the customer's dependants (unless it has fallen to zero in the case of the drawdown fund).

Scenario A:

The first scenario (simulation 38) is characterised by poor investment performance in the early years. In this scenario the fund runs out so that the guarantee starts to cost the insurer at age 83, i.e. after 18 years. Figure 6.2.4a shows the outcome of this scenario compared to that of the drawdown option.

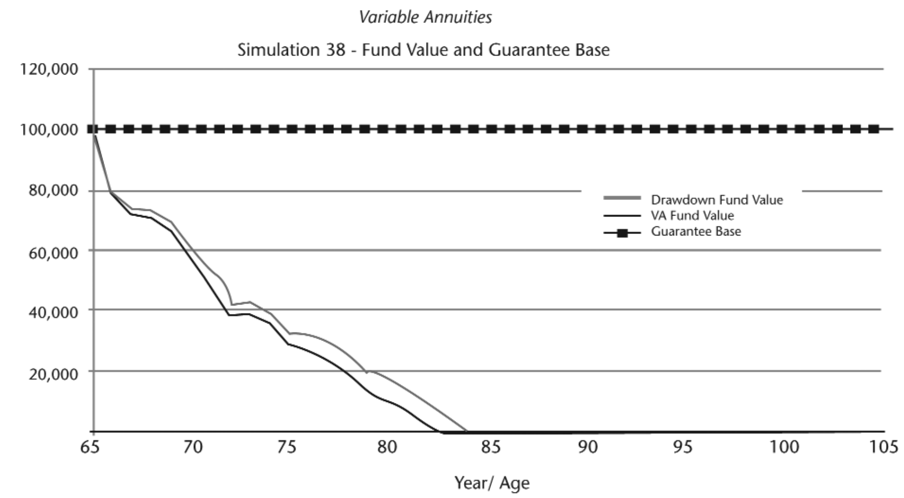


Figure 6.2.4a. Fund value and guarantee base, Scenario A

Scenario B:

The second scenario (simulation 81) is characterised by strong investment performance in the early years. As a result of this investment performance the income to the customer increases in the early years. The diagram over shows the outcome of this scenario compared to that of the drawdown option.

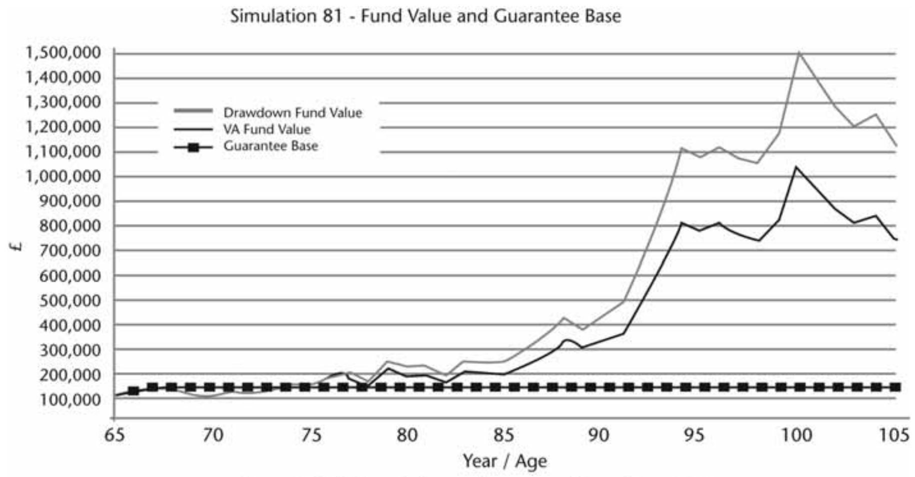


Figure 6.2.4b. Fund value and guarantee base, Scenario B

Issues the company need to consider in relation to treating customers fairly include:

- Design and Governance;
- Identifying target markets;
- Marketing and Promotion;
- Sales and advice processes;
- After-sales information and service; and
- Complaints handling.

The company should illustrate to the customer how the product will perform in a range of situations and how the customer will be affected in these situations. In addition the insurer should ensure that the individuals selling their products are provided with adequate information and are sufficiently knowledgeable about how the product functions to communicate how it operates to the customer effectively. This may require training of advisers to ensure they can confidently handle the full complexity of product features. The provider should continue to monitor the performance of the product to ensure that it meets the requirements of its target market. The question of whether the customer should be notified if the guarantee is out-of-the-money was also raised.

Risk Management

The presentation covered the variety of risks linked to the product which need to be analysed. These risks can affect the risk profile of the organisation. Among the risks facing the company are market risk, credit risk, longevity / mortality risk, persistency risk, election rate risk, asset allocation risk, operational risk, strategic risk, pricing risk, risk of extreme events where normal assumptions could become invalid.

Companies with successful risk management programmes will have a well defined risk appetite in relation to each risk category. The approach and strategy in managing these risks should be based on the current risk strategy the company has in place and its statements in relation to its attitude to risk. A company with a considerable appetite for market risk may be comfortable with little or no hedging whereas a company with limited appetite for market risk will need to manage its exposure with complex hedging techniques or reinsurance. The company will also need a consistent approach to both market and non-market risks.

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Variable Annuity Working Party Report *(continued...)*

Pricing

Also considered were the techniques that can be used to price variable annuity guarantees using the same sample product design outlined above. There are two approaches that can be used to value the guarantees associated with the product. The first is the traditional actuarial approach which uses a "real world" projection. The second approach which the group believe is the most appropriate for pricing variable annuity guarantees is the market consistent approach which uses a "risk neutral" projection.
The market consistent approach uses stochastic techniques similar to those used for pricing options.

The group outlined how good product design could be used to reduce the sensitivity of the product to some of the assumptions such as the mortality assumption. Some research in the U.S. market suggests clear anti-selective behaviour on the part of the policy holder. Effective product design and wording are essential to protect the company against any policyholder anti-selection or actions which are likely to unfavourably affect the insurer. Policy design is particularly important where policyholders have options regarding when to turn on the guarantees, when to take income and how much income should be taken.

For example, assumptions such as the policyholder lapse assumptions can be influenced by the investment returns. The most favourable behaviour from the policyholders' perspective is to keep the rider when the guarantee is in-the-money and lapse the rider when the guarantee is out-of-the-money.
In order to mitigate this anti-selection, U.S. insurers generally use dynamic lapse rates when valuing guaranteed minimum benefits.

Some examples were given which highlighted the sensitivity of pricing to changes in assumptions.

A lively questions and answers session followed. The group outlined some discussion topics of their own and among the topics discussed at length where the importance of hedging and the regulatory environment in the countries where the products are currently sold. There was also some debate about whether the tax environment would have an impact on sales. There are tax concessions offered on the products sold in the U.S.A. however there are no tax concessions in Japan where there is a thriving market for variable annuities. Also discussed was how well Ireland was positioned to sell variable annuity products. Our established cross border infrastructures and our regulatory system which keeps pace with changing market conditions is seen as putting us in a good position to sell these products. It was also suggested that the best way to build knowledge and expertise is through the exam system. The financial mathematics and derivatives skills of actuaries need further development and we need to embrace the skills needed if we are to advance in this area. The discussion ended on a high note with a member of the floor noting that actuaries shouldn't be too modest about their abilities, we have a tendency to only venture into new fields when we fully understand all aspects of them. However we are among the best equipped to develop these types of products and we shouldn't be shy about our abilities.

Philip Shier brought the meeting to a close and thanked all the speakers for the informative presentation and presented each with a small memento from the Society of Actuaries. The slides from the event and the paper produced are available on the Society's website.

Grainne Kelly

Challenges facing Actuaries in Australia and Update on International ERM Initiative

On 30th September 2008, Fred Rowley, 2007's President of the Institute of Actuaries of Australia (IAAust), presented to the Society. He gave us a brief overview of the current challenges facing the actuarial profession in Australia and updated us on the latest developments in the international Enterprise Risk Management (ERM) initiative.

Actuarial Times in Australia

Getting straight to the point, Fred started with a run through of the review of the profession in Australia carried out by the IAAust in 2007.

The review identified several risks to the profession:

- not moving with changing times/marginalisation of the profession,
- failure to engage in the region and The International Actuarial Association(IAA),
- neglecting to maintain skill base / relevance,
- a lack of leaders in the profession (and/or good recruits) and insufficient volunteers.

Fred noted that it's likely that the Irish profession is facing the same challenges.

The direct outcome of the review was the development by the IAAust of a strategic plan for the period 2008 – 2010.

The main strategic conclusions of the plan were:

- **Institute as "Service Provider" -** The Institute needs to evolve away from a basic "Educator and Licensor" focus towards more of a "Member Services and Educator" focus. The aim is to make the profession responsive to an evolving financial landscape and changing world, and attract and retain professionals who do good work identified as "actuarial" - separate from competitor professions.

- **Rethink Pre-Qualification Education -** Reassess the skills outcome wanted and align content, delivery and examinations with this.
- **ERM -** Being recognised within ERM is an imperative with respect to the profession's pre-existing risk management "brand". ERM is a clear growth opportunity.
- **Relevance/International Standing** Interestingly, Fred explained that the IAAust sees itself as part of a greater East Asia region (even stretching to India) and one of its aims is to increase the voice and relevance of the Australia/East Asia bodies in the International Actuarial Association (IAA).
- **Quality Assurance/R&D -** A key "service provider" issue: Without adequate R&D to maintain and develop the profession's science and skills, success will be short lived.
- **Professional Standards, Code & Discipline -** It is an imperative to maintain the profession's reputation for high quality and ethics.

It was noted that one of the main differences between the Irish and Australian situations is that the IAAust is regulated by very comprehensive external regulator. The impression Fred gave was that in general he felt that this was a good thing.

Fred then wrapped up this section of his presentation with some statistics on the membership of the profession in Australia. It currently has approximately 3,500 members including over 1,400 fellows. Most work in general insurance (c.21%) with life coming next (c.19%) then banking/investments. A significant number are now practicing in unconventional "none of the above" categories.

Enterprise Risk Management (ERM)

Fred began this part of his presentation by reminding us of the American Casualty Actuarial Society's (CAS) definition of ERM: - "ERM is the discipline, by which an organisation in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organisation's short-term and long-term value to its stakeholders."

ERM consists of comprehensive risk measurement using a consistent modern terminology and techniques. It is used as a basis for business management covering not just financial and insured risks, but also operational and strategic risks in an integrated manner. It puts the focus not only on solvency or compliance but also on business value.

A Global Actuarial ERM Credential

The actuarial ERM initiative aims to increase the risk focus in the IAA Education Syllabus and to introduce a new actuarial ERM designation.

There are many reasons why it is felt that a new designation is needed: some insurance actuaries are already required by law to know about ERM. The International Association of Insurance Supervisors (IAIS) draft paper on ERM is expected to be adopted by regulators in many jurisdictions. Solvency II would benefit from a much fuller understanding of ERM as would any actuary who wants to be a Chief Risk Officer. It was also felt that other "professions" in ERM might outgrow the actuarial profession if we do not keep up.

Fred stressed the need for a global ERM credential in order to standardise education and improve both international mobility and recognition.

Who's in?

12 of the IAA member associations have now signed up to the initiative: Australia, UK (2), USA (2), South Africa, Canada, Mexico, Philippines, Catalunya, France and Spain. Meanwhile, Japan and New Zealand are monitoring developments closely. Group Consultatif European is also now committed which increases the prospects of things getting going at a global level.

The members have issued a statement of intent with a commitment to:

- Work together to issue and recognise the designation,
- Draft a syllabus and standards,
- Draft, execute and administer a Treaty,
- Educate & examine members,
- Accredit educational bodies.

Q and A

An interesting question was asked about whether or not the ERM initiative had been discussed with the rating agencies given their heavyweight "quasi-regulator" status in the risk assessment world. It was felt that their recognition would add credibility to any new ERM credentials. Fred replied that they have not been approached officially but are aware of what is going on.

Also raised was the possibility of a conflict between actuaries with many years experience but without having sat the new examination and new actuaries with the credential. Fred replied that it was likely that there would be grandfathering process for existing fellows. The point was also noted that there was still no agreed global standard actuarial qualification itself!

Finally, the Society's President Philip Shier thanked Fred and presented him with a small gift.

Niamh Crowley

Report from the SAI 2008 Golf Captain, Neil Guinan

Captain's Day

During a mostly wet summer, actuarial planning was at its best (or luckiest) in choosing the best day of the summer for our Captain's Day, 45 actuaries gathered at Killeen Golf Club on Thursday 26th August to test their golf skills. The course was in great condition, and with the sun shining and Mary Butler providing refreshments at the 10th hole, it was a lovely day for golf.

Although most people found the water at some stage during the day, it didn't bother the eventual winner, Peter Doyle. Peter played great golf all day and finished with 38 points off a handicap of eight, four points clear of Brian Morrissey in second place. Eoghan Burns was next in line to claim third place. Perhaps the story of the day was Jane Gleeson, who, after a disappointing front nine, claimed the back nine prize with a great score of 22 points as well as the prize for longest drive. Other winners on the day were Brian Morrissey with a score of 21 for the front nine and Joe McElvaney for nearest the pin.

Also presented during the prize-giving were the prizes for the 2007 and 2008 Matchplay competitions. Liam Quigley collected the winner's prize for the 2007 Matchplay having defeated Gareth Colgan in the final. Gareth made up in 2008 beating Maurice Whyms in the final. (A photo of the presentation to Gareth and Liam is on the Back Page).

Faculty Match

On 18th September, St Margaret's Golf Club hosted the golf match between the Society of Actuaries in Ireland and the Faculty of Actuaries. The Society team was looking to retain the trophy which they had won two years earlier. The Faculty team, intent on winning back the trophy, had travelled over to Ireland the previous day, to play a practice round, and attended the evening meeting on variable annuities.

With five points up for grabs, the contest was played out in fourball matches. The Society was represented by Gareth Colgan, Peter Doyle, Frank Downey, Neil Guinan, Steven Hardy, David Kingston, Ray Leonard, Brian Morrissey, Karl Murray and Maurice Whyms.

Both teams were very evenly matched, with the Society and Faculty winning two matches each. The Society retained the cup, courtesy of an outrageous 100 foot putt by Brian Morrissey on the 18th hole to halve his game and the match. The Faculty team thanked the Society for our hospitality, but promised to win the cup when the match is next played in Scotland.

Finally, I must say I enjoyed my year as Captain of the Golf Society and my thanks to all those who participated in making the golf year successful. I would like to give my best wishes to next year's Captain, Brian Morrissey.

Pictured L & R: Peter Doyle & Neil Guinan

Pictured L & R: Jane Gleeson & Neil Guinan

Communication Communication Communication

In the careers section of The Actuarial Profession's website there is a helpful page headed "What is an Actuary?" It is interesting that just one line is italicised for emphasis:

"The ability to communicate clearly difficult topics to non-specialists is of paramount importance"

Never has this been truer than now in all areas of actuarial work, but the coming months are set to test the communication skills of pensions actuaries in particular. Not only will we have to help trustees and companies deal with the real issues they face but we will have to do so within the complex regulatory and financial accounting framework for assessing the financial position of pension schemes.

Try this for starters. If someone said after the horrors in the investment markets in September, you will read the following two headlines within a day or two of each other in the early days of October:

"Worst month for pensions in a decade"

"Pensions see surplus gains, but then again..."

...and that both statements will be true, what would you think?

To the layman, I'm sure this sounds like one of those riddles we all get thrown at us, where the immediate reaction is, "it's impossible!", and the follow up reaction involves staring into space for an hour determined to figure out the answer.

Both headlines did actually appear, the first in The Irish Times covering the return on pension managed funds in September (which fell by an average of 8.3%) and the second in IPE (Investment Pensions Europe) covering the movement in the company accounting position of pension schemes. While the IPE article related to the UK and talked about how a total pension deficit for UK FTSE 100 companies at the beginning of the month of £12bn had flipped over to become a £30bn surplus by the end of the month, a substantial improvement in the accounting position also occurred in Ireland, albeit not to the same spectacular extent. *(I estimate the total pension deficit position of ISEQ quoted companies improved by about €0.75bn during September, reducing from around €3.5bn to €2.75bn).*

The counter-intuitive improvement in the accounting position was driven by the fact that the IAS and FRS accounting standards which govern how pensions must be treated in company accounts, require that corporate bond yields be used to discount liabilities. In September, we saw a major rise in corporate bond yields (because of the market's reassessment of the risk inherent in corporate bonds relative to government bonds) so much so, that while assets fell, liability values fell by even more, and deficits were reduced.

During September however, the actuarial funding position of pension schemes from the trustees' perspective deteriorated at an alarming rate.
In determining the funding position of pension schemes according to the Pensions Board's Minimum Funding Standard, corporate bond yields are of almost no relevance and thus the fall in the value of investments during September had no counter-balancing force on the liability side of the balance sheet.

Communicating to trustees and companies around the financial position of their defined benefit pension schemes is a challenging task at the best of times, not least because we have to look at the position through several different lenses – ongoing funding, the Minimum Funding Standard and company financial statements. It is difficult enough when these measures are moving broadly in the same direction, but what the two headlines illustrate is that we now have a situation that when the actuary looks into these lenses, the pictures that emerge are markedly different and do not always make sense at first glance.

To perhaps extend the lens analogy a little further, another big problem at present arises from the fact that one of these lenses which looks at the Minimum Funding Standard position, involves inspecting something that is constantly moving. This presents a problem for those trustees and companies of insolvent or "off track" pension schemes who have to determine the solvency level so they can address the position through a Funding Proposal.

And as if that wasn't enough, added to the mix is the fact that the financial aspects interact with other key elements in the operation of a pension scheme such as investment strategy and benefit design. So for example, change the investment mix and we may have to consider and communicate the financial impact in at least three different ways! The only thing that is clear in all this is the absolute necessity for clear communication.

Companies and trustees need help to understand the issues they face and to assess their options. How best can we help? On the communications front actuaries can at least help by:

- being proactive in communicating – avoiding an information vacuum;
- ensuring there is clarity of objectives – helping the client distinguish between what is and isn't important;
- overcoming the complexity by highlighting the key implications and messages relating to any options being considered (including from a financial perspective both the funding and accounting impact) - the wood from the trees;
- discussing up front how the decision process can be made most effective to avoid a lot of energy being wasted because the position is continuously changing – minimising the exposure to the moving target;
- assisting the trustees and company in communicating with members – ultimately addressing the needs and concerns of members.

There is nothing particularly earth shattering about this list – if anything, it's pretty basic. Perhaps though, that is the real key to dealing with the tremendous complexity we now face – simplify and focus.

So yes, effective communication is of "paramount importance" and I believe is set to become one of the most highly valued skills that we as actuaries can bring to our clients if they are to successfully tackle the challenges they face.

Maurice Whyms
Attain Consulting

Winners of the 2008 and 2007 Piers Segrave-Daly Matchplay Competition with Piers.
Pictured L & R: Gareth Colgan, Piers Segrave-Daly & Liam Quigley

Very successful SAI Seminar for New Student Actuaries

On 20th October last, 125 delegates attended the Society's first afternoon seminar for new student actuaries. The purpose of this event was to welcome students to the profession and to brief them on the Society's role. While many students had joined The Actuarial Profession, they had not joined the Society of Actuaries in Ireland.

We are delighted that following the seminar many have now joined the Society as student members. If there are any student actuaries in your company who have not as yet joined the Society, we would appreciate if you would encourage them to contact the Society, as they benefit by their membership of the Society and their link to the SAI Student Society.

Update from Trevor Watkins, Head of Learning of The Actuarial Profession

An important meeting, open to all members, but of particular relevance to Student Members will take place on **Thursday 4th December at 6.30 p.m. in Conference Room A, Irish Life, Lower Abbey Street**. Trevor Watkins will brief students on the current Education System and Syllabus and any recent and forthcoming changes. We would encourage all Student Members to attend and we would ask Fellow Members to encourage their students to attend.

On the Move

Fellow Members

Brian O'Malley has moved from Irish Life to **Hibernian Insurance**

Richard Walsh has joined **Hewitt** from Mercer

Shane Fahey has moved from New Ireland Assurance to **Life Trust Plc**

Debbie White has moved from Bank of Ireland Life to **Life Strategies**

Micheal Frazer has moved from the Financial Regulator to **AXA Reinsurance Ireland**

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