Newsletter
July 2002
The Society of Actuaries in Ireland

International Week

Standing left to right: *Jeremy Goford, President Elect, Institute of Actuaries; Jean-Louis Masse, President, Canadian Institute of Actuaries; Alf Guldberg, Chairman, Groupe Consultatif; Harry Panjer, President Elect, Society of Actuaries; Dave Pelletier, President, Canadian Institute of Actuaries; Bob Conger, President, Casualty Actuarial Society; Bob Anker, President Elect, Academy of Actuaries; Tom Ross, President Elect, Faculty of Actuaries; Jim McGinnitie, President, Society of Actuaries.*

Seated left to right: *Helen Martin, President, Institute of Actuaries of Australia, Peter Clark, President, Institute of Actuaries; Eamonn Heffernan, President, Society of Actuaries in Ireland; David Kingston, President, Faculty of Actuaries; Joubert Ferreira, President, Actuaries Society of South Africa.*

Contents

The Society was honoured in May this year, when it played host to the Presidents of the International Associations of the IAA. The 3-day visit started with a very interesting Sessional Meeting on Corporate Diversity and the Provision of Financial Services.

The authors, Philippe Guijarro and David Hare, presented the paper followed by a panel discussion, with panellists Jean Wood, Director of the Chelsea Building Society and former CEO of Irish Life and Helen Martin, President of the Institute of Actuaries of Australia. This was followed by a very lively and interesting exchange of views in the questions and answers session.

Following the meeting the Society hosted a reception prior to dinner in the Conrad Hotel. Eamonn Heffernan made presentations of Waterford Crystal to the speakers.

The International Presidents held their meeting the following day in Dublin Castle. While the Presidents were meeting, Sheila Heffernan accompanied the Presidents partners to Avoca Hand Weavers in Kilmacanogue and on a scenic tour of Co. Wicklow. They arrived back at Dublin Castle to join the Presidents for lunch followed by a tour of the State Apartments, before the Presidents resumed their meeting.

To give our international visitors a flavour of some traditional Irish music, Eamonn Heffernan, together with the Officers of the Society and some of the Past Presidents joined our guests for an evening in the Abbey Tavern.

The following morning our guests enjoyed a guided tour of Dublin City before joining many members of the Society for the Annual Ball, which this year took place in the splendour of Powerscourt Estate in Enniskerry. From the many letters and messages received by Eamonn, it would appear that our visitors enjoyed their visit here.

Report of the Working Party on Self-Regulation

Presented by Paul O'Faherty - 28 May 2002

Paul started the presentation with an overview of the terms of reference of the Working Party. He then went through international developments in relation to actuarial regulation and how regulation was progressing in other professions. Paul referred to the Symposium held in November 2000 where he noted that support for self-regulation was expressed but where the monitoring of compliance and its associated cost was also raised. Paul finished this section of the presentation with an overview of the current regulatory framework of the Society.

The Working Party approached several regulators relevant to the practice areas of members. In general, the regulators weren't overly familiar with the Society's regulatory structure but assumed that everything was in order. However, one regulator felt the Society was not pro-actively monitoring its members and the attitude of some members to compliance issues was less than satisfactory.

Paul then went through an analysis of the pros and cons of changing the Society's regulatory regime. The general view was that while the current system had not yet failed, the Society should move to strengthen the existing regulatory framework, focussing in particular on the area of compliance monitoring.

The main recommendations the Working Party came up with to achieve this change were (all assessed against effectiveness, credibility, practicality, affordability, professionalism and transparency/objectivity):

- The Society needs to be significantly more pro-active in the monitoring of compliance issues.
- The Memorandum of Professional Conduct needs to be formally reviewed, particularly given proposed changes emerging from the UK.
- A "lighter" complaints process needs to be introduced to cater for situations where the currently available punishments look excessive when compared with the nature of the complaint.
- As regards monitoring compliance, the Working Party felt peer review was the most appropriate system to achieve this. This was in preference to other approaches such as self reporting, auditing and external supervision. The main principles behind such a peer review system would be:
    - It would be mandatory for all Practice Certificate work and strongly encouraged in other areas.
    - The originator would select the peer reviewer.
    - The reviewer should be external to the client and should also hold a relevant Practising Certificate.
    - The role of the reviewer should be specified in a guidance note.
    - The peer review system should be introduced in 2003.
    - An Oversight Board with representatives from outside the profession should oversee the peer review system to overcome any perception that peer review was "actuaries checking on actuaries".
    - In the pensions practice area there are issues to be resolved in relation to sole practitioners and small schemes (e.g. schemes with less than 50 members perhaps would not have the peer review system – consistent with the situation on Trustee Reports).

Paul finished by summing up the major recommendations made by the Working Party and emphasising that recent events had made significant change a necessity rather than just an option. Members of the audience strongly congratulated the Working Party on the quality and depth of their work. Specific points raised were:

- Many people felt the Oversight Board should have a more significant role than that envisaged by the Working Party. Paul felt this was fair comment but pointed out that the Working Party was primarily concerned with the establishment of the Board and its scope could be reviewed at a later stage.
- Several speakers raised detailed questions on introducing the peer review framework into the pensions practice area and whether the reviewer should be a colleague of the originator of the work.
- Several speakers questioned the added value the proposed peer review system would achieve in practice.

- The status of the peer reviewer was raised in several contributions – e.g. should peer reviewers be rotated, should the originator be able to choose the peer reviewer, should the Society facilitate the purchase of liability insurance by peer reviewers and would there be enough peer reviewers in practice.

The President of the Society summed up by saying he felt the tone of the meeting was broadly supportive of the recommendations. He said the next step was for the various practice Committees to consider the practical issues in relation to the introduction of peer review in their area. He also said further consultation and discussion would take place with the membership later on in the year and an EGM would be needed to implement the structures.

Ivor O'Shea

Members of the Working Party were:
Paul O'Faherty (Chairman)
Pat Healy
Neil Hilary
Jimmy Joyce
Bruce Maxwell
David Paul
Paul Victory

News in Brief

Pensions Committee

Regulations have been made to bring most of the non-PRSA sections of the Pensions (Amendment) Act into force. These are available on the Pensions Board website (www.pensionsboard.ie). The Pensions Board has advised that new Actuarial Funding Certificate forms, for use when the effective date is after 1 June 2002, will be available shortly.

The President, Eamonn Heffernan, has written to Scheme Actuaries reminding them again of the need to ensure compliance in the submission of Actuarial Funding Certificates. The Pensions Committee has reviewed the standard transfer basis in GN11(ROI), and is proposing to change the mortality assumption from PA(90) - 3 years to PMA80 (C2020). The Committee has also considered a draft revision to GN3(ROI), including a section on the Actuarial Statement to be included in scheme annual reports. Following initial approval by Council of the draft Guidance Note on FRS17 calculations, members have now been asked for comments. The presentations given at the CPD session on 23 May, including the results of the pension valuation survey, have been placed on the Society's website.

Life Committee

At the end of May, the Financial Services Authority in the UK released a feedback statement on the role of the Appointed Actuary. The statement summarises comments received and outlines the FSA's response and proposals for the way forward. They propose that the current responsibilities of the Appointed Actuary will become responsibilities of the Board and senior management, except for with-profits companies where the responsibilities of the Appointed Actuary will be restricted to providing advice on the exercise of discretion in relation to with-profits business. They also propose that a special 'actuarial function' be established to provide actuarial input into the running of a life business.

The Life Committee is closely monitoring developments in this area.

Life Assurance Conference

"Strategic Issues facing the Life Assurance Industry" - 24th April 2002

Introduction

A record attendance of 200 people were present on the 24th of April in The Berkeley Court for the annual Life Assurance Conference hosted by the Society of Actuaries. The attendees included a large number from outside the actuarial profession. Sean Casey, Chairman of the Life Committee, introduced the speakers and set the scene by outlining some of the strategic issues facing the life assurance industry in Ireland today, including;

- Consumer Trust Issues
- Increased Regulation
- Profitability Issues
- Industry Consolidation

Life Assurers and Profit - Squaring the Circle

Jim Murphy set the scene by summarising the market background since the mid 1990's:

- Phenomenal growth (APE up by 26% p.a.).
- Evolution of industry into savings & investment industry.
- Huge growth in bancassurers market share.
- Increased regulation.
- Increased consumer awareness.
- Move to gross roll up taxation regime.

He then looked at each of the three elements which influenced profit over that period: product margins, sales volumes and operating costs. The main points to note were;

Product Margins

- Insurers margins have fallen in all product lines over the last number of years.
- Commissions have fallen for savings and protection.
- Commissions have increased on lump sum investments and protection.
- The move to gross roll up taxation cost the industry significantly (estimated at €50m p.a.).
- Consumer awareness kept charges for SSIAs low and Jim wonders if this will continue in the savings market.
- Protection business prices have been falling but this has been offset by mortality improvements and margin reductions have been shared with reinsurance companies.
- Jim modelled the potential effect of PRSAs and suggested that the cost to the industry could be as much as €25m p.a.

Operating Costs

- Operating costs as a percentage of premium income have been falling over the past number of years, largely due to strong new business growth for the industry.
- Capital investment in technology, price reductions to increase business volumes, merger activity, outsourcing, development of a shared IT platform and closure to new business !!! were all cited as possible means of improving efficiencies further.

Sales Volumes

- Irish demographics are positive for new business growth.
- However, boundaries have been blurred between life companies and other product providers, most notably through SSIAs and PRSAs.

The main conclusions reached were:

- There will be continued pressure on product margins but there are positive demographic and economic fundamentals.
- Effective distribution and improved operating efficiency are key challenges.
- The industry is uniquely positioned to stave off competition from other financial product providers.

With-Profit Business - Brenda Dunne

Brenda Dunne's presentation was titled 'With-Profits – The Risks and Rewards'. Brenda outlined the history and key features of with - profits business, which include;

A share in the profits (losses) of the company
- Investment profits
- Other profits

Guarantees, typically;
- Premiums and bonuses on death
- Return of premiums on a specified date
- Return of premiums and bonuses on particular date(s)

Smoothing
- Pooling of experience between generations and classes of polcyholder

Company Discretion

Features which match policyholders' expectations include the long-term nature of the business and the concept of a smoothed return. Other features which policyholders may not understand include the concept of participation in other profits, the concept of management discretion, the application of MVAs and the cost of guarantees.

Brenda then identified current bonus rates as one of the key selling points that may lead to problems. A bleak picture was painted of the equity returns required going forward to sustain current bonus rates on a typical with-profit fund.

Recent History of Bonus Rates

	Pensions	WP Bond
1998	**9%**	**8%**
1999	**8%**	**7.5%**
2000	**7%**	**6.25%**
2001	**6.25%**	**6%**
2002	**5.25%**	**5%**

Sustainability of Bonus Rates Specific Example

Current Bonus Rate	**5%**
Annual Management Charge	**1.5%**
WP Fund return required	**6.5%**
Risk free returns	**5%**

This implies Equity / Property returns required

Sustainability of Bonus Rates General Example

Annual Growth Required

	10 Year Bond	5 Year Bond
1998	**4.4%**	**1.4%**
1999	**6.1%**	**8.7%**
2000	**7.2%**	**10.9%**
2001	**6.4%**	**8.1%**

Apart from the actual return on the with-profits fund, the sustainability of bonus rates will also be affected by the existence of an inherited estate / free assets and the level of new business being written by the life office.

Brenda went on to examine the industry in the UK. This included the Equitable fall-out and possible outcomes of the FSA review of with-profits business. She concluded that in the future we can expect greater transparency, both in regulatory returns and for policyholders. Bonus rates are likely to become more volatile as more companies aim to pay out asset share. This will reduce the scope for smoothing. Inherited estates will be less significant going forward, making shareholder capital and their required return increasingly important.

(Brenda is currently chairing the With-Profits Working Party of the Society.)

Changing Face of Distribution

Tony Gilhawley commenced his lively presentation by explaining that the life insurance industry has moved from one that favoured intermediaries and producers at the expense of customers to a lower-margin market with more highly trained sales forces.

He detailed the 1980 – 1995 period in the industry, where the domestic industry was protected and, due to the Insurance Act of 1936, there was no ‘outside’ competition. The industry had a virtual monopoly in the savings, pension and non-deposit based investment markets, with many of the products enjoying fiscal advantages over other savings vehicles and being exempt from revenue disclosures. He also offered an interesting insight into the industry at that time, particularly for those younger members in the audience. For example, there was no statutory regulation of the sales and advice process, and the whole emphasis of the industry was on sales and market share.

Tony then contrasted this with the 1995 – 2000 period. He described the shift in power from the intermediaries and producers to the clients. Also, new laws and regulations were introduced, such as the Investment Intermediaries Act 1995, and the EC Framework Regulations 1995, which introduced a new set of standards and rules for the sales and advice process. He pointed out that the new Central Bank regulations subject the intermediary to increased accountability. Tony illustrated, with a number of graphs, how the market shares of different types of intermediary have evolved over the last 20 years.

Finally, he examined how distribution in the life industry is likely to change over the next few years, and he identified a wide range of issues that life offices and intermediaries will need to address. For example, he highlighted the fact that the advisor market is likely to decline and that multi-ties (with a reduced number of agencies) will dominate the broker market. There is likely to be increased regulation of intermediaries and further pressure on intermediary remuneration. Life offices may have to develop new ways of interacting with intermediaries if they are to compete for their attention in the new market.

Tony also spoke about the opportunities in the industry, to develop new channels of distribution such as the Execution Only intermediaries (using the Internet or direct channels) and perhaps the possibility of tied agencies operating under a franchise. His predictions of the APE split by distribution channel in 2005 can be found on the Society’s web site.

Life Assurance Conference

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Regulation - Revolution or Reformation

Jimmy Joyce's presentation outlined the significant changes currently taking place in the world of insurance regulation.

National
At national level, the most notable change has been the creation of a single regulatory authority for financial services. The new body will regulate both banks and insurers, and will be responsible for both prudential supervision and consumer issues.

International
All EU listed companies are to use the new International Financial Reporting Standards by 2005, including insurers and banks. The International Accounting Standards Board is currently working on the standard for insurance accounting. The intention is to adopt a 'fair value' approach, although the potential volatility of results has lead to some opposition.

The issues for long-term insurers include;

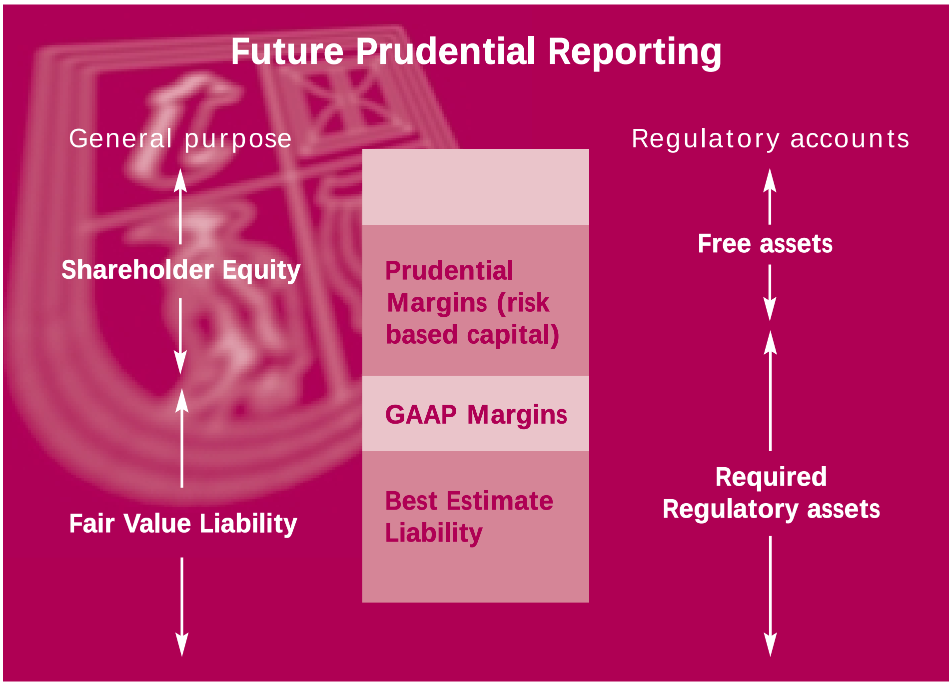
- The definition of insurance contracts
- Optionality in benefits
- Dependence of benefits on assets held
- Allowance for future premiums
- Practical issues

In terms of timing, however, the Exposure Draft is still incomplete and at a recent IASB meeting in March, the Board failed to reach even tentative conclusions on a number of key issues. The IASB have also received letters from US, German and Japanese trade bodies opposing the new regulations. The question remains whether the deadline can be met for 2005 for insurance companies and if not, can the Insurance Accounts Directive continue to apply in the EU?

European Union
Work is also in progress on changes to the EU solvency regime. It is likely that a risk based capital approach will be adopted to better reflect the specific risks affecting each insurer. It is hoped that this will be integrated with financial reporting, so that there will be a transparent relationship between solvency and general purpose accounts.

Jimmy illustrated the future of prudential reporting with the following diagram below.

Alan Grant
Siobhan Gardiner



At the end of the day

Des Ryan died, aged 47, in Blackrock Hospital on 18th June 2002, after a recurrence of a brain tumour that was first diagnosed in the early part of 1994. He is survived by his wife Helen and four sons: John, Peter, Paul and Colm. Many of you will have known or had dealings with Des, and on behalf of the Society, I should like to offer our sad condolences and regrets to Helen and family for their loss. Des contributed greatly to the work of the Society, especially in his role as chairman of the Pensions Committee. I know that Helen is very appreciative of the many friends from the profession that gave sympathy at the removal, the funeral and subsequently.

I have been lucky to know Des from many different perspectives. We went to the same school and the same university, and we both started our actuarial careers in Edinburgh. By separate routes, we both ended up in Dublin in pension consultancy, working on either side of Adelaide Road and living even closer together in Cairn Hill, and closer still through our families. In recent years, I have seen him from the client's view.

Des thrived at work and achieved the high status of World Wide Partner in Mercer. Again, on behalf of the Society, I would pass on sympathy to Paul O'Faherty, all his colleagues at Mercer and the clients, who find it hard, as we all do, to believe that such a vibrant person has passed away. I know of the proud loyalty he had to Mercer and the dedication he showed in delivering service to his clients.

One reason for his success: he did not like to come second and would fight hard to win. Another: he was as smart as the sparkle in his eye. Another: he put in the hours. But to me, his greatest strength in business was his constant interaction with everyone he met. He was interested in people and their motivations. He listened, probed and questioned until he got to the bottom of things – both the issue and the person. He always had space for his clients, and invariably, he became their very close, trusted adviser and friend.

He was the very best of consultant. He could summarise the issues and the options and communicate them clearly and succinctly to people, whatever their level of understanding. I smiled when he used his often - used phrase "At the end of the day", because I knew he would hit the core issues, ordered by importance, and give clear advice on what should be done.

Des rarely showed indifference to people, and you could never be indifferent to Des Ryan. He had little patience for vanity, bullshit or laziness, but great patience and empathy for those in trouble. He was as true and supportive a friend as you could ever have.

And he was great fun. My memory is filled with laughter, guldurs, teasing, slagging and mirth. We once had an impromptu singsong of the Fire and Thunder hymns we learned as boys in the Confraternity. He jumped up and we all marched singing and kids clapping around his house to ever-louder choruses of "O holy night".

But above all else, the centre of his life was Helen and their sons. It is not my place to put words on their feelings and emotions, but it is right to admire Helen's strength and unyielding protection of her family through these troubled times. She is a person of truly remarkable spirit.

At the end of the day, Des would not give up until he got a bargain. He loved to deal and negotiate and go for that extra margin. It was his nature and his joy. At the end of the day, he made some fine deals. He bargained a successful career, a good life and a happy family. After his illness was first diagnosed, he bargained for eight perfect years of life with Helen and saw his unborn child to First Communion. When the illness came back, he bargained for four more months, allowing his family time, and at last he bargained the mercifully short hours to say good-bye.

And, at the end of the day,
he bargained for our love.

And yes, Des, you won.

Brendan Johnston

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Who's Who - The Annual Ball 2002

1. Eamonn Heffernan & Ed Levay (President IAA)
2. Keith & Michelle Burns
3. John Devine & Piers Segrave-Daly
4. Jim Kehoe & Tom Collins
5. Anne Maher, Mary Collins, Eleanor Kehoe
6. Ed Levay, Peter Clark, David Kingston
7. Mary & Tom Collins, Caroline & John Instance, Paddy & Anne Maher, Margaret & Tom Ross
8. Catherine McGrath, Michael Murphy, Rosemary Commons
9. John Henty & Alf Guldberg
10. Siobhan O'Donovan & Gertrude Walsh
11. Steven Harford & Fiona Daly
12. Jane Arkle, Jeremy Goford, Joanne Coyle, Harry Panjer
13. David & Audrey Paul
14. The Ballroom at Powerscourt House

Pensions CPD Session

- 23 May 2002

2001 Survey of Pension Fund Valuation Practise

Rodney Smythe presented the results of the Survey, on behalf of the committee comprising Rodney, Robert Wolfe, Joe McElvaney and Cathal Fleming.

The survey asked practising members to set out the bases and methods they use for actuarial valuations (ongoing and discontinuance) and for transfer values. Members were also asked to carry out a valuation on sample data. Unfortunately the response to the latter request was disappointing so this part of the survey was not completed.

This is the first survey carried out since 1996 and will hopefully act as guidance to actuaries as to current practice amongst their peers.

The environment in which pensions actuaries work has changed significantly since the last survey in 1996 so the results were expected to show changes since then. The major trends included:

Lower bond and dividend yields
Lower investment returns
Higher inflation and salary increases
Further improvements in life expectancy
Introduction of Standard Transfer Value basis
FRS17

The key findings of the survey were:

- Valuing assets using Adjusted Market Value is increasingly popular
- 2% gap between salary increases (excluding promotional increases) and investment returns remains predominant
- Fairly wide range of post retirement gaps; 2% to 4% (average is 3%)
- Wide range of gaps between investment returns and statutory revaluation; 3% to 5.8% (average is 4.06%)

It was notable that the assumptions used to value liabilities in conjunction with the Adjusted Market Value or Discounted Cash Flow methods were not significantly different.

Overall it is difficult to compare the overall strength of the bases reported in this survey and the bases used in 1996.

The subcommittee aim to issue a report on the survey findings later in the year.

FRS17

There were three presentations on the topic of FRS17 which were very well received by the attentive audience and which greatly increased our knowledge. A summary of the issues covered is outlined below:

- Liam Quigley gave a short presentation on the Exposure Draft 43 (ROI) which provides guidance in relation to FRS17. This is an onerous and significant piece of guidance which is based on GN36 with a number of minor modifications.

- Alan Hardie covered the assumptions being used in practice. He asked the audience what assumptions they would use and compared them with his own survey of a sample of 15 published accounts. The audience answers were broadly in agreement with the survey.
- Alan introduced his colleague Terry O'Rourke who attempted to explain the arcane accounting concepts 'Constructive Obligations' and 'Materiality'.

His first piece of advice was that it is the directors responsibility to interpret these concepts so actuaries are not required to make these decisions and do so at their own peril.

A 'constructive obligation' is an indication or a commitment to accept responsibilities. It can be created by a pattern of past practice, published policies or a specific statement. As a result, a valid expectation is created for other parties and there is usually no realistic alternative to settling the obligation.

Examples include an announced restructuring, a published environmental policy, and an established practice of refunds or a deficit in a defined benefit scheme.

'Materiality' is a characteristic of financial information. It is a threshold quality which determines whether an item is relevant. The question to be answered is whether a misstatement or an omission would reasonably influence the decisions of users. As with constructive obligations, Terry suggested that interpretation be left to the directors.

Enda Walsh

FRS17 Assumption	Sample Average
Price Inflation	2.4%
Salary Inflation	3.9%
Differential between prices and salaries	1.5%
Pension Payment Increases	2.5%
Discount Rate	5.9%
Equity Return	8.0%
Bond Return	5.5%
Property Return	6.6%

The Changing Pensions Landscape

Jim Kehoe had the unenviable task of delving into the detail of the Pensions (Amendment) Act 2002 (the Act). For those of us less so inclined, more than 100 pages of legislative provisions were condensed into a concise reference guide to the changing pensions legislation.

Jim started with a reminder of the primary drivers for and objectives of the amending legislation, namely:

- To implement the primary recommendations of 1998 National Pensions Policy Initiative (NPPI) Report in the areas of preservation of benefits of early leavers, the extension of 2nd Tier coverage (PRSA's) and post retirement indexation of pensions;
- To respond to public concerns e.g. for appropriate representation of their interests on the Pensions Board and the establishment of a Pensions Ombudsman; and
- To respond to technical concerns particularly in the areas of scheme wind-up (priorities and treatment of surplus) and solvency, bulk transfers, and trustee investment responsibilities in relation to DC Schemes.

A subsequent examination of the detail of the legislative changes highlighted some significant areas of change. Of particular relevance to actuaries is a requirement for **Ministerial Consent** prior to alterations to, or the withdrawal of, professional guidance notes specified by Regulations under the Act.

The Pensions Board will have expanded powers and responsibilities, particularly with regard to the monitoring and supervision of PRSA providers and products.

Public concerns have been addressed by the establishment of a **Pensions Ombudsman's Office** and through provisions requiring trustees to ensure there is greater transparency, communication and consultation with members in the areas of scheme wind-up and bulk transfers.

Just over half of the Act contains the detail of the new product designed to extend coverage from under 50% to 70% of the working population, i.e. **PRSAs**. Jim summarised the actuarial dimension to PRSAs, involving statements of reasonable projection and certification of compliance and charges. He also highlighted an area he felt was of pre-eminent importance, i.e. certification in relation to transfers from occupational pension schemes, certification which is not necessarily the preserve of the actuarial profession. Jim expressed the personal opinion that there was a vital missing link to PRSAs, namely, the facility to use the proceeds to supplement the weekly Social Welfare Pension.

Questions from the audience highlighted concerns regarding inconsistencies that the legislation appeared to be creating between PRSAs and DC schemes, particularly in the area of projections and regulatory requirements. However, while cost might drive some employers to offer PRSAs in future, it was felt that occupational DC schemes still provided other advantages. The uncertain status of Buy-Out Bonds and Revenue requirements concerning transfer payment restrictions indicated there are a number of areas that it is hoped will be addressed in the raft of Regulations currently being drafted.

One suggestion that gave no cause for concern to the assembled group was the potential for the new and any subsequent future legislative change to create the need for a DC Scheme Actuary!

Kathy Murphy

Pensions CPD Session

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Update on the work of the Pensions Committee

Robert Wolfe, the chairman of the Society's Pensions Committee, briefed the audience on the current and ongoing work of the Pensions Committee.

The Committee's involvement in the pensions arena comprises primarily:

- Representation on/meetings with other Regulatory bodies involved with Pensions (DSCFA, The Pensions Board, Revenue, IAPF, International Actuarial Associations);
- Preparation of Professional Guidance Notes;
- Public interest issues and the preparation of position papers;
- Undertaking Surveys and studies (transfer values, valuation methods, pensioner mortality study); and
- Professional practice/standing issues (e.g. peer review)

The Pensions (Amendment) Act 2002 has given rise to a considerable amount of work in relation to consultation and input to Regulations, revisions to existing professional guidance and drafting new guidance. Four working groups have been established to examine the new requirements in the areas of indexation and actuarial reports, transfer values, actuarial funding certificates and preservation of benefits/new minimum contributory retirement benefit.

Robert advised that the Pensions Board has indicated its intention to use its powers under the Act to prosecute those trustees who fail to submit actuarial funding certificates within the legally mandated deadlines, and, together with the President, urged members to become more proactive with regard to regulatory requirements.

On a more positive note, the Peer Review Working Party had presented its proposals in a recent report and the meeting on 28th May provided an opportunity for members to discuss the proposals. The peer review system will apply to statutory work in all disciplines (i.e. Life, Pensions and General Insurance) with the detailed workings of the system being left to the Practice Committees.

Work recently completed by the Pensions Committee includes the production of a booklet on the role of the pensions actuary, a survey of valuation methods and a submission in relation to Family Law legislation. A study on pensioner mortality is currently ongoing.

Robert thanked the present committee members for their efforts to date and, joined by the Society's President, Eamonn Heffernan, urged other members to consider participation in the future, particularly on sub-committee or working groups.

Kathy Murphy

Risk Equalisation Evening Meeting Report 1st May 2002

The Report of the Working Group on Risk Equalisation (RE) in the private health insurance market in Ireland was presented to the Society at an evening meeting held on 1st May last. Judging by the size of the attendance this is a topic which is of considerable interest to members.

The meeting was chaired by Eamonn Heffernan while Jimmy Joyce and Tony Jeffery made presentations on behalf of the Working Group. In his introductory remarks Eamonn welcomed our guests at the meeting which included representatives from the Health Insurance Authority and the Department of Health before handing over to Jimmy and Tony.

Clearly the Society, as an objective observer, has a significant role to play in the formulation and development of policy on risk equalisation in this country. It has actively contributed to all stages of the debate throughout its evolution since it was first contemplated in 1994 and its views have been regularly quoted. As such it is essential that the Society maintains an up to date policy on this subject and a review of its policy is timely. Its position could to date be characterised as strongly supportive of the concept of RE. However it recently clarified this position by reaffirming support for a strong form of RE in the context of the then stated public policy objectives of preserving stability and subject to this promoting competition. It went on to state that if these objectives were reversed then the Society would have recommended a lighter form of RE based on age and gender only as measures of risk.

Risk equalisation is a process which aims to equitably distribute differences in health insurers costs which arise due to variations in risk profiles. It is contemplated in this country as a necessary support for the three pillars of the current system namely:

Community rating:
Insurers must charge the same premium to all for the same product irrespective of risk factors.
Open enrolment:
Cover must be offered to all (currently under age 65)
Lifetime cover:
Continuity of cover must be provided irrespective of the onset of illness or claims record

It was first contemplated in the private health insurance market in Ireland in the 1994 Health Insurance Act which effectively paved the way for the introduction of competition in this sector. The detailed framework was contained in regulation in 1996 which amongst other things prescribed

- the maximum level of benefit to be included in the calculation,
- that a retrospective methodology be applied using age, gender and a proxy for health status as measures of risk and,
- a trigger, based on the level of risk differentials in the market as a whole, for the commencement of payments under the scheme.

The scheme proved controversial and in 1997 the Minister set up an Advisory Group to consider the existing scheme and make recommendations to improve it in the context of its stated objectives – to preserve the stability of community rating and facilitate competition. The Group concluded that RE was necessary in the context of the stated policy objectives. However in December 1998 the commencement of RE was further postponed pending the publication of a White Paper and further legislation. The White Paper proposed technical amendments, primarily in relation to the measure of prior utilisation used to equalise claims, which were intended to move the scheme more in the direction of facilitating competition.

Following consultation in relation to the White Paper, the Health Insurance (Amendment) Act 2001 was enacted. This Act again empowers the Minister to establish a scheme of RE. However it vests considerable authority in the Health Insurance Authority to recommend whether or not payments under the scheme should be commenced. While the detailed framework of the scheme will be contained in regulations which are yet to be published the Act requires insurers to submit regular returns to the Authority which will be evaluated by it. Based on these evaluations and having regard to the best interests of health insurance consumers generally the Authority will recommend to the Minister whether or not to trigger the commencement of payments under the scheme.

In the meantime, the market is open to competition and a single competitor to VHI has emerged. At present VHI, the dominant player, enjoys an 85% market share with BUPA having acquired 15% in its seven years of operation. Despite the absence of RE the community rating system has not collapsed and with increasing numbers purchasing health insurance the market is showing little sign of instability on most definitions.

Risk Equalisation Evening Meeting contd. . .

As part of it review the Working Party consulted with various interested parties on a confidential basis including insurance industry representatives, consultants and academics and a wide range of views were expressed. It adopted the current basic market framework – community rating, lifetime cover and open enrolment – as a given and concluded that the Government's objective of preserving stability is reasonable. The terms of reference of the group envisaged that international experience would be considered but it was quickly concluded that while interesting, at this level of detail it is unlikely to be helpful and that judgements about RE should be based in the specifics of the Irish system.

The Working Group outlined the advantages and disadvantages of RE put forward by interested parties and relevant literature. Without being exhaustive it lists the following amongst the arguments in favour of RE:

- Community rating cannot work without RE.
- It facilitates competition amongst insurers over all the insured population including high risk categories.
- BUPA has the automatic benefit of a superior risk profile to VHI and is thus able to earn excess profits.
- Genuine market entrants will not be prevented from competing fairly on products, service and efficiency.

Some of the arguments put forward against RE include the following:

- RE is unjustified interference in the market which should be allowed find its own level.
- It kills competition, reduces incentives to compete and acts as a barrier to entrants.
- Community rating, open enrolment and lifetime cover are themselves sufficient to meet Government objectives.
- There is no evidence of instability in the Irish market and no evidence that RE would solve it if it did exist.
- It ignores scale economies of an existing insurer.

The Working Group reviewed the official objectives of Government for a RE scheme and the criteria it should meet. It concluded that the core objectives of preserving the stability of community rating and subject to this of facilitating competition were self-evident. However it suggested amendment to some of the criteria for such a scheme. Most notably it argued that the market in general must continue to attract preferred lives to maintain stability and the system should recognise this. It suggested that there would be merit in removing the requirement to community rate benefits above the minimum level.

In relation to the Irish market at present the Working Group concluded that the emergence of competition has in general been beneficial, most notably in the areas of consumer service and product flexibility. However there is at present little evidence of price competition. In the current environment it would not make sense for BUPA to price its products at such a level as would encourage VHI's high risk subscribers to switch. Its market incentive is to be a price follower and seek to attract potentially lower risk new entrants. It noted that both insurers compete aggressively for new entrants and have been successful although this undoubtedly also reflects general economic prosperity and the standard of the public system.

It relation to the emergence of further competition it suggested that given the size of the market it is unrealistic to expect more than a few competing entities. However there remain two significant barriers to the emergence of further competition at this time. The first is general uncertainty regarding RE and the second is the continuing uncertainty regarding the future structure and ownership of the VHI – in particular its lack of a commercial mandate.

The Working Group assessed the form a RE scheme should take. In relation to risk parameters, age and gender are accepted as a minimum. However it believes that the scheme could operate effectively without using a health status parameter. It felt the inclusion of such a parameter – and it is difficult to find appropriate health status information – considerably complicates the process and argued that a community rated system may benefit where incentives exist to attract healthy lives. In any event it expressed a view that it would be more difficult for an insurer in the long term to maintain a preferential health status mix than it would be to sustain a preferential age and gender mix.

In relation to the methodology the Working Group noted that the current indication is that a retrospective approach will be employed. However it suggests that a prospective approach may have some advantages including greater predictability of outcomes and greater transparency of age and gender subsidies. Under this methodology the H.I.A. would publish age and gender premium rates for the minimum benefit level and a community premium rate based on the market as a whole. Insurers would make payments or receive payments based on the difference between age and gender premiums for their insured populations and costs based on the community rated premium for the market as a whole.

Finally, in relation to criteria for introducing RE it was noted that current proposals would suggest RE will only be triggered when it is needed – defined in terms of the level of instability in the market generally. It has also been widely suggested that in fact RE should be held as a 'reserve power'. However the Working Group's view is that uncertainty in this regard should be eliminated and that operating RE as a reserve power would be totally inconsistent with this. It believes that introducing a limited form of RE now would be beneficial to the long term interests of the market and health insurance consumers generally.

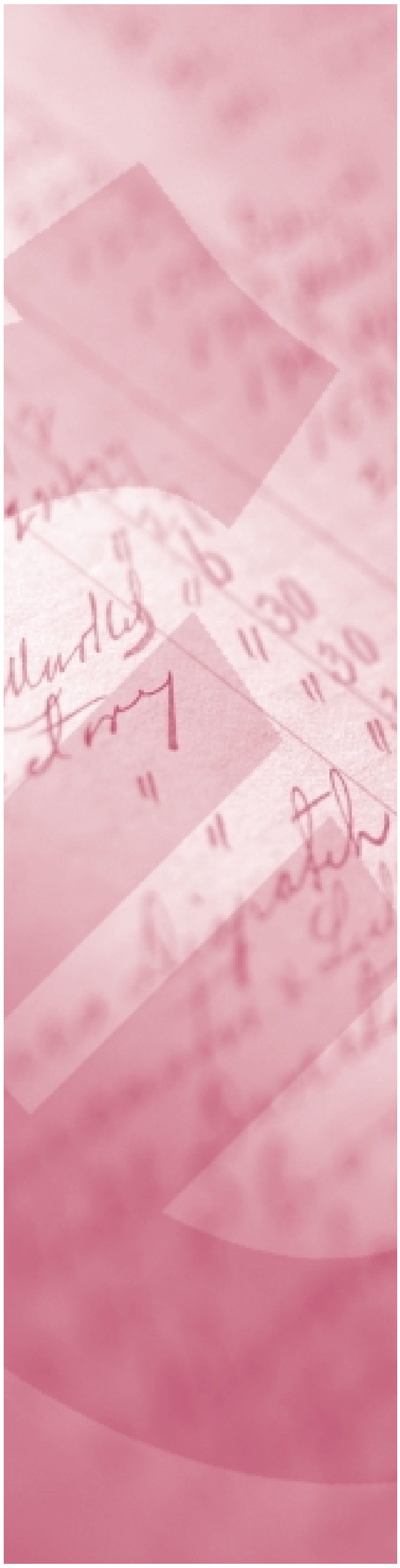
In conclusion the Working Group recommended that the Society adopt the following position:

- That risk equalisation is a 'logical concomitant' to a voluntary private health insurance system such as ours. Its introduction would not in itself cause market instability and by bringing certainty to the market may in fact benefit stability and competition.
- Total risk equalisation should be neutral to competition but it would be reasonable for the form of the scheme to encourage competition.
- The scheme should be based on age and gender only and preferably on a prospective basis.
- An obligatory system of unfunded lifetime community rating should be introduced based on a previous Society submission.
- The corporate status of the VHI should be resolved and in particular the link with the Minister for Health and Children broken and it should be given a commercial mandate.

Following the formal presentation there was a particularly lively discussion session. In keeping with the outcome of the Working Group's own consultations a wide range of disparate views were expressed. However the majority of speakers were generally supportive of the recommendations. Interested parties were invited to make written submissions to the Working Group for final consideration before the Society's position on this important topic is formally put to Council for endorsement.

Liam Quigley

Working Party Members
Jimmy Joyce (Chairman)
Tony Jeffery
David Harney
John Caslin
Michael Culligan



New Qualifiers

Congratulations to our new qualifiers

Keith Butler	**Acorn Life**
Emmett McCrann	**Hibernian**
Mairead O'Shea	**Ark Life**
Ronan Fitzpatrick	**Buck Consultants**
John Hannon	**FINEOS**
Maeve Regan	**Mercer**
Anil Shenoy	**Standard Life**
Patrick Maddock	**Nascent**
Donald Salisbury	**QBE**
Elaine Spillane	**Bank of Ireland Life**

Membership Survey

The Society has issued a questionnaire to all Fellows and Associates asking for their views on a number of issues relating to the Society. The last membership survey was carried out in 1998, with a 50% response rate. Members are encouraged to complete the questionnaire (which should take about 15 minutes) as the results of the survey will play an important part in determining the future direction of the Society.

Irish Based Professionalism Course

The Society is holding its inaugural Professional Course on 17 & 18 September 2002. It will be a two-day residential course in Macreddin Village, Macreddin, Co. Wicklow. This course is fully accredited by the Faculty and Institute of Actuaries and has been designed with the specific needs of Fellows of the Society of Actuaries in Ireland in mind.

This course is being co-ordinated by Duncan Robertson and Michael Claffey and the Society is very grateful to Lis Goodwin and Andrew Summerfield from the Institute of Actuaries for all their assistance in setting up the course. Andrew will be the main contributor at the course. Lecturers will include senior members of the Society and the guest speaker will be the President, Eamonn Heffernan.

The Irish Based Professionalism Course is only open to members of the Society of Actuaries in Ireland and actuaries based in Ireland.

17 & 18 September 2002
Brooklodge,
Macreddin Village,
Co. Wicklow

Application Forms and further details are available from the Society.

Golf

A record attendance at Captain's Day on Thursday 18 July enjoyed an excellent day in brilliant sunshine in the magnificent setting of the Glen of the Downs Golf Club in Co. Wicklow. A full report and photographs will be in the September Newsletter.

On the Move

Fellow Members	Keith Butler has moved to Acorn Life from Irish Life
	Dermot Corry has moved from Irish Life & Permanent to Life Strategies
	Cathal Rabbitte has moved from General/Cologne RE to Arab International Insurance Company in Cairo
	Colin Murray has joined Watson Wyatt from Scottish Provident
	Stephen Devine has joined Transamerica Int'l Reinsurance from Eagle Star
	David O'Sullivan has moved from L & P Financial Trustees to Mercer HR
Students	Colm Fitzgerald has moved from IIB Bank to Watson Wyatt
	Jim Liston has moved from Life Strategies to Allianz

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