

By now, all members should have received their copy of the Society's handbook. If you have not yet received a copy, please contact Mary Butler immediately.

The Handbook will be updated once a year, after the AGM. As well as changes to the Council and officers, the update will include any changes to Guidance Notes and an updated list of members. The Council committees are working to update and get formal approval for several of the Notes adopted from the Institute/Faculty, and these will be included in the first update this year.

Each year the membership list will show as far as possible the details at the previous 31 March, which is the year end of the Society. We will make every effort to accommodate changes that are notified after that date, but this will not always be possible.

The Society's membership database system has recently been overhauled. All members will shortly be circulated with the details held for them, and asked to update it where necessary. It is important that you fill this out as soon as you receive it, both to give us time to add in your details, and to avoid the possibility that you will forget to do it. If you have not received any form by the end of April, please fax Mary Butler at Dublin 662 2489.

Comments and suggestions for additions to the Handbook are very welcome. Please contact Brendan Kennedy at Howard Johnson & Co., 52 Gloucester Place, London W1H 3HJ, phone 0171 486 1165.

Pensions Workshop

Health Insurance Regulations

Valuation Regulations

St Petersburg

Pensions Workshop

- Date for your Diary -

A Pensions Workshop is to be held at 4.00 p.m. on Tuesday, 25 April, in St. James House, Adelaide Road, Dublin 2 (Mercer Limited's offices). It has been sometime since the previous pensions workshop which was held a few years ago to discuss primarily the Pensions Act.

This workshop will cover current topics which will be of practical interest to pension practitioners in the profession. In particular the subjects which will be covered will include the following:

1. Update on amendments to the Pensions Act.
2. The Family Law Bill.
3. The Funding Proposal.
4. External Schemes and Members.

The above are some of the topics which it is proposed to cover during the course of the workshop. Any member who wishes to add any further items to the above list please contact Des Ryan (4782866). Reservation forms will be sent out in April. Finally, note that the intention is for the workshop to finish at around 7.00 p.m.



Valuation Regulations

The regulations implementing the EU Third Life Directive into Irish law were published last December, in the European Communities (Life Assurance) Framework Regulations, 1994 [S.I. No. 360 of 1994]. These include new regulations in respect of the valuation of assets and liabilities of life assurance companies, as well as other matters mainly related to incorporating the principle of 'home country' supervision and the provision of information to customers on the sale of a life insurance product.

The new valuation regulations will impact on returns produced in relation to financial periods commencing on or after 1st January 1995 so they don't directly affect 1994 end year returns. The main changes to existing regulations are very much in line with the terms of the Directive. The Society of Actuaries in Ireland was afforded the opportunity to input into the regulations and the final version reflects the comments made by the Society, through the Life Committee.

The main differences include the need to consider each element in the valuation basis separately, rather than relying on the overall result being suitably prudent. This may, for example, lead some actuaries to consider making changes to their risk assumptions, where overly strong reserving (e.g. on life mortality) or potentially weak reserving (e.g. on annuity mortality) may have developed over time. It is an opportune time for the Society to have initiated work on critical illness business and to have been instrumental in producing a published table of rates to which actuaries can refer.

Other changes include the reduction in the margin required on expected income from an offices investment portfolio, from 7.5% to 2.5%. The need for such a high margin has reduced due to changes in valuation approaches, including the use of mismatch tests. For the first time the actuary will have to certify the adequacy of premium rates for new business written during the previous valuation period. In doing this the actuary will be allowed to take account of the level of free reserves in the company. The regulations also introduce specific requirements in relation to the control of derivatives.

The regulators will be producing guidance notes on the implementation of the regulations and the Society has offered assistance to the DEE in this regard. It is worth noting that the DTI in the UK are now publishing 'official' guidance notes which Directors are expected to certify that they have taken into account when signing off that 'systems of control are established and maintained by the company'. Other developments in the UK include a major review by the DTI of the format and content of Schedule 4. We will be well advised to keep an eye on developments in that regard. The new Irish regulations now require a Fifth Schedule to be produced only when requested by the regulators.

The regulations require an actuary to be a Fellow Member of the Society of Actuaries in Ireland in order to be an Appointed Actuary for a life company. This is the first (of many, we hope) official recognition of the Society's role. Council is preparing revisions to GN1 and GN8 to take account of the changed regulations and these should be published shortly. Council is also giving serious consideration to the introduction of Appointed Actuary Certificates, as exist in the UK. Members will be kept informed of developments on this front.

It is likely that the Society will arrange an evening meeting in the autumn to go through the changes arising from the new regulations in more detail. Such a meeting will likely happen after the publication of the DEE guidance notes to ensure completeness. It may also include the implications of the implementation of the new regulations on Insurance Company Accounts, also produced on foot of an EU Directive.

There was a very useful paper presented to the Staple Inn Actuarial Society on 7 March 1995 on 'Recent Developments in Life Office Financial Reporting', by Gallen and Kipling. While it does focus on the UK situation it is a very good summary of the current situation following their implementation of these Directives. It includes the authors' practical experience in following the new regulations. It also covers some possible future developments on statutory reporting, such as Dynamic Solvency Testing and Financial Condition Reports. A recommended read to all actuaries involved in life assurance.

Guaranteed Equity Products

*A paper delivered to the Society of Actuaries in Ireland by
Tim Sheldon and Mahilesh Dodhia*

A most interesting and, in retrospect, most topical, paper was presented to the February meeting of the Society by Tim Sheldon and Mahilesh Dodhia. The presentation did not confine itself to the eponymous products but looked at the whole area of derivatives within the life industry.

The derivatives market can broadly be divided in two. In the traded market the contracts are traded by open outcry. The terms of the contracts traded are very much restricted. There are a limited number of series available each with a fixed exercise date and listed price. As each of the traders must provide collateral to the exchange any credit risk is taken by the exchange. Over the Counter contracts (OTCs) are tailored to the requirements of the transacting parties and are traded over the telephone rather than by open outcry in pits. There is a credit risk attaching to the counterparty writing an OTC contract. Prices are not listed or quoted in any market, as such.

The authors felt that, because of the complexity of the instruments involved, there was a lack of understanding of the whole area. There are a number of distinct risks when operating in these markets. The most obvious risk was the credit risk of the counterparty. This can be quantified as the replacement cost of the derivative held in different market scenarios, i.e. essentially applying a resilience test to the assets held. As with any assets, there is a market risk. There is a legal risk that the liability attaching to the party writing the contract will not be legally enforceable. As recently evident, there are also significant operating risks for institutions in controlling the activities of their traders.

The authors outlined where derivative securities could be of particular use to life

companies. For instance, derivatives can provide a quick, cheap and convenient method of altering asset allocation within a portfolio. They can also be of use in the financial management of a life office, by increasing the running yield of equity assets, thus allowing the use of a higher yield for statutory valuations. Another area is that of capital guarantees, where reserving requirements can be mitigated. Derivatives can also be used to sustain a higher equity content while reducing the impact of the resilience tests.

Recent years have seen the growth of derivative based retail products such as equity linked growth and income bonds, rolling funds and high income bonds. Looking to the future, derivatives may have a role to play in with profits business,

funding guarantees between different generations of policyholders.

Overall, the paper stimulated a wide-ranging debate on the value of derivatives in the financial management of a life office, the opportunities they present for developing new retail products and the thorny issue of how to control what is by nature a volatile and complex market.

Fergal O' Shea



8th East Asian Actuarial Conference

Any member who will be in the Far East in the coming autumn may be interested in noting that the 8th East Asian Actuarial Conference will be held in Tokyo from 2nd to the 5th of October. The registration fee is US\$250, and further details can be obtained from Mary Butler.

Health Insurance Regulations

- Stop Press -

The draft health insurance regulations were finally published on 6th March. As a result, the meeting scheduled for 22nd March has had to be rescheduled to allow the Health Insurance Committee adequate time to review the regulations. The new date for the meeting is 7th June.

However, we are looking into the possibility of an alternative meeting for 22nd March. This will be confirmed in the next few days: in the meantime, keep the date free in your diary.



Calendar

Evening meetings are held at the Stephen's Green Club, Dublin 2 at 6.00 for 6.30 p.m. Dinner follows at 8.30 p.m. The AGM will be held at the Stephen's Green Club at 6.00 p.m. sharp; evening meeting to follow immediately thereafter.

15 March 1995

Evening Meeting: Address by the President of the Faculty of Actuaries
Malcolm Murray

22 March 1995

Evening Meeting

12 April 1995

Evening Meeting: **Derivatives** - report of the Working Party
chaired by *Rosalind Briggs*

25 April 1995

Pensions Workshop

April/May

Life Assurance Seminar

2nd May 1995

Evening Meeting: **An Introduction to Offshore Life Assurance Business**
by Gary Boal and Lee Tyrer

5 May 1995

Annual Dinner Dance

24 May 1995

AGM, followed by
Evening Meeting: **Claims Reserving in the Lloyds Market**
by *George Maher*

7 June 1995

Evening Meeting: **Health Insurance** - report of the Working Party
chaired by *Aisling Kennedy*



Catherine Redmond has joined IPT
from Irish Life

Michael Madden has joined IPT
from Planlife

Paul Dillon is leaving Irish Life to
join L&P

Rodney Smyth has joined McDonagh
& Boland from Delany Bacon &
Woodrow

Philip Shier has joined Delany Bacon
& Woodrow

British Actuarial Journal

From the November 1994 issue of 'The Actuary', you will be aware that the FTA and JIA are shortly to be replaced by the British Actuarial Journal. Although this new journal will continue to comprise mainly papers from Sessional Meetings of the Institute and Faculty, an effort is being made to expand the range included. We have been asked to encourage our members to submit appropriate material.

Among the items that may be suitable are 'ground-breaking educational or explanatory papers on specific subjects, profiles and historical subjects', subject to the normal scrutineering process.

Given the rapidly increasing numbers of Irish members of the Faculty and Institute and the broadening range of the activities of Society members, there should be plenty of opportunity to increase our proportion of publications by the profession.

St Petersburg University

St Petersburg State University is attempting to develop an actuarial faculty. They have appealed for any spare actuarial textbooks. As almost every actuary has a collection of textbooks which they no longer need or want, we'd be grateful if you could pass them to Mary Butler, who will arrange to forward them.

