



December 1995

Christmas Message

Dear Member,

As this issue of the Society's newsletter coincides with the Christmas period, I would like to take this opportunity of wishing the members of the Society and their families a happy and peaceful Christmas.

As you will realise from reports elsewhere in the newsletter, the Society has been very active of late, and I would particularly like to thank the many members of the Society who have contributed generously of their time to our various activities and whose continued support has been essential to the successful development of the Society.

Bill Hannan
President

Calendar of Events

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

Tuesday 16th January 1996	Address by the President of the Institute of Actuaries, Chris Daykin
Tuesday 20th February 1996	Pension Fund Investment - Pat Healy
Tuesday 2nd April 1996	Pensions Topic - Brendan O'Farrell
Friday 3rd May 1996	Annual Dinner Dance
Monday 20th May 1996	Annual Golf Outing
Tuesday 28th May 1996	Annual General Meeting followed by The Application of Statistical Techniques to Credit Portfolio Analysis - Ronan O'Connor

Newly Qualified

**Congratulations to the six new actuaries
who qualified in Dublin recently.**

Derek Bain	Guardian Life
Michael Moloney	Mercer Limited
Colin Murray	Scottish Provident
Sean O'Cathain	QBE Europe
Cathal Rabbitte	Irish Life
Owen Whelan	New Ireland

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Pensions “Timebomb” Is Overstated

The recent annual pensions seminar has been told that the effects of the projected ageing of Ireland's population on future social welfare, health and pensions costs is in danger of being overstated. Speaking at the Society of Actuaries Seminar in the Conrad Hotel, Professor Brendan Walsh of UCD said that he takes a less gloomy view than many recent commentators on this topic.

The seminar was told that the development of social welfare, health and public sector pension costs will undoubtedly pose challenges for the management of the public finances. However, in comparison with other countries, Ireland is relatively well placed because we are likely to have more time than most to prepare for the problems associated with population ageing as they emerge.

"The changes that will occur in the age structure of the population over the next three decades are not likely to be earth shattering. The immediate prospect is for a marked shift in the population away from youth and young adulthood towards more mature age groups. This should have beneficial effects in terms of increased social stability, lower unemployment rates and a higher aggregate savings rate. In the longer run the growing proportion of elderly in the population will be the dominant influence and we shall have to face up to the economic consequences of this trend", Professor Walsh said.

Speaking at the same seminar, Jim Kehoe of Mercer Limited, said that due to Ireland's demographic prospects we require job creation on such a vast scale that radical change needs to take place in work patterns and retirement practices.

"I believe that for the next 10 years early retirement and phased retirement could play an important part in mitigating this problem. The enormity of our employment situation is such that for at least the next ten years the Revenue Commissioners could consider lifting the normal limits on early retirement benefits from occupational pension schemes down to age 50", Jim Kehoe said.

Jim Kehoe said that the present three pillared approach to pension provision (social welfare, occupational pension schemes and personal savings) should be maintained and strengthened.

Jimmy Joyce, Actuarial Consultant to the Department of Enterprise and Employment spoke to the seminar from the perspective of the public sector pensions requirements. He said the costs of unfunded public sector pension schemes will increase about 2.5 times over the next 20/30 years as age profiles of the schemes mature, these increases will be phased and predictable and should be manageable. Any changes in the public sector pension schemes, he said, should have primary regard for long term costs involved.

"The prospect that the maturing of public sector pension schemes may roughly correspond in timing with a significant escalation of social welfare resulting from ageing of the general population does certainly give cause for thought since the tax payer finances both", Jimmy Joyce said.

"The growth of the public sector pension bill has in the past emerged and will in the future emerge in a structured and predictable manner, rather in contrast to any 'timebomb'

analogy. Pension outgo at peak could represent over 10 per cent of Government expenditure, which would certainly be significant. However, it would remain a fraction of the total pay bill, not a multiple as some of the more apocalyptic commentators have hinted", he added.

Aisling Kennedy, Company Actuary of VHI, spoke about the impact of the ageing population on health care provision. "The effect of the ageing population on overall health care provision is likely to be relatively minor compared with other factors such as the development of new medical techniques and medical inflation generally"

"However, increases in the average age of VHI members are likely to add about 2 per cent per annum to private health insurance costs", she said.

A very interesting discussion followed the main presentations and the feedback from this very well attended seminar was that this whole area will continue to engender further debate into the future.

Des Ryan

International Forum of Actuarial Associations Founding Meeting

The International Forum of Actuarial Associations was formally constituted as a Section of the International Actuarial Association at a meeting of the IAA Council held in Brussels on 9th September 1995.

At the Founding Meeting of the IFAA on the following day the President of the IAA - André Lamens - introduced Paul McCrossan as the first Chairman of the IFAA and paid a warm and well deserved tribute to Paul McCrossan for the work he had done and the commitment he had given to this initiative during the previous three years.

The primary objective of the IFAA is to provide a focal point for actuarial associations on matters relating to:-

- * professional conduct and discipline
- * standards of practice
- * mutual recognition of qualifications
- * initial education
- * continuing professional development
- * public interface issues
- * statutory and public roles for actuaries
- * relationships with international organisations
- * relationships with international bodies associated with other professions.

The IFAA will have a particular role to play in assisting new actuarial associations to develop appropriate standards of professionalism and education for actuaries.

Membership of the IFAA by an association of actuaries will help to provide assurance to the public and to users of actuarial services that the work of actuaries belonging to that association

is technically competent and professionally reliable.

Perhaps the best way of illustrating the objectives of the IFAA to a European association of actuaries such as our own Society is to suggest that the IFAA aims to do on a global basis what the Groupe Consultatif does in a European context.

It has been agreed that up to the time of the International Congress of Actuaries in Birmingham in 1998, the secretariat of the IFAA will be based at the offices of the Canadian Institute of Actuaries under the able stewardship of Brian Wooding. Within that time frame proposals may develop for a combined secretariat covering the IFAA and the IAA at a location to be determined (as politically correct).

At the Founding Meeting membership applications were approved for 38 associations - including the Society of Actuaries in Ireland. Each association has one delegate to the IFAA Committee but voting power will be weighted so that: the large associations which would effectively contribute the bulk of the IFAA income should be granted modestly higher voting rights than smaller associations; smaller associations should have reasonable representations; and that the system should be geographically balanced.

No satisfactory system was devised to deal with duplicate membership so that our members will pay twice over by virtue of Institute/Faculty membership - but we might perhaps console ourselves with the knowledge that we will be doubly represented! The initial fee, by the way, is 3 Canadian Dollars per member.

Perhaps it is appropriate to conclude my article with a reference from Paul McCrossan's final remarks to the Founding Meeting of the IFAA:-

"I have become aware in recent years of the fondness which many individuals have for the IAA, a fondness which I attribute to trust. The IAA has provided a forum where actuaries could talk, learn

from each other and learn to trust each other's views. I have learned in the past years that this important attribute of the IAA should not be undermined by the formation of the IFAA, but rather the IFAA should reinforce such trust. I therefore feel it important to bear in mind that as the IFAA becomes established it takes care to earn and to merit that same trust by individual actuaries and by its member associations around the world. Without that trust and the face to face personal relationships it will be difficult for a small profession of about 30,000 members to continue the development of the profession in the next century. I am nevertheless, convinced that actuaries have a unique long term view of affairs and with this and through the co-operative efforts of the IAA and the IFAA we could contribute something back to a society and a world which has treated actuaries very well".

Jim Kehoe

FUND MANAGEMENT RISK CONTROL

This paper was presented by Peter Rains and Daniel Gardner at an evening meeting held by the Society on 25th October 1995.

Over a seven year period the CAPS survey showed that no fund achieved above average performance in each year, therefore all funds underperform at some stage. The key risk from the Investment Manager's viewpoint is client dissatisfaction and a possible loss of business. From a client's perspective risk can be measured against league table performance, or against a defined benchmark appropriate for the client's liabilities. Deviations from the target investment strategy to try and enhance performance creates another form of risk, as does the process of stock selection within sectors.

The paper dealt with the basic problems relating to the identification of risk and the practical methods for its measurement. There is not as yet universal agreement among fund management operations of the benefits of risk analysis. In other types of financial institutions, such as banking, risk analysis techniques have developed rapidly in recent years. The increasing efficiency of computers has now removed many of the barriers to effective risk control and analysis. The authors believe the risk control process outlined in their Paper will become more widespread over the next few years and that Actuaries can play a leading role in this area.

A lively discussion took place following the formal presentation of the Paper. One speaker commented that a CAPS median tracking fund was now available which would eliminate the league-table risk. He also noted that the index tracking fund was the 3rd best performer over a five year period. The authors were asked whether, in their experience, an Investment Manager had ever been told to change the investment mix as a result of a risk analysis. They responded that explicit control had been introduced for some clients, but after working with the Investment Manager to assess how best to achieve a reduction in risk.

Another speaker commented that the fund management business is based on differences between fund managers and the expectation of beating the average. The tendency to push all managers towards a norm to reduce league-table risk would be ultimately detrimental to the business. There would be room for managers operating balanced, specialist or liability driven asset strategies to meet different client's needs. When asked what the optimum number of stocks was per market, the author indicated that the UK Equity Index Funds invested in about 200 stocks.

Another speaker asked if there was any correlation between activity and performance. The analysis indicated that there was a small addition to performance but this was offset by additional dealing costs, the net addition not being statistically significant. Index funds tended to have a lower level of activity.

A number of speakers commented that the main determinant of future performance was the fund management organisation itself - the management structure, the investment process, the philosophy etc. - and that past performance has a much lower weighting. Changes in either the people or the process used were also important factors.

One speaker felt that the use of the PAPSAB as a measure of down-side risk was not reliable and subject to error because it was a test of 2.5% of the tail of the underlying distribution. The author agreed with the points raised, but added that some Banks used two standard deviations as a likely maximum loss measure.

The President closed the meeting by thanking the authors for their excellent presentation of this topical subject.

- Paul Dillon

On the Move

John Feely has moved from AIB Investment Managers UK to **IPT Actuarial Services Ltd.**

Tony Gilhawley has left Irish Progressive to set up his own company, called **Technical Guidance Ltd.**

John Logan is leaving Irish Life to join **Segrave-Daly & Lynch**

Stephen Loughman is joining **Life Strategies** from Irish Life