



# Newsletter

The Society of Actuaries in Ireland

## Editorial

Welcome to the June 2001 newsletter. We would like to extend a special welcome to our 3 new Honorary Fellows, Professor Brendan Walsh, Chand Kohli and Dr. Emmanuel Buffet, who accepted their Honorary Fellowship of the Society at the recent annual ball in the Four Seasons Hotel.

Jimmy Joyce presented the parchments to the new Honorary Fellows as one of his last official duties as President of the Society. Jimmy's two year term finished on the 26th of May and he is succeeded as President by Eamonn Heffernan. We would like to take this opportunity to thank Jimmy for the enormous contribution he has made to the Society over the last few years and to wish Eamonn well in his new role. Full details of the new Council of the Society will be included in the next newsletter.

The Society has received some good publicity recently, particularly in relation to its response to the new pension legislation. Discussions are also taking place with the Department of Health regarding the report of the working party on 'Population Mortality and Morbidity in Ireland' and we expect further press coverage on the report in the next few weeks.

The next issue will be produced in July and will include a very colourful selection of photographs from the annual ball.

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



(L-R) Chand Kohli, Jimmy Joyce, Professor Brendan Walsh, Dr. Emmanuel Buffet

## Honorary Fellows

At the Society's Annual Ball, held this year in the Four Seasons Hotel, the President, Jimmy Joyce, conferred Honorary Fellowship on Professor Brendan Walsh, Mr. Chand Kohli and Dr. Emmanuel Buffet.

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## Honorary Fellows continued...

Jimmy said that for some time we have had only two Honorary Fellows, admittedly an exceptionally distinguished two, Professors Philip Boland and Alastair Wood, whose faculties in UCD and DCU educate many of our prospective members. Council felt that the time had come to add to their number and he was delighted to say that the three persons he approached indicated their willingness to accept Honorary Fellowship of the Society.

**Professor Brendan Walsh** is Professor of National Economics in UCD and is one of our most distinguished economists. He is in great demand as a speaker and commentator on economic issues. Brendan's interests in economics are wide but he does have a special interest in population projections and he has recently been researching the appropriate rate of interest to use in assessing damages claims, both areas close to actuaries' hearts. He is particularly noted for his skill in putting Irish economic issues in their international context. Brendan was recently elected President of the Statistical and Social Enquiry Society of Ireland and it is interesting to note that one of his predecessors in that capacity was our own first President, William Honahan. Brendan has long been a friend of the Society and has responded readily when asked to speak at our Seminars.

**Chand Kohli** is a partner in PricewaterhouseCoopers and is the leader of their Irish insurance practice. He also has considerable international experience, as he was partner-in-charge of Price Waterhouse's insurance practice

across Europe up to 1998. He has been involved in numerous significant projects in the insurance industry over the years and has assisted many domestic and cross-border insurance companies to establish or restructure their operations in Ireland. From the actuary's viewpoint, Chand is one of those awkward accountants, luckily not too many, who know at least as much about the actuary's work as the actuary does and he has had many contacts with actuaries and the actuarial profession over the years.

**Dr Emmanuel Buffet** is Senior Lecturer in the School of Mathematical Sciences in Dublin City University. He has an international reputation in financial mathematics and has had a direct involvement with the actuarial profession as co-author of the Institute/Faculty course in stochastic modelling. Emmanuel is Chairman of the DCU M.Sc. in Financial and Industrial Mathematics and teaches courses in Financial and Actuarial Mathematics. He is also engaged in the evening M.Sc. in Financial Mathematics, run jointly with the Society.

Jimmy said that the aim in electing these Honorary Fellows is to strengthen our links with the economics community, with the accountancy profession and with the developing academic field of financial mathematics. He said that we could not have had three more distinguished representatives of these disciplines and the Society is honoured that they have agreed to join the actuarial profession in Ireland. Jimmy then presented Professor Brendan Walsh, Chand Kohli and Dr Emmanuel Buffet with their parchments.

## Student Social Events

With the April exams behind us we started off the 2001 social calendar with the annual table quiz. This was held in Chaplin's bar on Hawkin's Street. We had 14 tables of 4 making this the best-attended event in quite a while. Ray Leonard's team from Irish Life scooped first prize for a record 5th time - a handicap system will be introduced for next year's quiz as a result! After the quiz about 25 of the participants headed for 'Q bar' to finish the night off in style.

The next event on the calendar will be the indoor football tournament. This will be held in June. Last year saw 11 teams compete for the title. If you're interested in entering a team please do so early as there will be a limit on numbers due to time constraints on the night.

Finally, if you're not currently on our mailing list or have changed email address recently then you may not hear about our events. Drop me a mail and I'll make sure you don't miss any of our notices.

Thanks for your support

**Barry Cudmore**



## CILA Seminar

On 20th April, over 80 people attended the Society's seminar on Current Issues in Life Assurance.

Jimmy Joyce opened the seminar, which followed the Institute/Faculty seminar format.

### Stakeholder Pensions - Living in a 1% World

The first speaker was Colin Bell of Scottish Equitable, U.K., whose topic was 'Stakeholder Pensions - Living in a 1% World'. He explained how U.K. assurance companies were coping with the 1% price cap. Among the many points in a comprehensive presentation were:

- 46 companies have so far entered the stakeholder market.
- The stakeholder market will have lower average premiums than other pensions, and persistency is likely to be an issue.
- Although new business commission has fallen substantially, the costs are still high relative to the charges, and new business strain is substantial. Breakeven periods are typically 11 years plus.
- Existing business margins are under pressure, especially where there is no exit penalty.
- Stakeholder product pricing requires assumptions about set-up and distribution costs, ongoing administration, average premiums and persistency, all of which are difficult to predict. Most importantly, persistency is likely to determine profitability. There seems to be considerably more downside risk than with previous products.
- Product providers' responses have encompassed all areas of the business. There has been considerable investment in infrastructure to minimise the manual administrative intervention required. Electronic forms and direct feeds from payroll are increasingly common, and web-based enquiries are being developed.
- Distributors' responses have focussed on the need for new business models. Consolidation has



(L-R) Robert Stirling, Colin Bell, Jimmy Joyce, Peter Caslin, Andrew Stokes

already occurred, but no one is certain what will happen when stakeholder pensions finally go live on the 8th of October.

### Raising Standards Initiative

The second speaker was Andrew Stoker of Tillinghast-Towers Perrin who described the Association of British Insurers' 'Raising Standards' initiative. This project is designed to increase confidence in the industry, and is partly driven by the Financial Services Authorities willingness to reduce their scrutiny of the industry once they are satisfied that standards have been raised.

The initiative is based on a quality mark, which in turn is based on three promises and eight standards, tested and monitored by an independent board. An example of one of the 'standards' is the elimination of unfair or indirect charging, such as 'bid/offer' spreads, initial units, excessive rounding and excessive risk charges.

The initiative covers life insurance, unit trusts, OEICs and all financial savings contracts other than deposits and general insurance.

### PRE - A legal view

Rob Stirling, of the U.K. legal firm Freshfields, gave a comprehensive presentation of the meaning and interpretation of PRE in a British legal context. Although the concept has existed since the 1973 Insurance Act, there is no definition or even any clear guidance of what it is or when it should be applied. What was of most interest to Irish listeners was his explanation of how the concept was applied and interpreted in the AXA and Equitable cases.

### Current Issues in the Irish Market

The final speaker was Peter Caslin. As he was speaking less than a week after the unexpected publication of the Personal Retirement Savings Account draft framework, there was one obvious topic. Peter gave a very comprehensive presentation dealing not only with the details of the draft regulations, but also with their likely effect. Peter's up to the moment presentation made the Seminar all the more worthwhile.

**Brendan Kennedy**



## The Ombudsman Speaks

On 27th March 2001, the Ombudsman and Information Commissioner, Kevin Murphy, addressed an Evening Meeting of the Society. Welcoming Kevin, the President, Jimmy Joyce, said that the work of the Office of the Ombudsman had been central in the efforts to change the culture of the public service from one of secrecy to one of openness and transparency.

Kevin Murphy's address was divided into two parts. He described his role as Ombudsman and Information Commissioner and also spoke about his view of the public interest and the position of the professions in relation to it.

Essentially, the Ombudsman's function is to investigate complaints about the administration of public services, e.g. actions or inactions by administrators or delays in the conduct of public business that impact adversely on the "customers" of government departments, local authorities and health boards. Kevin gave many interesting examples of his work in this area (some of which had loomed large in the public arena) but, in many ways, the most interesting part of his comments had to do with his conception of the essential characteristics of an effective ombudsman system. He explained the critical importance of the independence of his office and the transparency of his work and how these were assured in the Irish

legislative arrangements. He stressed also the importance of his having adequate powers and investigatory resources in relation to the bodies within his remit and of easy access by complainants to his Office. Finally, his ability to issue public reports on his investigations and (where he was dissatisfied with a body's response to his findings) his "ultimate sanction" of formally reporting a case to the Oireachtas were critical in giving "teeth" to his investigations.

Kevin went on to deal with his functions as Information Commissioner under the Freedom of Information Act. His role is to review "freedom of information" requests on appeal and to make binding determinations on them, to foster openness among public bodies by encouraging them to publicise their activities voluntarily, and to endeavour to ensure maximum compliance with the Act. Kevin gave a fascinating insight into how the public service had prepared for what amounted to a sea change in the nature of its approach to its operations, into the practical changes and consequences that had flowed from the FOI Act, and into the sort of obstacles that had been encountered and were still being encountered by him in ensuring compliance.

In relation to the public interest, Kevin pointed out that it was not a straightforward concept and could not be encapsulated in a simple

definition. Indeed, in most practical instances, a number of different "public interests" were involved and what was required was a balancing of these. He instanced cases under the FOI Act where the public interest of "openness" was in conflict with, say, the public interest of "commercial confidentiality". In nearly all situations, he contended, one had to weigh such conflicts in determining what the overriding public interest was. He felt that this presented a difficulty for professional self-regulation, because the public and the commentators were less and less inclined, (i) to accept that the professions could be left to decide what the public interest actually was in their area of expertise and (ii) to believe that the professions could be trusted to regulate their own activities in line with their conception of the public interest.

A number of comments and questions from the audience followed, to which Kevin Murphy responded fully and frankly. The President thanked him for agreeing to address the Society and wished him continued success in his important work. There was general agreement that the evening, something of an innovation for the Society, had been highly worthwhile.

**Jimmy Joyce**



## "Population Mortality and Morbidity In Ireland"

A report with a truly actuarial title provided for a most interesting evening of discussion on 24th April 2001. Indeed, during the meeting my memories would have taken me back to the student protest days of the 1960s if it wasn't that I wasn't even born then. But apparently others in the meeting had not forgotten their bohemian days with calls for actuaries to act on their social conscience behind the rallying cry from Tony Jeffery to "Rage, rage against the dying of the light".

This report was prepared by the Working Party on Population Mortality and Morbidity which includes John Armstrong, David Harney, Tony Jeffery, Aidan O'Donnell, Frank O'Neill, and Duncan Walsh. The meeting was chaired by Eamonn Heffernan who commended the working party, which was set up in November 2000, for its production of so much good work in a short period of time. This is the first report of the Working Party but it is envisaged that it will not be the last, with the Working Party hoping to continue into the future.

David Harney presented information on trends in Irish population mortality from 1962 to 1996, divided into age bands and cause of death. Despite a clear downward trend in general mortality experienced there was some worrying information within the detail for younger lives, with deaths from road traffic accidents and suicides increasing over the period.

The mortality trend from road traffic accidents, whilst reducing in the 1960s has shown little sign of reducing over the last fifteen years with, if anything, an upward trend developing. The suicide trend was shocking with the mortality rate for young males increasing four fold over the period. Indeed the Working Party's analysis of comparisons against other countries demonstrated that Ireland had the highest mortality from suicides for young males.

For older lives there were signs that the heavy smoking of the 30 and 40 year olds in the 1960s and 1970s was now being translated into higher deaths from lung cancer.

The most stark analysis shown was Lost Years. This demonstrated that for males in Ireland, accidental and violent deaths result in more years lost than all cancer deaths. Additionally, road traffic deaths and suicide together result in more years lost than stroke and lung cancer. This was worrying especially when set against a scene where Ireland has higher than average road traffic accidents and suicides.

There is a similar issue in female lives where breast cancer is more common in Ireland than in other countries. With breast cancer particularly affecting young women, there is a significant impact on lost years.

John Armstrong talked about the factors that affect mortality, concentrating particularly on the impact of cardiovascular diseases,

cancer, road traffic accidents, suicides, AIDS, smoking, and diet and nutrition.

Tony completed the presentation with some forecasts that mortality will continue to improve. He backed this up with evidence of the cohort effect of the continuation of healthier lives hitting the high mortality older ages. Additionally, Tony outlined that many of the negative factors for mortality in Ireland could be tackled with, for example, improved breast cancer screening programmes, and more money being spent on road safety. Indeed, Tony believes that the scope for improvement was considerable and that the Working Party's investigations had suggested that the Government was aware of the issues and was reacting.

There followed a lively discussion with the main topics being the social aspects of the analysis, the significance of a healthy lifestyle on mortality, and the impact of improved mortality on products such as annuities and ARFs.

The meeting ended with the working party expressing a desire for future work to concentrate on a few issues, asking for suggestions on which issues these should be, and inviting any contributions.

My own suggestion would be to examine why Ireland had the lowest liver disease rate. Perhaps there is something in this Guinness thing after all.....

**Duncan Robertson**



## Pension Fund Valuations and Market Values

It was a full house on Tuesday 3rd April 2001 to hear Simon Head present the findings of the Institute's Working Party on Pension Fund Valuations and Market Values.

### Working Party

The aim of the Working Party was not to recommend a specific valuation method but rather to examine and describe the more common methods in use. Indeed, Simon stressed the importance of identifying the purpose and objectives of a valuation before applying any particular method.

He dealt briefly with the history and rationale behind what is the most common method, described as "traditional", where liabilities are valued using long-term economic assumptions and the market value of assets is adjusted by some form of market value adjustment (based on an actual or notional portfolio).

Simon then described five distinct methods:-

### Method 0: Traditional Method

This values both assets and liabilities using a discounted cash flow approach. The assessed value of assets represents the discounted present value of the expected income and capital proceeds from the scheme's assets, usually expressed in the form of a market value adjustment (MVA) to those assets.

### Method 1: Market Value Adjustment Approach

This method takes the market value adjustment (traditionally applied to the assets) and applies the inverse to the discounted value of the liabilities to give a market-adjusted value.

### Method 2: Asset Based Discount Rate

Under this method the market reference is made directly via the discount rate. An implied market discount rate is derived for each asset class. For example, for gilt investments this is simply the gross redemption yield, whereas for equity investments this involves determining the discount rate implied by the current

market price and expected dividend and/or sale proceeds. The overall valuation discount rate is then determined as a weighted average of those individual discount rates, based on the proportions invested in each asset class. Assets are valued at market value.

### Method 3: Economic Valuation Using Bond Yields

The discount rate and related assumptions are derived directly from market information. At its simplest, the discount rate is taken as the gross redemption yield on an appropriate portfolio of bonds. The discount rate so derived is then used to value the liabilities. Again assets are taken at market value.

Method 3 derives from the concept of market pricing, with financial economists supporting the philosophy that the price of a liability is independent of how it is funded and the value of the closest matching asset indicates its price.

However, there is no free market in pension liabilities and no clear asset match for much of a final salary pension liability. There are also other unmatchables such as mortality, withdrawals etc. and so a range of prices may apply.

Modifications to Method 3 would include the use of corporate bond yields rather than conventional gilts and/or term dependent discount rates.

### Method 4: Bond Yields Plus Risk Premium

This method starts with the Method 3 discount rate (based on bond yields) but then adjusts it to take account of returns expected from other asset classes e.g. equities. This is done by adjusting (usually increasing) the discount rate by the addition of either a constant or a variable risk premium.

The risk premium (fixed or variable) may apply either pre retirement or both pre and post retirement. A comparison of Method 4 with the traditional method over a period of almost 15 years illustrated a significant variation would have been required in the risk premium to give equivalent results.

### Survey of Practice

Following the presentation of the Working Party results to the Institute of Actuaries in October 1999, a questionnaire was sent in August 2000 to 872 Fellows of the Faculty and Institute who held a valid Scheme Actuary Certificate. The response rate was 34%. The questionnaire asked specifically about the method used in the last funding valuation signed by the actuary and the actuary's preferred approach going forward.

The results indicated that for the last valuation Method 4 was more popular than the traditional method with the other methods receiving very low preference.

The preferred approach going forward indicated an increased use of Method 4 - overshadowing all other methods - with a significant decrease in the traditional method. The conclusion of the survey was that actuaries (or at least those who responded to the questionnaire) are changing and expect to change the way funding valuations are presented with the majority now moving towards Method 4. There appears to be strong support for a variable risk premium giving actuaries the scope to smooth results and use actuarial judgement in advising clients, while still presenting results in market value terms.

### General Discussion

In the discussion which followed, Simon was commended on his very clear and understandable presentation. The arguments against using market value of assets seemed to be diminishing with the emphasis switching to the assumptions used to value liabilities (possibly as a result of the Society's own Working Party results on market based valuations). It appears that the focus in the future may be more on the appropriate risk premium, where Method 4 is used.

### The Report of the Working Party

The Report of the Working Party is included in Volume 6 Part 1 of the British Actuarial Journal and Simon's presentation is on the Society's website.



## Question Time

**Name:**

Pat Healy

**Family:**

Wife: Joan, Daughter: Elaine, Son: John

**Year of qualification:**

1978

**Current employment:**

Finance Director, AXA Ireland

**Time you start work:**

7.30

**Do you regularly take your work home?**

As little as possible

**If you weren't an actuary what would you be?**

I almost went to College to study Science

**What is the worst thing about being an actuary?**

Explaining what actuaries do.

**Pet hates:**

Long-winded speakers, spurious accuracy, and cigarette smoke in restaurants

**Favourite actuarial jokes:**

- Doctor to patient "I have very grave news for you - you only have six months to live". Patient: "Oh Doctor, what should I do?". The Doctor replied "Marry an actuary". "Will that make me live longer?" asked the patient. "No" said the doctor, "but it will SEEM longer"
- What's the difference between God and an actuary?  
God doesn't think He's an actuary.

**Would you recommend the actuarial profession to someone leaving school now?**

Definitely

**Favourite Holiday location:**

Florida



**What do you do to relax?**

Very bad golf and weekends in my hometown, Clonmel.

**Last book you read:**

"Personal Injuries", Scott Turow.

**Favourite tippie:**

"Probably" beer/wine

**Favourite hostelry:**

Moynihan's Clonmel

**Favourite TV / Radio programme:**

ER/The Last Word

**What car do you drive?**

BMW 523

**Most embarrassing moment:**

Making an eminent barrister, now High Court Judge, dive for cover from a sliced golfball.

**Favourite music:**

Anything more than 20 years old.

**Dying words:**

"They couldn't hit an elephant at this dist.."

## International News

The IAA Bulletin of April 2001 is available in the Members' section of the IAA Web Site [www.actuaries.org](http://www.actuaries.org) by selecting the 'Documents' or the 'New' button. The blue text in the table of contents of the Bulletin represents links to the articles. Please note that the Bulletin is no longer available in printed format.

## Golf

The Matchplay Competition is at an interesting stage now as we approach the Semi Finals. Captain's Day is Thursday 19th July in St. Margaret's Golf and Country Club. Maurice Whyms, the Captain, will be sending our a notice shortly in order to finalise numbers for the Golf Outing.



## Student Society

The Student Consultative Committee met recently to discuss students' concerns relating to exams and the future of the education system. Points to note from the meeting are as follows:

- 1) With effect from the September sitting, exam results will be published on the website at 10pm and not at midnight as has been the case up to now. The results due this June will still come out at midnight.
- 2) The Board of Examiners is thinking about introducing a new, non-compulsory, 'Finance' exam that would be called '305'. If the exam is introduced, students will have the option of sitting 3 exams from 302, 303, 304 and 305 with 301 still being compulsory. No final decisions have been made regarding the subject but, if introduced it will not be before 2003.
- 3) The Institute and Faculty are hoping



*The Presentation of the Year 2000 Society of Actuaries in Ireland Prize was made at an awards ceremony held at UCD on Friday 16 March. Awards were also presented for Statistics and Fundamentals of Actuarial Mathematics (HCM International), French (New Ireland) and German (Eagle Star) to students in the UCD Actuarial programme. Pictured at the ceremony are Cathy Murphy (HCM International), Ronan O'Connor (UCD), John Groarke (UCD Prizewinner), John Caslin (Eagle Star and presenting the prize on behalf of the President Jimmy Joyce), Robert Wolfe (New Ireland) and Philip Boland (UCD).*

to reduce the volume of information sent out in regular mailings. All of this information is available on their website - [www.actuaries.org.uk](http://www.actuaries.org.uk) - and they are keen to see more people logging on regularly to check the site for updates.

Remember that the consultative meeting is one of the best ways for you to get your message across to the Institute. All aspects of student life are

discussed, including exams, study materials, tutorials, examination centres and results.

If you'd like to see something included in the next consultative agenda, or have any queries or comments relating to the exams then mail me at [Barry.Cudmore@irishlife.ie](mailto:Barry.Cudmore@irishlife.ie).

**Barry Cudmore**

News Release

April 20, 2001

### Society of Actuaries Welcomes New Pensions Initiative

The Society of Actuaries in Ireland welcomes the Government announcement of the legislative framework for Personal Retirement Savings Accounts (PRSA). The Society sees more widespread private pension provision as desirable, especially in the context of people living longer.

The new system will provide PRSA contributors with flexible and transparent products. The Society welcomes the requirement for a 'Statement of Reasonable Projection', although the full details of this are not yet clear. The Society also welcomes the statutory role proposed for a "PRSA Actuary" in the supervision of the operation of PRSA providers.

The Society of Actuaries looks forward to working with the relevant authorities in their efforts to bring about an early implementation of the new system.

### On the Move

⇒ Fellow Members **Niall Dillon** is moving from Life Strategies to **Acumen Resources**

⇒ Student Members **David Muldowney** is leaving Canada Life to join **Mediolanum Asset Management**



Society of Actuaries in Ireland

102 Pembroke Road, Dublin 4. Telephone: +353 1 660 3064 Fax: +353 1 660 3074 E-mail: [actuaries@iol.ie](mailto:actuaries@iol.ie) Web site: [www.actuaries-soc.ie](http://www.actuaries-soc.ie)