

Newsletter

The Society of Actuaries in Ireland

April 2001

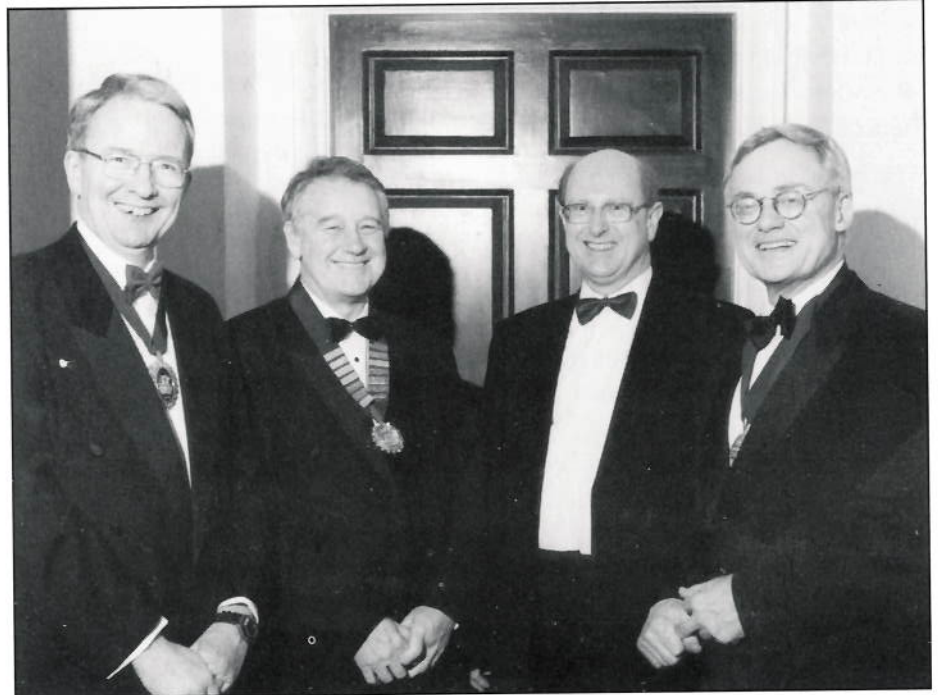
Editorial

Welcome to the April 2001 newsletter. In this issue we cover a number of evening / CPD meetings and put another person in the hot seat for our Question Time series. Our cover photo is taken from the President's dinner and we also have an update on the performance of Irish actuarial students relative to their UK counterparts.

The Society is delighted to announce that fellowship parchments have been prepared for all fellow members and are currently being signed by the Secretary and the President. These will be sent out over the coming few weeks. Many thanks to Stephen Doyle, Jimmy Joyce and Shane Whelan for their efforts in arranging these.

Two important dates to mark in your diary are the Annual Ball on Friday 19th May in the Four Seasons Hotel in Ballsbridge and the Current Issues in Life Assurance (CILA) seminar on 20th April in the Conrad Hotel. Further details of these and other events are available on the Society's website (www.actuaries-soc.ie).

Articles for the future editions of the newsletter are always welcome and can be sent to either Frances Kehoe, Michelle Roche or Mary Butler. The next issue will be in June, 2001.



Peter Clark, President, Institute of Actuaries; Jimmy Joyce, President, Society of Actuaries; Chris Daykin, UK Government Actuary; David Kingston, President, Faculty of Actuaries.

President's Dinner

The Biennial Dinner hosted by the President of the Society, Jimmy Joyce, was held on Tuesday 20 February 2001 in Newman House on St Stephen's Green.

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President's Dinner continued...

The Society was represented by ten past presidents and most present members of Council.

Guests of the Society included senior civil servants, representatives of kindred societies and other members of the business community.

The guest of honour was Mr Noel Treacy, Minister for Science, Technology and Commerce. The Institute of Actuaries was represented by its President, Peter Clark and the Faculty of Actuaries was represented by its President, David Kingston.



The President, Jimmy Joyce, with guest of honour, Noel Treacy, Minister for Science, Technology and Commerce at the Biennial Dinner of the Society.

Jimmy Joyce spoke briefly, welcoming our guests and acknowledging the support he received throughout his presidency, particularly in the areas of establishing public interest credentials and strengthening self regulatory credibility.

Minister Noel Treacy responded on behalf of the guests, following which everyone enjoyed an excellent dinner in The Commons restaurant.

Stephen Doyle

Membership of Health Insurance Authority

Mr. Micheál Martin, TD, Minister for Health and Children, recently announced the membership of the Health Insurance Authority, established under Part IV of the Health Insurance Act, 1994. Professor Alastair Wood, Head of School of Mathematical Sciences, Dublin City University and an Honorary Member of the Society, will chair the Authority. Aidan O'Donnell, a Fellow Member of the Society joins Professor Wood on this Group. Other members are; Ms. Mary Doyle, Economist; Mr. Tom Greene, Accountant; Ms. Anne Maher, Pensions Board.

The Authority will have a central, and independent, role to play in the operation and development of this country's private health insurance market. There is also provision in the Health Insurance (Amendment) Bill, 2000, which will enable the Minister to give the Authority significant discretion in relation to the operation of risk equalisation between health insurers. The assignment of further responsibilities to the Authority, as provided for in the 1994 Act and referred to in the White Paper on Private Health Insurance, will be addressed by the Minister in consultation with the Authority.

Obituary

At the recent Council Meeting of the Society, the President, J. Joyce, recorded with sadness the death of Bernard Harberd, FIA, a founder member of the Society.

Pensions & Family Law

On February 13 John McCarthy presented his paper, Pensions & Family Law, to a meeting of the Society held in the Stephen's Green Club.

It has been said "There are two certainties in life - death and taxes". There are no certainties with marriage but there is the possibility of divorce. Furthermore, it is worth remembering that in divorce cases, pensions can be more valuable than property.

John began by outlining the differences in terminology between Ireland and the UK. Particularly, in Ireland once a Pension Adjustment Order has been served there is a change in the ownership of the pension rights whereas in the UK earmarking does not result in a legal change of ownership but rather an attachment to the pension benefits. This has resulted in a low take-up of this approach in the UK with uncertainty in payment and no clean break.

He then went on to outline some of the issues/problems which arise in Ireland, detailing several problems which have arisen with current legislation:-

- The current legislation does not allow trivial orders. The need for this type of order arises when both spouses have pension provision and neither wants to interfere with the other pension. Hence, in Ireland, £1 orders have arisen.
- In relation to Contingent Benefit Orders, the present twelve-month limit in the legislation seems unreasonable.
- There are problems with the interaction between Pension Adjustment Orders and pension scheme rules.
- Concern was expressed over the entitlement of a non-member spouse to information where a Pensions Adjustment Order is in place. The disclosure to spouses is restricted.
- Problems have arisen over the splitting of contingent spouses' death after retirement benefits and members' benefits. Can separate orders be put in place in respect of these benefits? John explained that model draft adjustment orders had been issued for Government Schemes and that these drafts allow for separate orders.

However, it was subsequently pointed out that these schemes have separate spouses' and members' schemes.

The Questions and Answers session that followed raised some more issues:-

- It was remarked that transfer values could be penal. The provision of a basic transfer value does not provide the full picture especially for a non-member spouse. Actuaries can play a beneficial role by ensuring that clients are advised of the intrinsic value of pension benefits and not just the legal value.
- There are many future issues for Trustees and Administrators in the operation of future orders. Trustees have sent back orders that are outside the legislation.
- In conclusion, it was recognised that this area of actuarial work was particularly specialised. The Society should continue to provide expert opinion whilst ensuring that practical and legislative difficulties are highlighted.

Overall, this was an animated, entertaining and provocative presentation of the relevant issues both here and in the UK.

Nigel Tennant

Making Actuaries Less Human – Lessons from Behavioural Finance

Held on the 16th January 2001

Presented by Nigel Taylor

Nigel began by asking the audience for a show of hands on who considered their standard of actuarial work to be below average. (Un)surprisingly there were no volunteers. Nigel explained that this served to illustrate one of the most prevalent problems in judgement and decision-making for all professions, namely overconfidence. He referred to experiments which had been carried out in the past which clearly demonstrate this factor in the general population and he asked the question: are professionals overconfident? Nigel suggests that overconfidence is at its greatest among professionals, including actuaries, due to the mistaken belief amongst experts that more information/experience will lead to better decisions. There are two main reasons for the persistence of overconfidence, hindsight bias and confirmation bias. Again experiments have been conducted in these areas.

Nigel then outlined the concept of anchoring and its influence on decision-making. This relates to the tendency for the professional to be influenced by previous results and/or the starting position in arriving at recommendations for his/her client or employer e.g. the actuarial joke "Q. How many actuaries does it take to change a light bulb? - A. How many did it take last year?". While this anchoring may well be justified on the grounds of smoothing, there is an inherent danger in effectively ignoring or discounting new information which should be taken into account.

Another aspect which was explored relates to framing and question wording, where there is evidence of significant variation in responses depending on how questions are worded; there may be lessons to be learned in designing insurance proposal forms and questionnaires in this regard.

Nigel went on to discuss how people make choices and how this is strongly influenced by the options presented to them. Research on consumer activity demonstrates that the more choices there are available, the less likelihood of the consumer making a decision. Other experiments show that given three options the middle option is chosen more often than not regardless of whether the three options are at the lower or higher end of the entire range of possible options. A related phenomenon is "status quo bias" which suggests that people have a marked preference for keeping things as they are. Therefore, for example, if one of the options presented is to keep the existing contribution rate, there is a strong tendency for pension scheme trustees to take that option. This is probably due to fear of things going wrong following a decision to make a change.

Nigel summarised by stating that most of the biases described are at their worst if experts are involved, the outcome is uncertain, the issue is complicated and the feedback is slow i.e. all of which apply directly to actuarial work! While it is impossible to eliminate these biases, the exercise of actuarial judgement needs to be carried out with the knowledge of these potential biases and errors in decision-making. Also, actuaries need to be alert to the use of these "human" factors by others to influence or direct our judgements and decisions.

A wide-ranging discussion followed including such areas as whether the experiments quoted could be relied upon in real life (apparently yes), how professions are addressing these biases, the potential for investors to exploit these biases (few have successfully managed this), the biases affecting the building of stochastic models thereby possibly invalidating any conclusions drawn from such

models, and how the profession in the UK had responded to Nigel's paper (a mixed reaction to say the least!).

Nigel's presentation was a synopsis of parts of his original paper. I would recommend that members read the full paper which is available from the Staple Inn Actuarial Society.

Stephen Doyle

Once more into the breach

Daffodils, blossoming cherry trees, and the smell of freshly mowed grass...yes, it's the cruellest month again, Examination April. Even long qualified actuaries are not wholly immune to the scents in the air, although now the emotion is recollected with tranquillity.

A quick study of the results of last September still shows that Irish students have not reclaimed their former higher-than-UK-average pass rates, although the shortfall has narrowed. The table below compares the results of the autumn exams in the Dublin centre with the average for the UK.

The overall performance can be succinctly summarised as the actual to expected number of Irish exams passed (expected on the basis as the same pass rate in each examination as the UK average). In September, the actual to expected was 137 versus 151 (91%). More than half of the shortfall can be attributed to the communications paper (201). These results, while leaving further room for improvement, show a positive trend when compared with the April 2000 results. The actual to expected then was 174 versus 207 (84%). At that time,

Irish and UK Pass Rates in Actuarial Exams Compared, September 2000				
Subject	No. Sitting in Dublin	Dublin Pass Rate (%)	UK Pass Rate (%)	Ratio of Dublin to UK Pass Rate
101	14	50.0	42.5	1.18
102	14	42.9	62.6	0.68
103	11	0.0	43.2	0.00
104	18	55.6	47.6	1.17
105	8	75.0	58.6	1.28
106	12	33.3	52.7	0.63
107	5	60.0	72.6	0.83
108	10	50.0	74.4	0.67
109	8	50.0	47.1	1.06
201	80	40.0	49.7	0.80
301	28	39.3	40.2	0.98
302	28	53.6	44.2	1.21
303	36	38.9	32.7	1.19
304	23	34.8	44.4	0.78
401	1	100.0	48.0	2.08
402	12	41.7	44.0	0.95
403	4	0.0	45.8	0.00
404	10	60.0	40.7	1.48
Overall	322	42.5	46.9	0.91

poorer performances were notable in the early examinations.

These results can, of course, have an innocent explanation - Irish students could be sitting more exams than their UK counterparts. A more thorough investigation will be undertaken if the results from the April

sitting are disappointing.

Finally, we wish you every success as you await your April results.

Shane Whelan



New Qualifiers from 2000

Left to right: Dermot O'Hara, Declan O'Neill, Brid Meaney, Robert Meehan, Jane Gleeson, Ciara Regan, David Kingston, Brian Murphy, Jimmy Joyce, Niall Dillon

Address by the President of the Faculty of Actuaries

Held on the 7th March 2001

David Kingston opened his presentation with a recollection of his early days as an actuarial student in Edinburgh and his decision to move to Dublin in 1968.

Discussing the Faculty's now very close ties with the Institute, he identified three reasons for its continuation as a separate entity:

- To represent its members, particularly those in Scotland.
- To run the profession's UK activities (with the Institute).
- To run international activities - e.g. exams (with the Institute).

Overall, he felt that without the Faculty the actuarial profession in the UK could have an overly strong London influence.

David commented that he felt the Faculty was not particularly active with a high proportion of members having no meaningful involvement in its workings. He contrasted this with the Society which seemed to be significantly more active despite its smaller membership.

He then went through some interesting developments in the educational syllabus. Firstly, there will be a second investment paper from 2003 and sitting this new paper will allow one of Life Assurance, General Insurance or Pensions to be dropped. Also, City University in London now has a course that will allow exemptions from Investment, General Insurance and Pensions.

On a discussion on Vision & Values, David re-iterated the goal of representing the public interest but was also interested in the possible conflicts that can arise with client interests.

David covered topical issues in relation to all the major actuarial practice areas. In relation to pensions, he made a number of interesting observations:

- It is inconceivable that people will retire in 50 years' time like they do

work in their 60's/70's.

- Talk of a "pensions timebomb" is very wide of the mark, unless everyone insists on fully retiring between ages 60 and 65.
- He repeated his previously expressed view that governments should consider increasing the State pension age to 70 and increasing the pension amount payable at that time.

The Questions & Answers session proved to be interesting:

- There was a very long debate on the consequences of the Equitable debacle. In particular, many speakers firmly felt this would lead to a significant diminishing/restructuring of the Appointed Actuary role.
- An interesting debate arose on the merits of cross-border recognition of actuarial qualifications in the EU.

There was a very large attendance at the

dinner after which the President, Jimmy Joyce, presented new qualifiers and past presidents with their fellowship parchments. (David Kingston presented Jimmy with his to resolve the situation of Jimmy having to present his to himself!) Presentations were also made to Stephen Doyle and Shane Whelan in recognition of their efforts in organising the parchments.

Ivor O'Shea



The President, Jimmy Joyce, making a presentation of Waterford Crystal to David Kingston to mark the occasion of his address to the Society as President of the Faculty of Actuaries

Question Time

Career Summary

1974 to 1988, New Ireland Assurance; 1988 to date, Insurance Corporation of Ireland (ICI-AGF-Allianz)

Full Name:

David Kenneth O'Connor

Family:

Married to Joanne, 3 Children, Rory, Ian and eight years later, Sally (some Actuary!!!)

Year of qualification:

1989

Current employment:

Risk Management Director, Allianz

Time you start work:

08:30 - 9.00

If you weren't an actuary what would you be?

Engineering appealed to me at one stage

What is the worst thing about being an actuary?

The assumption on other peoples parts that you are elitist.

Pet hates:

That's an ASTI question!!

Favourite actuarial joke?

Two Harvard MBAs and an Actuary go into a Picasso museum. They are looking at one of his later works. The first MBA called Modigliani points at a triangle on the left side of the painting and says "That's the left ear, beautiful work!" The second, Miller, then exclaims "It's all becoming clearer to me now, that triangle on the right is the right ear, and in between is the face." Silence for a while. Then one of the pair pipes up "What's that big cone doing sticking out of his forehead?." "Aha", says our canny, non elitist actuary, "that's the efficient front ear!!"

Would you recommend the actuarial profession to someone leaving school now?

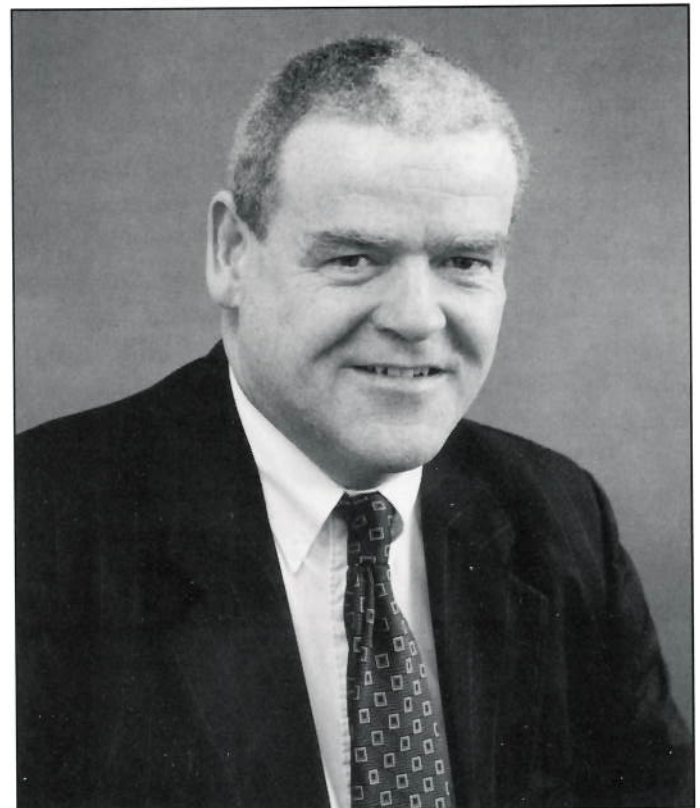
Yes.

Favourite holiday location?

West of Ireland

What do you do to relax?

Fishing, Reading



Last book you read?

"Galileo's Daughter"

Favourite tippie:

Black Stuff

Favourite hostelry:

Gleeson's

What famous person from history do you most admire:

Most of the physicists, Newton, and more recent early 20th century groundbreakers Bohr, Einstein etc...

Favourite TV programme:

Questions and Chancers, RTE Mondays

What car do you drive?

A 1994 Vintage Mercedes Estate

Most embarrassing moment?

Blurting out the punch-line to a visiting speaker's joke when he had uttered no more than three words!!!!

Favourite music:

There's very little I dislike. Hothouse Flowers are a current favourite.

Dying words:

Get the net under him. See Relaxation.

CPD requirements for Appointed Actuaries and Scheme Actuaries

Members are advised that the Practising Certificates Committee has revised the CPD requirements for the issuing of Appointed Actuary Certificates and Scheme Actuary Certificates. The new requirement has been endorsed by the Council of the Society. This requirement will come into effect on 1st April 2002: "That the annual CPD requirement for Appointed Actuaries and Scheme Actuaries would be 15 hours, of which 10 should be relevant to their role as Appointed Actuary/Scheme Actuary and of which 3 should be specifically relevant to their role as Appointed Actuary to an Irish life assurance company or as the Scheme Actuary to a scheme governed by Irish legislation."

Jim Brophy
Chairman

Practising Certificates Committee

Website Development

- As you have almost certainly noticed, the Members' Handbook is now available on our site. In future, this will be the primary means of delivery of the Handbook, so your comments on this part of the site are most welcome.
- A new page has been added for the publication of the MVA figures required under GN11(ROI) version 3. This page will be updated at the end of each month.
- John McCarthy's paper on Pensions and Family Law in Ireland and the UK is now available.
- The schedule of events for the remainder of the year has been updated : clear out your diary!

Overall, please send your comments and ideas on the site to Mary Butler at actuaries@iol.ie or Pat O'Sullivan at posullivan@lifetime.ie

www.actuaries-soc.ie

Appointments

The Board of Hibernian Group is pleased to announce the appointment of the following executives as Group Board Directors:

Grant Barrans

Managing Director, Hibernian Life & Pensions



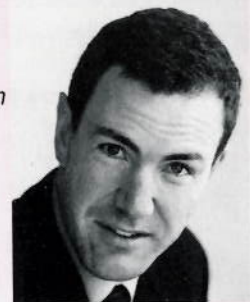
Pramit Ghose

Managing Director & Chief Investment Officer, Hibernian Investment Managers



Tony O'Riordan

Group Finance Director



On the Move

- ⇒ **Fellow Members**
- Christine Murphy** has moved from Old Mutual, South Africa to **Mercer**, Cork
 - Brian Heffernan** has moved from **Centre Solutions**, Sydney to their Dublin office
 - Robert Meehan** has joined **Hanover Life Re.** from Eagle Star
 - John O'Neill** has moved from Norwich Union to **London Re. Insurance Group**
 - Patrick Cosgrave** has moved from Mercer to **W. M. Mercer**, Illinois
 - Shayne Deighton** has joined **Ernst & Young** to set up a Dublin actuarial consultancy
- ⇒ **Students**
- Patrick Needham** has joined **Irish Life** from Canada Life
 - John O'Sullivan** has moved from Life Strategies to **I.P.A.C. Consulting**
 - Jack Buckley** has moved from HCM International to join **QBE Europe**