Newsletter
April 1999
The Society of Actuaries in Ireland

Editorial

Welcome to the April 1999 newsletter. The Society had a very busy couple of months which is reflected in the fact that we have managed to cover almost all disciplines in the reporting section. However, in case we get tangled up in a web of GIPS, FASB statements and Chi square tests, a number of articles take a high level view and focus on looking forward and the future of the profession.

The Society's social calendar was also very busy with the President's dinner on the 9th of February and the new qualifiers dinner on the 2nd of March. These were just warm up events however for the annual ball planned for the 8th of May. This year the ball will be a bit different - more details from Emer on the back page. The only comment we have been asked to make at this stage is that, no, 'Showgirls' does not qualify as a musical!

In terms of actuarial exams, it's that time of year again but while final preparations have been completed for this set of exams, many students have expressed concern regarding the availability of adequate tutorial and revision services throughout the year. We would like to hear more from students in terms of their own experiences so that we can look at ways of improving the situation if required. Any interested parties can send comments to either Shane Whelan, Chairman of the Education Committee or Fiona Daly, Student Representative.

Articles / comments / suggestions on the newsletter can be sent to either Mary Butler, Frances O'Shea or Michelle Roche.

Bruce Maxwell, President, Society of Actuaries with guest of honour Minister ***Noel Treacy****, at the Biennial Dinner of the Society*

President's Dinner

The Biennial Dinner hosted by the President of the Society, Bruce Maxwell, was held on Tuesday 9th of February 1999 in Newman House on St. Stephen's Green.

The Society was represented by nine 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, Paul Thornton. Similarly the Faculty of Actuaries was represented by its President, Fraser Low, who attended in traditional Scottish dress.

Bruce Maxwell spoke briefly, welcoming our guests and highlighting the role of the Society in insurance and pensions, and in promoting the public interest. Minister Noel Treacy responded on behalf of the guests, following which everyone enjoyed an excellent dinner in The Commons restaurant. ●

Stephen Doyle

This issue includes reviews of the following **Evening Meetings**

There is no proverb that alarms us to danger in accepting gifts from our Scottish friends. Indeed, what aphorisms there are seem to imply the improbability of such an event. The Society was therefore especially conscious of the honour of receiving not one but two magnificent gifts from our Scottish brethren in the last month.

Scots Bearing Gifts

The first gift was presented by the President of the Faculty of Actuaries, Fraser Low, after his address to the Society at the beginning of March 1999. He presented seven metres of the best of actuarial thought, handsomely bound. The treasure includes a complete set of the **Transactions of the Faculty of Actuaries** *(1901-1994)*, a complete set of the **Journal of the Institute of Actuaries** *(1851-1994)*, **Transactions of the Actuarial Society of Edinburgh** *(1878-1901)*, **FASS Actuarial Students' Magazine** *(1926-1978)*, and the **Journal of the Institute of Actuaries Students' Society** *(1911-1990)*. Irish actuaries now have ready access to the history and development of actuarial science represented by these journals.

The boxes of books had only reached the Society's office when all twelve of the Fellows of the Faculty resident in Ireland presented a suitable home for the volumes: a mahogany bookcase with three glass doors to keep the volumes free from dust. The contributors were **John Gibson**, **Bruce Gunn**, **Alan Hardy**, **Brian Huston**, **Brendan Johnston**, **David Kingston**, **Suzanne Macaulay**, **James Maher**, **Michael Marsh**, **Ian Veitch**, **Des Ryan**, and **Shane Whelan**.

There are two distinct ways to view a gift. The first, and more suspect, is to assess its value in the eyes of the giver. History records that the Faculty library began in 1856 before it even had premises and, from spending liberally and through donations, the library quickly grew to over 1200 volumes (over 20 per Fellow) by the time the Faculty's Royal Charter was granted just twelve years later. It would be cruel to ask Christine, the Faculty Librarian, for a more recent book count; suffice to say that, with over a century growth since that time, the library is rather tightly squeezed in its large Georgian house in Dublin Street. The library is at the heart of the Faculty.

__Fraser Low__ presenting a copy of the Actuarial Society Presidential Addresses 1863-1896 to Bruce Maxwell

The second, and more appropriate, way to view a gift is its value to the receiver. So what value will you place on our small library? There is no time limit on the answer. Drop into the Society's office, pause with a cup of coffee, and enjoy a ramble down actuarial history.

Shane Whelan

Vision and Values

Paul Thornton
1st February 1999

Prior to Paul Thornton's visit on 1st of February 1999, we received copies of "Vision and Values" which is the outcome of six months work by both the Faculty and Institute Councils. Paul is holding meetings around the UK and Ireland to elicit opinions on and feelings about the future of the Profession. The Dublin trip was the third in the series.

Paul explained the reasoning behind having a vision of the profession in 2020. By that time it is likely that there will be major shifts in career areas with opportunities in banking, management and risk management being added to the more traditional roles. His personal concerns are that we could be held back due to our perceived lack of dynamism, our waning influence on management, our relative obscurity, our poor image in the insurance industry and also by the fact that the profession is so small. Paul's views started a lively discussion on the future of the profession as viewed through the eyes of Society members.

On the question of how we'd like to be perceived in 20 years time, the comment was made that press coverage was not what it could be and that by sticking to the existing roles the profession is unlikely to develop the appropriate image. This led on to the need for the development of other attributes and a discussion on the type of person the profession needs to attract. Paul Thornton felt there was a need for more creativity while others suggested greater practicality or more business oriented individuals. While the high standards of the profession should not be sacrificed, it is vital that the right people are attracted to an actuarial career.

Discussion then moved to the public interest and the potential conflict with clients' interests. One opinion was that the conflict of interest with the company's needs was one of the reasons for the waning influence of the actuary in the insurance industry. Another view was that the public and client interests are aligned where statutory duties are carried out. It was pointed out that it is difficult for an individual actuary to take a strong line against the employer so a professional body is useful for providing support.

The scope for future change was then discussed. The possible need for Universities to alter their actuarial courses was debated with some feeling that the current courses were not restricting as to future areas of work. Others felt more business courses could be incorporated and Paul Thornton mentioned increased emphasis on generic techniques.

Further discussion ensued on areas such as customer focus, actuarial discretion and scheme actuary conflicts. At the end of the night Paul felt he had got a lot of useful information from the members as to where we felt the profession was going and how we would get there. ●

Emer Chapman

Global Investment Performance Standards and the Development of Irish Investment Performance Standards

David Kingston chaired a well-attended seminar hosted jointly by the Society and the Irish Association of Investment Managers in the Conrad on the 23rd of February.

Sean O'Dwyer of **BIAM** commenced proceedings by looking at GIPS and IIPS from the perspective of investment managers. He started with an overview of GIPS and IIPS. He explained why we need performance standards and gave some detail on the contents of IIPS and how it differs from GIPS. Although IIPS is voluntary, it is generally believed that most managers will adopt the standard due to client pressure.

Sean then went on to summarise some of the issues which fund managers will have to deal with. The deadlines for IIPS are tight and well in advance of those for GIPS. There are considerable documentation requirements and a number of new procedures that must be put in place.

Sean was followed by **Deborah Reidy** of **Mercer Ltd**, who went into some detail on the verification issues for GIPS.

Deborah discussed the need for standards and the main objectives of GIPS. The key element is the creation of composites. She explained how composites are to be constructed, the valuation and calculation requirements and the disclosure requirements of GIPS. She then moved on to explain verification, its purpose and scope and the procedures which will be involved, including some of the problems that might arise.

After coffee, **Joseph O'Dea** outlined the relevance of the standards to the Trustees. At the moment, managers report their performance by comparison with whichever benchmark makes them look the best. For example, according to one survey, 80% of managers performed above the median in one period. GIPS will allow fair comparison by levelling the playing field.

Possible downsides include additional costs with no additional return, and the risk that managers will be selected purely on the basis of short-term performance with no consideration of any other issues.

John Caslin followed by discussing the problems that taxation causes in the implementation of GIPS and IIPS for unit-linked life funds.

John discussed the effect of tax on investment performance, both directly and indirectly. He then went on to detail the requirements of IIPS in relation to tax. Following a rapid summary of life assurance taxation (ever think of teaching Subject 8 John?), John explained the reasons why IIPS may need further amendments if it is to operate effectively.

A lively discussion followed. •

Martina Walsh

Left to right: ***Deborah Reidy, David Kingston*** *(chairman),* ***Sean O'Dwyer, John Caslin*** *and* ***Joseph O'Dea*** *at the GIPS Seminar*


A joint presentation was given by Paul Victory and Kieran Manning

Evening Meeting on Accounting Standards

Paul Victory summarised the requirements of FASB Statement 87 and 88. He also summarised the requirements of FASB132 which is applicable for accounting periods ending 15 December 1997 onwards. He stressed that FASB 132 does not change the measurement of pension costs but is intended to ensure that the disclosure information is easier to prepare and easier to understand. It also eliminates the disclosure of the VBO and ABO (for overfunded cases). It revises the reconciliation of the funding statement and adds some new reconciliations.

Paul then outlined the results of a survey of 24 cases, 15 of which had a reporting date of 1/12/1998 or later. The assumptions used for the assumed rate of return on plans' assets ranged from 6% to 10.25% with most using 7% or 8%. The average discount rate used fell from 7% at the start of the year to 5.5% or 6% at year end. The assumptions used for salary increases showed a similar trend. There was also some evidence of the gap between the discount rate and salary increase assumption narrowing. Most made no specific allowance for increases in the State retirement pension, if applicable.

Of the 24 respondents Paul said that 3 had no control over the assumptions they used, 4 had complete control while the remaining 17 had some control.

75% of respondents did not use a smoothed market value approach for valuing assets and those that did typically used a 5 year period for smoothing.

For funding death in service benefits half of the respondents used a long-term approach and half used the insurance cost.

Kieran Manning then summarised the requirements of SSAP24 (very briefly as it is likely to be replaced) and took people through the current state of play of the new IAS 19. Kieran's slides provided a good summary and the key points covered were:

- Origins of IAS 19
- Purpose and intended users
- Summary of the requirements
- Transition arrangements
- How the amortisation of gains/losses is treated
- Prior service costs which he felt was likely to prove contentious
- Disclosure requirements
- Assumptions
- How death in service costs are treated.

Observations from the actuaries and accountants who attended were:

(i) A new UK Accounting Standards Board document is expected in the summer and has gone down most of the IAS 19 route but may use a different approach to assessing the discount rate for liabilities, which gives more discretion as to what rate may be used. It may also provide for immediate recognition of gains/surplus beyond the 10% corridor.

(ii) A recent survey in the UK of financial directors showed that more would prefer a higher stable cost to a lower volatile cost.

(iii) The actuarial profession liaison with the accounting bodies has been at a high level and sometimes heated. The actuarial body is stressing that the mandatory use of bond rates bears no relationship to the assets used and that volatility cannot be useful to shareholders. This point has been taken on board by the UK Accounting Standards Board.

(iv) It was felt that death in service was always funded for FAS purposes on a long term basis in the UK.

(v) On the question of allowing for discretionary pension increases the "substantive commitment" under FAS was something that has given people discretion. The IAS 19 requirement to bear in mind "constructive obligations" was felt to allow less discretion.

Copies of the slides used by the presenters are available from the Society. ●

Sean O'Donovan

Fraser Low, President of the Faculty of Actuaries, spoke recently at an evening meeting of the Society to welcome new qualifiers

Address by Fraser Low

Fraser discussed some of the current issues that face actuaries and gave his view on how he sees the profession developing in the future. Although he referred to UK practice the same issues apply here.

The first issue that Fraser addressed was bonus on policies. The practice of allowing for bonus in projections, although not favoured by actuaries, has led to increased policyholder expectations. This has not caused any problems in the past as high inflation coupled with good equity returns has enabled expectations to be met. However, the same cannot be said of policies maturing in the future. Although real returns may still have been good, the monetary amounts may be lower than policyholders have expected. A large proportion of future maturities relate to mortgage endowments where the maturity amount could be less than the mortgage amount. Actuaries urgently need to actively manage policyholders' expectations in this regard.

A second issue that actuaries must address is reserves for compensation as a result of Personal Pensions mis-selling. Appointed actuaries must resist any suggestion that the estate of the life fund be used for this. The compensation, and its associated costs, belong to the Life Office shareholders and should not fall to with profit policyholders (with the exception of Mutual Life Companies, where the with-profit policyholders are the owners of the business and should not have allowed poor management to exist).

Fraser stressed the need for the UK to produce a standard table based on critical illness experience and praised Ireland for leading the way on this. There is also an urgent need for the collection of data relating to long term care. This is a growing area in which not only actuaries but many other professions have become involved.

He also discussed the projected demographic state of the UK population and the increasing dependency ratio. The UK government is concerned about the affordability of the basic state pension at its current level and is looking to encourage people to save for old age. In Fraser's view, the state pension age of 65 should be increased to 70 with an actuarial equivalent available from age 55 or 60 subject to certain minimum income requirements being met. The selection of age 70 is to bring the proportion of total lifetime expected to be in receipt of payment of pension back in line with what it was when the age of 65 was selected.

Fraser then discussed Occupational Pension Schemes and the Pensions Act 1995. He mentioned three areas of the Act in particular; administration, whistle-blowing and the minimum funding requirement. He also spoke briefly about the need for pensions actuaries to move away from deterministic methods and towards stochastic modelling in their pension fund valuations.

The profession has come a long way in the provision of education. However, we were reminded that the objective of the exams is to produce skilful actuaries and not just mathematical technicians. In this regard we need to ensure that the exams are practical. Fraser encouraged qualified actuaries to consider further education especially in the area of management. He then raised the question of how long the UK profession can expect to continue without compulsory CPD. In discussing this he highlighted methods used by actuaries in other countries and by other professions to ensure maintenance of professional standards.

One very important issue that became clear during Fraser's talk was how we, as a profession, are perceived by the public. The extent of the Personal Pension mis-selling highlights the fact that the public do not seem to regard consulting actuaries' fees as good value in advising them on very significant financial transactions. He raised the question of whether this is due to the cost of advice and whether it is possible to provide this advice in bulk thus keeping the costs down.

Fraser finished up with the warning that when giving any advice we must always maintain professional standards. We have a duty to look after the public interest. We must address any professional issues with a wide perspective and state our views fearlessly. We must be perceived by the public to be independent of employers and clients - this is vitally important given the vast majority of members being employed in commercial concerns.

Fraser's speech led to a broad discussion on the modern role of the Appointed Actuary, equity in bonus distribution, CPD and on the choice of state pension age. We are very appreciative of Fraser for his wide ranging and thought-provoking speech - and, as always, the Glenfiddich was very well received.

Frances O'Shea

Recent Developments in Personal Lines Rating

Duncan Anderson
9th March 1999

The paper was divided into three sections which were: A recap of Claims Modelling; Modelling Retentions / New Business and Recent Developments in Modelling Software.

Claims Modelling

Duncan gave a speedy but very comprehensive run-through of the claims modelling process, demonstrating the drawbacks of one-way analysis and how generalised linear models can improve matters by considering all rating factors simultaneously and allow for the random nature of the claims process. He showed how to identify which factors were significant using F and Chi Square tests, and how to determine if the model form was appropriate by means of residual plots and other measures. This enabled a full model to be whittled down into an optimum structure which also allows for interactions between 2 or more rating factors.

The importance of segregating the data into homogenous claim cost elements and modelling frequency and claims cost separately was stressed. Expense and profit loadings were dealt with next and a discussion followed on how to compare the proposed new rates with the existing tariff.

Modelling Retentions/ New Business

The second part of the paper dealt with the competitive position of the insurer's premium rates and how to measure this competitiveness using a new business / retention model. A critical factor is the collection of competitor data via rating manuals (fast becoming an endangered species), broker quotation systems, mystery shopping and direct questioning of callers. You then apply the cheapest tariff to your own portfolio and compare ratings and rankings by factor.

Modelling lapses involved determining what you as an insurer have done to effect the lapse and what other competitors have also done to their premium rates. You may have to use randomised trials if rates have not changed sufficiently to perform a modelling exercise. The additional explanatory variables in modelling the probability of lapsing include the % change in your premium and the competitor's premium. Other significant factors may include payment frequency, source of business and age of policy. The same format can be used to model the probability of a customer accepting a quote. More consistent results can be achieved by using an average of the 3 cheapest quotations. This type of modelling can also assist in determining customer lifetime expense loadings.

Recent Developments in Modelling Software

The final section reviewed the various types of modelling software. GLIM 4 has very efficient memory handling routines while SAS needs lots of memory to perform its routines. Proprietary software such as EMB's Emblem and Watson Wyatt's own software are recent additions to the range of modelling tools that have speeded up and made the modelling process more efficient. The meeting concluded with a lively discussion of topics such as the impact of consumer organisations, other special needs groups and geocoding systems. ●

Paul Duffy

THE ANNUAL BALL

The Conrad Hotel
Saturday 8th May

Get your reservation in now !

Don't worry - it's not Fancy Dress

This press release from the Society appeared in the Irish Times on Wednesday the 3rd of March 1999

Actuaries urge Act to focus on life income

The Society of Actuaries in Ireland (SAI) has said the Finance Bill should concentrate on ensuring that individuals have secured a sufficient minimum income for life rather than on operating an Approved Minimum Retirement Fund (AMRF).

It said security of income for pensioners could be best achieved by specifying the minimum level of guaranteed income, inclusive of state benefits, that each individual should have for life at retirement before utilising an Approved Retirement Fund (ARF).

This approach would avoid putting seriously at risk the interest of the great majority of retirees who do not have substantial funds and whose primary retirement need is security of income, the SAI said. However, it would also allow the small minority of retirees who have substantial retirement funds and ready access to professional advice to take advantage of the proposed flexibility in retirement planning.

Council is likely to set up a working party to address the issue.

On the Move

Fellow Members	**Niall Kavanagh** has moved from Hibernian Insurance to **Midland Life International**
	Frances O'Shea has moved from Eagle Star to **Delany Bacon & Woodrow**
	Anne Gaffey is moving from Friends First to **ALICO** in the **USA**
Student Members	**Fearghal O'Donnchu** has moved from Eagle Star to **Friends First**
	Vincent Oliver has moved from Eagle Star to **Standard Life**

Standing left to right: ***Catherine McGrath, David Roberts, Senan O'Loughlin, Emer Reid***
Seated left to right: ***Fraser Low, Rosemary Burke, Bruce Maxwell***

Council Elections

By now you will have received your nomination forms for election to Council. This year there are four vacancies on Council to be filled.

I again appeal to interested members to take part in the election process this year, as it is not the intention of Council to nominate members for election. Recently qualified members are particularly encouraged to seek nomination. Please note that newly elected members will not necessarily be required to chair a Society committee.

Stephen Doyle, Honorary Secretary

Date for Pensions Seminar has changed

Pensions Seminar scheduled for 13th May 1999 has been postponed until **Tuesday 1st June 1999** - details to follow.

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