Newsletter

December 2000

The Society of Actuaries in Ireland

Editorial

Welcome to the December 2000 newsletter. While the calendar for November was busy with the symposium and various evening meetings, we are now winding down for Christmas, starting with the Christmas drinks in The Stephen's Green Club on the 12th of December, 6.00 p.m. - 9.00 p.m.

Our cover photo for this issue was taken at the Education Strategy meeting on the 22nd of November. Many thanks to Lis Goodwin and Jeremy Goford who battled their way through the taxi blockade at the airport to make it to the meeting.

The Society's Position Papers on Approved Retirement Funds, Endowment Mortgages and Life Assurance Taxation Changes have now been finalised by Council. Copies are available on the Society's website (www.actuaries-soc.ie). The PR/Communications Committee will consider the production of Position Papers for a number of other hot topics in the New Year. Please forward any suggestions to the members of the PR Committee.

Articles for the future editions of the newsletter are always welcome and can be sent to either Frances Kehoe, Michelle Roche or Mary

Standing left to right: Gareth Colgan, UCD; Michael Marsh, DCU; Shane Whelan, Chairman, Education/CPD Committee, SAI; Alastair Wood, DCU;

Seated left to right: Jeremy Goford, Chairman Education Strategy Working Party Institute/Faculty; Eamonn Heffernan, Vice President, SAI; Lis Goodwin, Chief Education Executive Institute/Faculty

Future Education Strategy

The future of the actuarial education strategy was the topic of discussion in The Stephen's Green Club on Wednesday 22nd November. Jeremy Goford, Chairman of the Future Education Strategy Group and Lis Goodwin, Secretary of the Education Committee, spoke on how the Faculty and Institute are proposing to alter the current education system.

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Future Educaton continued . . .

Jeremy first set about taking us through a basic set of principles that were drawn up through the Vision and Values consultations in 1999. These principles were drafted to develop goals for the actuarial profession. It is hoped that they will eventually help to produce a framework for the future education process that is due to come into effect in 2005.

Some of the principles Jeremy led us through were as follows:

- The aim of the education system must be to prepare and develop its members to deliver a service of quality and high standard appropriate to their clients and customers.
- In all changes to the education strategy, standards will be maintained.

Everyone present agreed that these general principles were sound and appropriate. The next one however sparked off some debate.

- It is important that future actuaries help retain the unique professional characteristics demonstrated by current actuaries, in particular, appropriate attention to rigour and the long-term view.

This principle seemed to be too general for some of the qualified actuaries. Suggestions that actuaries should also be known for their strong mathematical ability, attention to both validation and understanding of data were put forward. Good communication skills were also thought to be a characteristic of the ideal actuary.

- There should be more certainty surrounding the duration of time to qualification.

This one seemed of particular interest to the sizeable student contingent. The Faculty and Institute are keen to reduce the large variance that exists in time to qualification at present. Jeremy suggested that encouraging more people to take some of their exams through full time college education may be a way of reducing this variance.

A poll of students present showed that a large majority had in fact started their actuarial exams at university through courses in either UCD or DCU. Lis Goodwin explained that this is in contrast to the UK market where only around 5% of students take this route.

It was suggested by one of the qualified actuaries present that it's now taking students longer than ever to qualify. He backed this up by saying that rising salaries are leading to increased workloads and because more time is spent at work, students have less time for study. None of the students present seemed to disagree with that particular observation.

The profession must be attractive to bright, young people. Jeremy spoke of how employers especially in the UK are finding it increasingly difficult to compete with the high salaries on offer in other professions, especially those in the City.

Some other principles in relation to the future education strategy include:

- It should help individual members to take on different roles both specialist and generalist.
- It should retain professional bodies, united across disciplines and pay attention to global issues.
- Alternative assessment methods will be developed appropriate for the skills being assessed.

After skimming through the remaining principles from the Vision and Values consultations, Jeremy led us through a possible education model for the future based on the principles discussed. He gave three possible time scales to qualification that would depend on the chosen route of study.

Lis Goodwin then took over from Jeremy. She was brave enough to ask the students present what they disliked about the current exam system.

Some of the students' comments related to:

Communications Exam
It was suggested that while communication skills are fundamentally important the current method of examining them is far from ideal.

Breadth of examination material
Concern was raised that the current 300 series of exams is still too broad. Some students believe that the exams aim to cover a range of topics that is too wide to be of practical use. It was felt that specialising at an earlier stage might make more sense.

Lack of flexibility in the current examination system
The current system is solely based on closed book examinations. It was suggested that case study or thesis type exams may be a viable alternative, especially for the 400 series subjects.

Transition Arrangements
The point was raised that many students effectively lost out on exemptions due to the previous change in the examination system. It is hoped that the transition in 2005 will run smoother than the previous one.

Lis took these comments on board and mentioned that the Student Consultative Committee had already discussed some of them at previous meetings. She said that all points would be considered when drawing up a framework for the future education system.

Jeremy wrapped up the meeting by saying that the principles put forward were drawn up to encourage debate on how the current strategy can be altered for the better. He said that one of the strengths of the actuarial system lies in its ability to change and re-examine itself to meet the continuously shifting definition of what is required of modern actuaries.

After the meeting most of the students (and one or two 'qualifieds') discussed some of the finer points of the current exam system over a few drinks in Sinnott's bar. For a copy of the full principles discussed at the meeting please contact me at:
Barry.Cudmore@irishlife.ie

Any comments or suggestions you may have on how to improve the current system should be sent to Lis Goodwin at **lisg@actuaries.org.uk**

Barry Cudmore

Art & The Actuary in the 21st Century

by Shane Whelan

ART stands for Alternative Risk Transfer and is generally assumed to refer to non-standard or new methods of managing / off-loading risks in the general insurance/ reinsurance and life and pensions industries.

Shane began his presentation with a review of the recent historical background and key developments in commerce and economics, highlighting the productivity slowdown in the service sector over the past 25 years. He then suggested that if Limited Liability was the great invention of the 19th century then the concept of Risk Transfer was the great invention of the 20th century.

This can be seen in the area of investment risk, which has increased in tandem with product development changes in the life and pensions industries. Examples are the withdrawal of investment guarantees, the switch to unit-linked products and from defined benefit to defined contribution pension schemes.

He then discussed how the increasing individualisation as opposed to pooling of risk has led to the development of ART products, particularly in the weather related catastrophe sector. A significant development has been the capital markets offering solutions such as weather derivatives and securitised bonds that compete with traditional insurance and reinsurance products. This has led to an increasing convergence of the insurance and banking industries.

However, ART products are not a panacea for transferring risk efficiently, if only because the quantum of protection is finite or capped unlike traditional insurance / reinsurance products, which offer unlimited liability in many of the critical contracts. ART products have only been around for the last 5 years at most and at the present moment are relatively more expensive than traditional risk transfer products.

In the ensuing discussion the view was expressed that ART products are here to stay and will increasingly challenge traditional risk transfer products. They will probably dampen if not eliminate insurance / reinsurance pricing cycles in key sectors. Actuaries have a great opportunity to extend their influence and demonstrate their usefulness in this new area.

Paul Duffy

Mr. J. Joyce, President
of The Society of Actuaries in Ireland
invites
Fellow, Associate and Honorary Members of the Society
to join him for Christmas Drinks
at The Stephen's Green Club,
9 St. Stephen's Green, Dublin 2
on Tuesday, 12th December, 2000
from 6.00 p.m. to 9.00 p.m.

The Society of Actuaries in Ireland
Tel: 660 3064
E-mail: actuaries@iol.ie

R.S.V.P.
By 10th December, 2000

Demutualisation - combining North American and European Requirements

Presented by Tom Barry and Paul Walsh

Tom Barry opened the presentation of this very readable paper by explaining that its main aim was to explore the international aspects of recent demutualisations. In particular, what might be accepted as normal practice in Ireland and the UK was not necessarily so in the US and Canada. For example, terminal bonuses are not usual in North America and this has implications for determining the method to be used in the calculation of policyholders' entitlements.

Paul Walsh then covered various technical aspects of the paper: The demutualisation process requires the calculation of the amount of surplus (i.e. the excess of market value over reserves and asset shares) in the life fund/s. Where an office has branches in several countries, the approval of the Regulator in that country, the Appointed Actuary and potentially an independent actuary is required in relation to business written through the branch. Valuation methods differ significantly by territory. There are fundamental differences of approach between Ireland/UK, the US, Canada and Australia. The result of this is that the surplus assets calculated locally may differ considerably from the ultimate "group" answer which will be calculated on a consistent basis for all territories.

Asset share calculations are fundamental to the process of determining the surplus. Paul examined 3 different methods of calculating these. Each method treats policies that have become claims by death and surrender differently. Regulators in different countries tend to take different views on the method to be used, largely influenced by local precedents. One consideration is whether the share allocation formula should be based on each policy's historic contribution to surplus or on its total (including future) contribution to surplus.

These methods give different results, with the total contribution method being more favourable to carpetbaggers.

Acquired businesses were also considered. How should the contribution to surplus of these policies be calculated? Consideration may need to be given to the duration they have been held within the acquiring life office and the consideration paid.

Tom Barry then presented some of the practical aspects of the process. He first drew attention to the existence of carpetbaggers, a term he confessed he didn't like. He presented a table that showed that the percentage of worldwide Canada Life policies held by Irish policyholders had increased from 6% to 12% over the space of 6 months. The Irish percentage of global surrender values had remained constant at 4% over this period. What percentage of the allocated shares did the audience think Irish policyholders should receive on the basis of these figures? Interestingly, despite having access to the same public information regarding the demutualisation plans, neither the US or Canadian operations experienced a significant increase in business volumes during the pre-demutualisation period.

US methods for calculating contribution to surplus have tended to calculate the contribution at individual policy level. The international method divides policies into cohorts and calculates contribution by cohort. This is simpler to apply in practice and is consistent with the concept of pooling risk.

The treatment of carpetbaggers is effectively determined by the metric used to allocate shares, for example by vote (policy), premium, sum assured, surrender value or duration. The first 3 of these tend to favour carpetbaggers, whereas using surrender value or duration does not. In practice a combination of metrics is used, with the same method used for business in all territories. Tom showed the weightings of each metric which had been used for 4 recent demutualisations in Canada. Although the weightings differed, none appeared to treat carpetbaggers particularly severely since in all cases at least 50% of the weighting was accounted for by vote, annual premium and sum assured.

Tom rounded off his presentation by answering his initial question and revealing that the actual share allocation at Canada Life had resulted in Irish policyholders receiving 8% of the total.

The meeting concluded with a general discussion of some of the issues raised. In particular, the treatment of UK Manulife policyholders whose policies had been acquired by Canada Life was discussed. There was recognition that these policies did not fare well out of the process due to the short duration they had been held by Canada Life and allowance being made for the price paid in their acquisition. Coincidentally, had they not been acquired, they would probably have benefited more from the subsequent Manulife demutualisation.

The carpetbaggers issue was also discussed further, with Paul Walsh pointing out that their value to the company could be positive or negative depending on the timeframe between policy purchase and allocation of shares. Ongoing investigations in Canada Life since then indicate that subsequent lapse experience has not been exceptionally high, validating Tom's view that these policyholders should be welcomed as valuable customers rather than being treated as short-term opportunists or a nuisance.

Sheelagh Malin

Unemployment, Past, Present and Future

Introduction

In February 2000, Kathy Byrne, Simon Jeffery and Graham Bolton presented a paper entitled 'Unemployment, Past, Present and Future' to the Staple Inn Actuarial Society. The paper examined the general topic of creditor insurance and in particular focused on the specific area of unemployment insurance.

At a recent meeting Simon and Kathy presented a summary of the paper to the Society. Unfortunately Graham Bolton was unable to travel for the presentation. The meeting was chaired by Jimmy Joyce.

What is Creditor Insurance?

Creditor insurance provides protection against the risk that policyholders may not be able to meet mortgage, loan, finance or credit card repayments in the event of certain perils arising. These perils would typically include death, disability, unemployment and critical illness. The cover is in some ways similar to PHI, however it is not medically underwritten and is priced on a group basis. Policies will usually have a deferred period of between 14 and 60 days and there may also be a waiting period at the commencement of the policy. Benefits are normally provided on a short term basis, typically payments will be made for a period of up to 12 months per claim.

In Ireland, creditor insurance is a small niche market that is not as highly developed as in the UK or the US. Kathy estimated that the total annual premium for the Irish domestic market was about IR£42m for 1999 or about 2.3% of the non-life market. The market in the UK is substantially larger with an estimated total annual premium of around Stg£2bn. Since the recession of the late 80s/early 90s UK lenders have promoted creditor insurance heavily to protect themselves against arrears. Now the revenue generated from creditor commission is a major income stream for lenders.

How does it differ from other forms of personal lines cover?

One of the key factors that differentiates creditor insurance from other forms of personal lines cover is the manner in which it is sold. Typically the product will be sold on a wholesale basis, either through brokers or directly to the lending institutions. Given the lack of individual policy data, one of the main risk factors for any insurer writing creditor business is the quality of credit underwriting by the lending institution. In addition, because of the relatively small annual premium and claim amounts, it is essential to have efficient systems and procedures in order to be competitive in the market

Historically creditor insurance claims have tended to be far more cyclical than many other types of insurance claims, rising and falling in line with underlying unemployment rates. One of the interesting points identified in the discussion that followed the presentation was that despite the cyclical nature of the business underlying premium rates had remained relatively stable. It was recognised however that this cost stability had partly been achieved through amendments to policy terms and conditions and also the introduction of more rigorous policy wording.

Product Development

Recent innovations in the UK market have included the introduction of creditor insurance products by utility companies and also stand alone products offered by banks and insurance companies to existing customers. Up until recently, creditor insurance had only been available through lenders at the time a lending agreement was completed.

Although the traditional market for creditor insurance has been the lending market both Kathy and Simon felt that there is a case for using creditor insurance for premium protection, for example on pension contributions. In addition a combined creditor insurance and PHI product might prove attractive, particularly as customers who would normally consider purchasing a PHI policy are more likely to also consider buying creditor insurance.

Finally Jimmy Joyce thanked the two speakers for a comprehensive and well thought out presentation, which proved a very useful introduction to an area where most actuaries have historically had little or no involvement.

Keith Burns

International News

At the recent **Group Consultatif Meetings in Bilbao,** the Society of Actuaries in Ireland was represented by Jim Kehoe, Bruce Maxwell & Philip Shier .

The following is an outline of the discussions that took place. Further details are available from the Society's office.

The Insurance Committee

- A subgroup was formed to take the Solvency/Fair Value/'New' actuarial principles issues forward.
- There was some debate around the draft mutual recognition agreement with the American Academy of Actuaries (AAA).
- It was agreed to move forward with the Memorandum of Understanding. It was noted that this will not be an agreement between the Groupe and the AAA but separate agreements between each member association and the AAA.
- The Group's website address is: www.actuaries.org.uk/groupe_consultatif/. You will find a link to it on the Society's website.

The Pensions Committee

- The proposal for a Directive on Supervision of Institutions for Occupational Retirement Provision which had just been issued by the Commission was discussed. The general view was that the proposal was a reasonable compromise, and would not impose constraints on the countries which already had a significant level of funded pensions (UK, Ireland and Netherlands) whilst encouraging other countries to adopt a more liberal approach, particularly with regard to investment rules. There was some concern that the level of reporting required would be onerous for the UK and Ireland given the larger number of smaller schemes, although this would be mitigated by the 100 member de-minimis provision.
- Harvie Brown reported on the second meeting of the Pensions Forum and the Groupe's response to the questionnaire on mobility of employees was noted.
- Replies to the questionnaire previously circulated on the Professional Responsibilities of Pensions Actuaries were distributed.
- The information received to date for the purpose of updating the publication on Actuarial Methods and Assumptions Used was tabled, and the revised version will be collated by David Collinson.
- Philip Shier gave a brief summary of results received to date in relation to the survey on transfers. It is intended that this should be a subject for discussion at the next meeting with the EU Pension Supervisors, which is provisionally fixed for 23/24 April 2001 in Brussels.
- Paul Thornton reported on the proposal to establish an IAA Pensions Section, and in the first instance it has been decided to hold a seminar to test the interest in such an organisation. This will be held on 6/7th June 2001 in Brighton, following the Institute's Pensions Convention on 4/5th June, and followed on 8th June by the ACA 50th Anniversary Celebrations in London.
- The next meeting of the Committee will be held in London in mid-February to finalise preparations for the meeting with Supervisors in April.

Question Time

Bruce Maxwell

Career Summary

Chief Actuary, Irish Life & Permanent; (Immediate) Past President Society of Actuaries in Ireland; Chairman, Insurance Committee Groupe Consultatif; Vice-Chairman, Advice & Assistance Committee IAA. With Irish Life since 1973 following 4 year BA (Mod.) in Mathematics at T.C.D. and 11 years intensive schooling at Greenlanes National School and Mountjoy School.

Bruce Maxwell

- Full name: Bruce Norman Maxwell
- Marital status: Wife Sandra, plus 4 children, Ian (16), Stephanie (14), Lauren (11) and Graham (8).
- Year of qualification: 1980
- Current employment: Actuary and occasional child minder/driver/cash provider/etc.
- Time you start work - not obligatory to answer!! 8.00am (in the office)
- If you weren't an actuary what would you be? Probably a teacher or travel agent.
- What is the worst thing about being an actuary? Those funny looks you get when you mention what you are.
- Pet hates: Pets, and people who sit on committees (of any description) but don't do anything.
- Favourite actuarial joke: None, don't have any actuarial favourites
- Would you recommend the actuarial profession to someone leaving school now? Yes, and by the time they qualify the scope for actuaries should be much broader than at present.
- Favourite Holiday location: Saundersfoot, South Wales
- What do you do to relax? Go on holiday (a rarity)
- Last book you read: The Bridge (Iain Banks)
- Favourite tipple / beer: Smithwicks
- Favourite hostelry: La Chaloupe d'Or, Grand Place, Brussels
- What famous person from history do you most admire? Jesus Christ
- Favourite TV / Radio programme: TV: Morse; Radio: Irish Election results
- What car do you drive? Audi A6 and Seat Alhambra
- Most embarrassing moment: Most likely yet to be visited upon me, though could be when an attempted witty remark at a large dinner table turned out to be an outrageous double entendre, and the words were already out of my mouth.
- Favourite music: Les Miserables
- Dying words: The statistics caught up with me.

Backgammon Champion

Congrats to Sean Casey on retaining his title as Irish backgammon champion. Sean also holds UK and Scottish titles and at time of writing was on his way to Las Vegas to compete in a tournament. A press description described Sean as an "actuarial scientist" which he promises he had nothing to do with. Anyone interested in taking up the game is invited to give Sean a ring - the Dublin club meets weekly and the emphasis is on fun. Technically minded players who wish to discuss match equity, early loss ratios and doubling windows are barred!

Celtic Tiger

Rumour has it that Ireland has found its own answer to Tiger Woods - Neil Guinan. At the recent Life Conference in Birmingham Neil outplayed all contestants except one to bring the Ernst & Young "golf competition" to a playoff. Under intense spectator pressure, Neil kept his cool in the playoff to become champion of the putting green.

In response to your requests, here's the joke which Colm Fagan referred to in the October issue.

Two people are in a hot air balloon high above the ground. Everything is going fine until they realise that they're lost. They see a man on the ground far below so they descend to within shouting distance of him: "Can you help us, we're lost, where are we?" they cry. The man on the ground replies "You're in a hot air balloon about 200 feet above the ground".

One of the balloonists shouts back: "You must be an actuary. You gave us information that answers our question and is completely accurate but it's useless for helping us to find our way home."

The actuary yells back: "And you must be in marketing. You're in the same position as before you talked to me, but now it's my fault".

On the Move

Fellow Members	**Neil Hilary** has moved from Munich Re to **Arthur Andersen**
	Ger Bradley has moved from Allianz to **Royal Sun Alliance**
	Peter Gough has moved from Eagle Star Life to **Trowbridge Consulting, Melbourne**
	James Hehir has moved from New Ireland Assurance to **Managed Solutions**
	Keith Burns has joined **McKinsey & Company** from Watson Wyatt Partners
Students	**Helen Crowley** has moved from Seagrave-Daly & Lynch to **Guardian Life Ireland**
	Reamonn O'Sullivan has moved from Hibernian to **HSBC**