Society of Actuaries in Ireland NEWSLETTER

May 1994

Professional Duties of Actuaries in Life Assurance Companies

Significant changes have recently been made to the following Irish Insurance Federation codes of practice:

(i) the Code of Practice on Illustrations of Future Benefits;
(ii) the Code of Practice on Cooling-off Notices; and
(iii) the Maximum Commissions Agreement.

In particular, a distinction is now drawn between Savings Plans and Protection Plans and this distinction is reflected in the Code of Practice on Cooling-off Notices and the Maximum Commissions Agreement and is very relevant to the Code of Practice on Illustrations of Future Benefits.

Each Appointed Actuary is required by Section 3.3 of GN1 to:

(i) advise his company of his interpretation of its policyholders' reasonable expectations; and
(ii) take all reasonable steps to ensure that the company's incoming policyholders are not misled as to their expectations.

Council wishes to remind Appointed Actuaries of life assurance companies that the very major changes made to the Irish Insurance Federation's codes may have implications for them in complying with the duties outlined, since there is potential for quite material changes to the ways in which products are presented to potential customers. In particular, Appointed Actuaries have a professional responsibility to ensure that computerised quotation systems given to intermediaries, policy illustrations, product brochures and cooling-off notices do not mislead customers as to their expectations.

These issues will have even greater prominence later in the year as the Third Life Directive is implemented. Among other things the Directive places a considerably greater onus on life companies as to the quantity and quality of information provided to potential customers.

It should be noted that professional responsibility for the issues outlined does not lie solely with the Appointed Actuary. Sections 9.3 and 9.4 of GN1 place a professional responsibility on other senior actuaries in a life company to support the Appointed Actuary in fulfilling his professional duties.

Any member with queries on guidance notes or any aspect of the professional code should seek assistance from the officers of the Council.

Update on IIF Maximum Commissions Agreement

Some modifications have been made to the new Agreement of 1 January 1994. There were fears that it was possible to interpret some of the definitions in a way that violated the spirit of the agreement and resulted in the payment of excess commission.

The allowable premium payment term for commission purposes for all pension policies (both self employed and 72 Act) is now subject to a maximum of 66-anb regardless of the chosen retirement age.

The savings term for endowment mortgage policies, for the purposes of calculating commission, must not be greater than the term of the mortgage.

These changes came into force on Monday, 7th February.

UCD ACTUARIAL DEGREE PROGRAMME

Philip J Boland

The Bachelor of Actuarial and Financial Studies Degree Programme at UCD was initiated in October of 1991 with an initial intake of 28 students. It is a very demanding three year programme, and since its inception has had the highest cut-off point for entry amongst all degree programmes in Ireland. The normal intake of students includes about 20% women and at least 50% from outside Dublin, and for all of the students this programme was the number one option on their CAO form.

The four main areas of study in the programme are mathematics, statistics, economics and finance, but the students also study the more traditional actuarial subjects of mortality, life contingencies and mathematics of finance. The UCD programme differs from the more traditional courses at City University and Heriot Watt in its increased emphasis on economics and finance, and also in that it gives the student a good introduction to accountancy and business administration (by means of a demanding series of lectures on strategy formulation and implementation). I think our students will come out with a very diverse and quantitative background which will enable them to be very competitive for future employment not only in the insurance industry, but also in the related areas of banking, finance, economics and management consultancy.

The present arrangement which UCD has with the Institute of Actuaries enables students to qualify for exemptions on up to 6 (S1-S6) of the examinations of the Institute, which under the new system will be equivalent to the first 4 (A, B, C and D). Ten of our present third year students obtained the maximum number of exemptions (3) on the basis of their second year results, and hence are in line for the full set of exemptions when they graduate in the summer of 1994. The average number of exemptions gained in the class was 1.8 and hence I would predict that on the average a graduate of this programme will obtain about 3.5 exemptions under the old system (or 2.5 under the new system). I am at present in the process of arranging with the Institute and Faculty of Actuaries a new schedule for the granting of exemptions.

The Society of Actuaries in Ireland has been very supportive of the UCD degree in Actuarial and Financial Studies in recent years thanks to many of its members. The Society annually sponsors a breakfast at UCD for first year students, and the Society of Actuaries Prize will be awarded for the first time this year to the final year student who performs best in the final exams on actuarial subjects at UCD. In the summer of 1993 six of our second year students were hired for summer employment by Irish insurance companies. This seems to have been very beneficial both to the students and companies involved. Certainly one of the advantages for the companies is that they can have a good look at an excellent student and potential employee without any permanent commitment. I have already received encouraging news that this practice of hiring some of our second year students will continue in 1994.

I personally have gained tremendous satisfaction in seeing this programme develop at UCD, and in particular in getting to know the students in our first class who will graduate this coming summer. When they arrived in UCD in late 1991, most of them had visions of eventually becoming actuaries in Irish insurance companies. Of course the employment prospects for actuaries have changed dramatically since then, and so have the future plans of most of the students. Many of them are looking for employment in the general areas of finance and management consultancy, both here in Ireland and abroad. I would not be surprised to see several of them find employment in the USA in the near future. I believe many employers will find them very attractive because of the broad and quantitative nature of their education here at UCD, and also because to a person they are very able and talented individuals.

Philip J Boland
Professor of Statistics
Director of the Bachelor of Actuarial and Financial Studies Degree Programme, UCD

Recruitment

An informal survey of the recruitment plans of insurance companies and pension firms was recently carried out. It revealed that recruitment of new actuarial trainees in Dublin in 1994 is likely to be about 15 (standard deviation unknown). This is higher than last year and the increase is likely to be among graduates of the various actuarial degree programs.

In addition, a brochure on the benefits of recruiting actuarial trainees has been prepared and members of Council have met with a number of non-actuarial employers. Already a few of them have indicated that they are interested in recruiting.

Update

Resilience tests for 1993 life office valuations

A Circular to Appointed Actuaries issued by the Department of Enterprise and Employment in December, 1993 advised changes in some of the standards to be used in the end 1993 valuations of life assurance undertakings. The parameters of the test to ensure the resilience of the valuations to changes in investment conditions and the future re-investment rate to be used in the valuations were altered to better reflect the current investment environment. The new resilience test envisages three different scenarios, i.e. (a) a reduction in fixed interest yields of 1.5% combined with a fall in equity values of 10%, (b) a reduction in fixed interest yields of 0.75% combined with a fall in equity values of 25%, and (c) a rise in fixed interest yields of 3% combined with a fall in equity values of 25%. It was also indicated that it was considered that, in current conditions, a prudent maximum re-investment rate would not exceed 6% before tax. The basis of the provision for extra mortality arising from Aids was altered to reflect a less unfavourable experience from the disease than projected under previous standards.

Pension Funds & Venture Capital

The lack of diversified investment opportunities within the Irish equity market has led to an increased level of overseas investment by Irish pension funds. Government concern on this matter has led to pressure on the pension fund industry to make a greater contribution to Irish industry, through providing venture capital for small to medium sized companies. This development led to the commissioning of a study under the auspices of the IAPF, the IAIM, the IIF and the Department of Finance to investigate the possibility of increasing pension fund investment in Ireland generally and to expand the number of suitable investment opportunities available. The prospect of committing a very limited amount of pension fund assets to the area of venture and development capital was to be considered in this context.

The comprehensive Report resulting from this study was completed in November 1993. The following recommendations were included:-

- The Report stressed that funds could only be invested on the expectation of earning an acceptable return relative to risk. Subject to this, pension fund monies should be made available by Trustees for investment in venture type businesses.
- The amount of incremental investment required for venture capital projects was estimated at IR£10-15m p.a.. This equates to approximately 0.08% of pension fund assets and the authors of the Report did not think this level of commitment would be unreasonable for pension schemes.
- The Report stressed that the existence of a number of venture capital specialists competing for the funds available would ensure a healthier market. Current players include DCC, ACT, ICC and Smurfit Enterprise and the reporters thought it likely that some investment managers would wish to establish suitable venture capital vehicles.
- Advice offered to the Government from the Report included ensuring that no incremental taxation is incurred by pension funds through indirect investment in the venture capital funds provided by the above specialists. In addition, detailed information on all sources of funding should be made available to promoters of projects on a co-ordinated and continuing basis.
- A Steering Committee should oversee the implementation of the Report's recommendations and review progress annually once the initiative is operations. The Steering Committee should also review the possibility of increasing pension funds participation in infrastructural investment projects and the addition of quoted companies (most likely through privatisation) to the Stock Exchange.

To a large extent, the recommendations of the Report have been accepted by the pension investment community. Investment managers and Trustees of segregated pension schemes have generally agreed to commit 0.08% of pension assets to the project (excluding insured schemes or those invested solely in fixed interest or cash assets). The Steering Committee established are hopeful to have the broad framework of the project in place by mid 1994. Although the Government have yet to officially clarify the tax situation, the Committee do not envisage that incremental tax liability will be incurred by pension funds investing indirectly in venture capital.

Scottish Provident take Brainbox title!

The annual students pub quiz was held on Wednesday 16th February. Although not as well attended as last year, the event still drew 12 teams of 4 each to Madigans of Donnybrook. No less than their predecessors, this year's committee distinguished themselves by producing questions that ranged from the obscure (Name the instruments played by Jack Lemmon and Tony Curtis in "Some Like It Hot"?) to the ridiculous (Which arm and eye did Napoleon lose in battle?). The competition itself required a special tie-break round to separate the megabrains of Scottish Provident and UCD.

Congratulations to the victorious Scottish Provident team, proud possessors of the Top-Nerd Trophy
Niamh McLoughlin
Suzanne Barry (Sun Alliance)
Tony O'Riordan
Colin Murray

IAA Brussels Congress

The Brussels congress takes place from the 10th to the 15th of September 1995. Application forms will be sent to members around the middle of the year. It is hoped to better the number of Irish IAA members who attended the Montreal Congress in 1992, so we will be looking for 30 or more definite applications being completed by the 1st January 1995 (the registration date).

In particular, it is hoped that the relatively short journey to Brussels, its proximity to other major European cities and the interesting scientific program will encourage the attendance of younger members. Why not plan a European holiday and take in the congress on the way?

Those interested in submitting papers had better get writing. Dates to remember are:

1st of April 1994	closing date for proposed titles
1st of July 1994	closing date for submission of typewritten texts
1st of December 1994	closing date for submission of texts on diskette

On the Move

Brendan Kennedy
has joined Howard Johnson, who are planning to open a Dublin office in 1994.

John O'Connell
has gone to Jamaica mon to work for Jamaica Life.

Carmel Brennan
has departed these shores to join Hansard International in the Isle of Man.

Sean O'Cathain
has left Hibernian Insurance to join QBE.

Marese Hussey
has joined J. Rothschilds International Assurance

Brendan Johnston
has moved to Eagle Star

Golf Outing

The Annual Golf Outing is being held on the 30th May. Further details from Tom Collins in Lifetime (tel: 7039500).

Calendar

Full details of each meeting will be circulated to members beforehand.

6th May 1994	Annual Dinner Dance Davenport Hotel
25th May 1994	Annual General Meeting, followed by paper on FinRe - Paul Brett and Alex Cowley (Cologne Re)
30th May 1994	Golf Outing, Old Conna, Bray, Co Wicklow. Afternoon Golf followed by Dinner.