



The Annual General Meeting of the Society was held on 28 May in the St. Stephen's Green Club. It was followed by Ronan O'Connor's presentation of his paper "The Applicability of Statistical Techniques to Bank Credit Portfolios", a report of which is contained in this Newsletter.

At the AGM, Yvonne Lynch and John Caslin were elected to Council. The roles of President, Vice-President and Honorary Secretary will continue to be held by Bill Hannan, Bruce Maxwell and Des Ryan respectively for the second year of their elected term. John Lyons presented the 1995/1996 annual accounts of the Society at the meeting.

At the first council meeting following the AGM on 6 June, Tony Jeffery, Aisling Kennedy, John Lyons and Brian Huston were co-opted as Additional Council members. The roles of Council Members will remain the same as last year except that Yvonne Lynch will take over the role of Treasurer and John Lyons will take responsibility for Public Relations.

Following a very active twelve months for the Society, Council are delighted that the Institute of Actuaries have highly commended the paper 'Actuarial Aspects of the Insurance Accounts Directive' prepared by the Financial Reporting Sub-Committee of the Society. Congratulations to Chairman Adrian Cooper and his working party as follows:

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|-----------------|-----------------|
| Laura Bennett | Gareth Colgan |
| Anthony Brennan | Patricia Colton |
| Sean Casey | Sheelagh Malin |
| Peter Caslin | Bryan O'Connor. |

Marese Hussey

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NEWLY QUALIFIED

Congratulations to:-

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|---|---|
| <i>Aidan Burke - Canada Life</i> | <i>David Kavanagh - Eagle Star</i> |
| <i>Stephen Cahill - Alexander Clay & Partners</i> | <i>Conor O'Neill - Life Strategies</i> |
| <i>Francis Coll - Irish Life</i> | <i>Kevin O'Regan - Winterthur (Switzerland)</i> |
| <i>Michael Culligan - New Ireland</i> | |

The Freedom to Underwrite

Spenser Leigh presented his paper on "The Freedom to Underwrite" to a large group of actuaries, underwriters, doctors and other interested parties at an evening meeting of the Society on 7th May 1996.

After a short introduction by Bill Hannan, Spenser discussed his paper under three main headings:-

AIDS: -

To properly underwrite the risk of AIDS, underwriters would like the freedom to use lifestyle questionnaires, to ask about previous HIV tests, to request new tests and to apply ratings based on the results of these investigations. The acceptability of this approach varies from country to country. In some States in the US, lifestyle questionnaires are not permitted and proposers may not be penalised for having taken HIV tests. In Australia detailed lifestyle questionnaires are used but proposers must not be declined for insurance on the basis of sexual orientation alone.

In the UK, insurers no longer ask about previous HIV/AIDS tests. They now ask if the proposer is HIV positive or awaiting the result of a test.

Disability:-

The insurance industry has been attacked in Parliament over its treatment of the disabled and will face increased regulation when the Disability Discrimination Bill becomes law. This provides that insurers may only charge higher premiums if the extra charge "is based on actuarial data or other good reasons." There may be provision in future legislation to give all proposers the right to a quotation for life assurance. Companies may not be able to decline bad or uncertain risks.

There must be an acceptance that not all lives can be accepted on

ordinary rates though currently around 96% of lives are accepted without ratings.

Genetic Testing:-

The arguments about genetic testing are similar to those about HIV testing. Can proposers keep the results of genetic tests private? Would it be possible to avoid anti-selection if proposers withhold relevant information from underwriters? Will the cost of any counselling required be prohibitive? It is too early to have legislation on genetic testing and the industry must try to ensure it is not prohibited from using genetic information. The ABI has employed a geneticist on a part time basis to help argue its case.

The public may be more likely to accept tests for conditions which are curable. The Life Assurance Industry may be able to follow public opinion though it would also need information on conditions which are not now curable such as Huntington's chorea. If genetic testing becomes cheaper and generally acceptable for other purposes it would seem unreasonable for this information not to be available to underwriters.

The positive side of genetic testing should be stressed. A proposer with a family history of Huntington's chorea would currently be declined for insurance. However a genetic test could identify whether the proposer actually had the gene and allow

those without the gene to be accepted at normal rates despite the family history. Those with good sets of genes could be given better rates extending the concept of preferred lives assurance. Genetic testing may also allow those with an identified predisposition to heart disease (for example) to prevent or delay the disease by following a better diet or taking more exercise.

A wide ranging discussion followed. Several speakers made the point that underwriting was an Art rather than a Science and it might be difficult to justify decisions on the basis of statistics, even if statistics were available.

Any move to accept a higher percentage of lives on normal rates would lead to increased rates for normal lives. Some of those present thought that the market was not terribly price sensitive. There was also the view that unless a move to community rating was universal and backed by legislation, those who were more financially aware could obtain cover more cheaply in other jurisdictions. This could make insurance more costly for poorer sections of the population.

Several speakers looked to the reassurers present for guidance on the justification of the ratings applied to disabled lives as this may be required under the Disability Discrimination Act.

One of the doctors present pointed out that there are tests available for several disorders including diabetes which underwriters do not request. These tests are relatively easily and cheaply performed and are far less contentious than genetic testing.

Bill Hannan closed the meeting by thanking Spenser for his presentation.

Anne Gaffey

The Applicability of Statistical Techniques to Bank Credit Portfolios

Following the AGM, Ronan O'Connor treated us to a distillation of his Ph.D. thesis in a talk and paper entitled *The Applicability of Statistical Techniques to Bank Credit Portfolios*.

He began the talk by dispelling the disorientation usually found when approaching a subject for the first time. Banking, he said, is at heart another application of the insurance principle. The fundamental equation of banking is:

$$(1+r^*)(1-d) = (1+r)$$

or, translated, the interest rate on a loan (r^*) should at least equate with the risk-free interest rate (r) after allowing for the expected loss from default (d). From this simple

equation, Ronan was to build a scientific rating and reserving structure which enabled him to appraise the current regulatory regime against one based on a statistical assessment of the reserves required. The statistical treatment, involving modelling the records of aggregated individual loans, is familiar to actuaries working in general insurance.

This is not what bank or their regulators do. Bankers see loans as heterogeneous with a different and unforeseeable reason behind each

one that becomes delinquent. This attitude inhibits the rigorous quantitative approach Ronan adopts. The regulators defer to the banker's view with capital adequacy requirements set rather insensitive to underlying risk. The regulations, in effect, reward risk-takers. Ronan's approach, while canonical from an actuarial (and an equity analyst's) perspective, must appear rather revolutionary in this context. His method satisfies the acid test of identifying under-reserved banks earlier than present regulations.

We have been spoilt this year with very fine papers presented. Ronan's was in the very best of this tradition. He took us into one of those new wider fields and thoroughly mapped it out for us. If you want to know what future actuaries will be doing then read this paper.

Shane Whelan

Group Consultatif Colloquium

Friday 20th September • Trinity College Dublin

The Society is acting as host to the Ninth Groupe Consultatif Colloquium which will be held in Trinity College Dublin on Friday 20 September 1996. The title of the Colloquium is "The Unit Linked Actuary - A Single Market Opportunity" and an attractive list of speakers has been arranged (at enormous expense!) including actuaries from Denmark, Netherlands, UK and Germany, a representative of the EU Commission and of course some local talent. All members of

the Society should have received the official brochure and booking form for the event.

The arrangements, all of which have been organised by the Society, cover more than the full day colloquium which will include English/French translation facilities. A welcome reception will be held on Thursday evening in the newly refurbished National Gallery for all attendees, a half day walking tour and lunch is available on Friday for accompanying persons, the

Colloquium dinner will be a banquet in Trinity on Friday evening and a full day coach tour is available on Saturday. We are hoping to welcome over 150 actuaries and partners from the other member associations of the Groupe.

It will be important that the local members turn out in force both to enjoy what will be a stimulating colloquium and to offer a true Irish welcome to the overseas visitors. Members should complete the application forms in the brochure as soon as possible and return them to John Henty in Oxford. Anyone looking for forms or more information should contact Bruce Maxwell at Irish Life.

Bruce Maxwell

Golf Outing on 20th May at Citywest Golf Club

This year's outing gave a whole new meaning to resilience testing in a changing environment. As the environment changed from a hurricane to a monsoon, our intrepid golfers drew on their reserves and the entire record entry of 44 completed the course. Many even claimed to have enjoyed themselves!

At the unanimously welcomed dinner which followed, Piers Segrave-Daly presented his Perpetual Trophy and replica to the inaugural winner of the matchplay tournament, Tony O'Riordan, plus a consolation engraved tankard to the runner-up, Micheal O'Briain. In thanking Piers for his generous sponsorship and for the conceiving of this new event, Tony confirmed that all of Piers' objectives have been achieved, i.e. that taking part in the matchplay provides an excellent opportunity for actuaries to meet and socialise in an informal manner while competing for such a handsome trophy.

Prizewinners in the outing were:

1st	Nigel Finlay
2nd	Piers Segrave-Daly
3rd	Donal Casey
4th	Michael Madden
Front 9	Frank Downey
Back 9	Paul Duffy

Next year's captain, Donal Casey, looks forward to the continuing growth in popularity of golf events in the actuarial calendar and joined all present in a toast to Mary Butler, without whose help and infinite patience such events would be impossible to organise.

John McCarthy
Captain

TENNIS SOCIETY

Several members of the Society have expressed interest in forming a Tennis Society.

A volunteer to become the first captain of the Society would be very welcome.



NEXT EVENING MEETING

Date: **Wednesday 18th September**

Time: **6.00 p.m. Tea/coffee**
6.30 p.m. Meeting
8.30 p.m. Dinner

Venue: **The St. Stephen's Green Club**
9 St. Stephen's Green,
Dublin 2

Topic: **"An Alternative to the**
Net Premium Valuation"

Speaker: **Phil Scott**

On The Move

Patrick McGorrian has moved from Bank of Ireland Group Treasury to Hibernian Investment Managers.

OFFICE CLOSURE

The Society's office will be closed from Monday 5th August to Tuesday 20th August for Annual Holidays

Reminder

**Dublin City University
Graduate Certificate/
Graduate Diploma/M.Sc.
in Financial Mathematics**

The closing date for applications for this course is Friday 6th September 1996. For further information contact Michael Marsh at 704 5667



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