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Address of the President, Mr J. Joyce F.I.A., to the Society of Actuaries in Ireland on 14 September, 1999

I remarked when accepting the Chain of Office from Bruce Maxwell last May that I was not a normal actuary. This gave rise to a few laughs at my expense so I am tempting fate when I say that I am not a normal President either. I've never worked in an insurance company (I nearly said Irish Life!) nor in an actuarial consultancy. I have been, and am, a Trustee of several pension funds, but, as you know, my principal role in that capacity is to be duly deferential to the Fund Actuary! My recent few years in insurance regulation have probably served more to confirm me in how much I still have to learn about actuarial work than to enlighten the regulated institutions. Actually, our first President, Liam Honahan, was a career public servant like myself but even he was involved in pensions and social security work for much of his distinguished career and had, in fact, spent a period working in the British Government Actuary's Department. So if all this makes me especially conscious of the honour you have done me by electing me as your President, it also makes a Presidential Address particularly daunting.

However, my first task is an easy, and pleasant, one. It is to pay a tribute and to welcome some special non-actuary guests. I had hoped that Liam O'Regan, former Secretary of the Department of Posts and Telegraphs, who was instrumental in getting me started on the actuarial road, could be here but Liam is abroad and has sent his regrets. Liam was an inspiration to many young civil servants, and many older politicians, and his vision and tenacity in pressing for investment in telecommunications when it wasn't fashionable to do so and in managing the process of moving posts and telecommunications out of the civil service were in the best, personally disinterested, public service tradition. I am delighted that an old colleague from Posts and Telegraphs and Telecom days, Alfie Shaw, who was a vital support to me at a number of critical junctures, has been able to join us. Could I welcome too another former colleague in a few different manifestations, Sean Dorgan. As many of you will recall, Sean was in charge of insurance regulation during some turbulent times for the insurance industry and he remains close to financial services through IDA Ireland's promotional work for the International Financial Services Centre. The Society has many contacts with the Department of Finance and I am delighted that Joe McGovern, who heads the Department's Superannuation and Employment Division is here with us. Finally, I would like to welcome Martin Cosgrove of the Department of Enterprise, Trade and Employment, to which I am myself currently attached. Gentlemen, I would like to thank you all for joining us this evening.

It has become something of a feature of a Presidential Address that it searches for analogies from the past, mainly, I suppose, to emphasise continuity and tradition but, partly too, I suspect, for a sense of reassurance that things, good and bad, were much the same then as now. Paul Thornton went so far as to call his recent thought-provoking Presidential Address to the Institute *"Lessons from History"*. I confess that, while I can be as fascinated as the next man by historical analogies, I have little confidence in their explanatory or predictive value when applied to current problems. The difficulty is that our knowledge and appreciation of the nuances and circumstances of even quite recent events are hugely circumscribed. The *"expanding funnel of doubt"* which we actuaries speak of as applied to the future applies equally to the past. So I have resisted the temptation (and avoided the work!) of delving into past Presidential Addresses and other sources in a search for telling aphorisms. There is one quotation, however, which I feel might be displayed at any professional meeting - this is Adam Smith's well known contention that *"people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public"*. We pride ourselves on endeavouring to take a public interest stance on public policy issues but we must always be conscious of how easy it is to convince oneself that one's own interest and the public interest coincide. I have tried to bear this in mind in what I say here this evening.

I suspect that the recent past has led to a lot of soul-searching on the part of people who, like myself, have spent their careers in the public sector. We have all these so-called *"revelations"*, claims and counterclaims arising from the various enquiries and tribunals, many of them putting the conduct of public administration in the spotlight. This has been particularly so in the fields of taxation and financial services, in many areas of which the actuarial profession is closely involved. But, you may say, isn't this exactly a case where the *"expanding funnel of doubt"* applies and where one cannot confidently judge official and political motives and actions, let alone interactions, at such a remove. Having been involved in some comparable situations, I can say that it is indeed a daunting experience to have to justify oneself in such circumstances. It is so difficult to get an acceptance of context - long after the event an enquiry proceeds as if what is under examination were the only thing on one's agenda at the relevant time. In practice, we cannot, of course, use such an argument to avoid the issue in this particular case. The reputation of the public service and the confidence of the public in its diligence, even-handedness and integrity are too important for that. A huge amount rests, therefore, on the ability of Deputy Mitchell's Committee to establish the facts fairly and comprehensively and to draw the appropriate conclusions. I believe that the reputation of the public service will survive the present trauma and that the service will have the character to face up squarely to any past deficiencies and the capacity to remedy them.

On way or another, a fundamental reform of the regulation of financial services is certainly timely. So I warmly welcome the Government's decision in principle of

October, 1998 to establish a single regulatory authority for the financial services sector. The main area of comment and controversy on the report of the Implementation Advisory Group appointed to advise the Government has related to the structure for implementation, i.e. whether the new body should be standalone or otherwise. Interestingly, when I canvassed some opinion in the Society on this, I didn't find a very pronounced view. Perhaps there was some preference for the standalone option but the general view seemed to be that alternative methods (if properly and consistently structured) could be feasible. What I would urge, however, is that Government should reach a decision on the matter without delay and that the process of setting up the new Single Financial Regulator, wherever located, should be pressed ahead.

Technological developments, industry consolidation and conglomeration, integration of services and products, and their revolutionary consequences for the whole financial services marketplace, have meant that the task of financial regulation now is quite different from what it was some years ago. Regulatory structures have not kept pace with these developments, nor with the requirements for product transparency and consumer protection to which they give rise. Consistency of regulation across the financial services industry is also of fundamental importance, both for the development of the industry and for the effectiveness of the regulation. While this may always have been the official objective, existing arrangements have gaps and anomalies which could become increasingly disadvantageous as the integration of the sector proceeds. The advent of the Single Financial Regulator should provide a unique opportunity to address these issues in a comprehensive manner.

It is, of course, critical to get the basic constitution of the Authority right from the start. The enabling legislation should set out clear powers and objectives and should ensure that the Authority is operationally independent of political and commercial interference. It should have responsibilities for solvency audit and for "operational integrity" audit. It should have comprehensive and credible inspection and enforcement powers. Funding should be adequate and of a form that does not compromise the Authority's independence. As the Implementation Group pointed out, staffing, and resourcing generally, will be critical to the success of a new Authority. Professional resources, actuarial and other, will be particularly important, given the inadequacies in this regard of the various component bodies in the past. While, as an interested party, we would say this (wouldn't we?), I am fairly sure that, in this case, there is no "conspiracy against the public" involved!

Contrary to what many outside the public service may think, public servants tend to be quite sceptical about regulation as such. We know that regulation is necessary, indeed critical, but we are anything but dogmatic about the appropriate scope and form of it and

we tend, if anything, to be conservative in considering the extension or expansion of regulation. In my experience, the pressure to regulate as such does not come from within the public service. So I would be satisfied that the new Authority will enter upon its task with an executive which will be quite open minded as to the best means of meeting its remit.

I would suggest that the new Authority in its initial phase should take some time to consider the conceptual issues of optimum supervisory structure and balance. In my view, financial regulation is carried out most effectively when a proper balance is achieved between external supervision by an independent regulator and internal compliance (approved and supervised by the regulator) within the regulated bodies. While the whole concept of self regulation has been increasingly questioned, one might even say discredited, in recent times, it does contain elements which, in terms of effectiveness and efficiency, can be well worth capturing. Equally, external regulation, if it is too pervasive and overly detailed, can stifle industry development and innovation. The trick is to find the right balance.

From my admittedly biased perspective, the "*appointed actuary*" system in life assurance and the "*scheme actuary*" system in pension funds are models which achieve a good balance of internal and external elements. To quote the Pensions Board in the National Pensions Policy Initiative Report, "*the financial aspects of life assurance business.....are supervised by the Appointed Actuary system.....with considerable success..... the Appointed Actuary has clear responsibilities to customers of his organisation and the general public as well as to the regulator and the actuarial profession.*" The Appointed Actuary and Scheme Actuary systems have now operated successfully for some years and I am sure that the model would be capable of development in other areas of financial services. The Society will, I am sure, be prepared to work with the new Authority in any such developments.

I want to turn now to some comments on the profession's main practice areas and I apologise if some of what I have to say repeats points made in the Paper on "*Regulation and the Actuary in Ireland*" presented by Stephen Doyle and myself in May last.

In relation to life assurance, our lives have been dominated by the whole product/remuneration disclosure debate now for more than two years. And still disclosure hasn't happened. I am convinced myself that more transparency on the lines proposed would be good for the life assurance industry and for the consumer in the long term but, at this stage, I could understand the point of view of someone who said "*despite all the*

talk, we haven't had disclosure and the life assurance business is still thriving, so do we really need it?". However, whatever about that, the Society certainly cannot be faulted in its efforts to advance the matter. We have accepted the proposed major extension of the actuary's statutory role which would be involved in the Draft Regulations and we have invested considerable effort in preparing draft Professional Guidance Notes to support the Regulations. Indeed, in relation to some of the proposals, specifically those related to remuneration disclosure, we did not see the proposals as a natural extension of the actuary's role in life assurance but we were prepared to acquiesce in them in the light of the public policy objectives involved.

It is clear that implementation of the regulatory regime proposed would greatly extend the regulatory role of the actuary and the Society. In some respects, indeed, it could be argued that the Society is put in the position of discharging responsibilities more usually directly discharged by the Supervisory Authority.

If and when regulations are enacted, will our decision to accept a central role in remuneration disclosure prove justified in the public interest? Will the industry find the discretions granted to actuaries and to the Society acceptable in practice? Will we have found the right balance between the responsibilities of companies and the responsibilities of actuaries advising them? And probably most important, will there be public acceptance of the objectivity of the profession in such a commercially sensitive area? In implementing the Regulations, there will be a need for close liaison between the Society, the Supervisor and industry interests. A challenge for the Society will be to achieve successful liaison while retaining its independence in discharging the statutory functions assigned to it.

In relation to general and health insurance, our preoccupations are likely to continue to be with the issue of a statutory role for the actuary. However, while it may be heretical to say so, actual industry and market developments may be making that debate to some extent redundant. Insurers now invariably employ actuaries and, where the Supervisory Authority had concerns about the viability of an insurer, an actuarial report would invariably be called for. What has happened is that the increasing availability of actuaries, allied to a recognition of the contribution which they can make, has in one sense overtaken the issue of a statutory role. Nevertheless, I do feel (and, again, I hope and believe that we are taking an objective view of the public interest in this) that we should continue to present the case for a statutory actuarial role. By giving some independent dimension to the actuarial role, this would enhance the actuary's ability to perform the essential function of ensuring the long term financial stability of the insurance undertaking. It would also be fully consistent with the general regulatory philosophy which I outlined earlier. I hope that we may before long be debating this matter with the new Single Financial Regulator.

In pensions, there is certainly no shortage of developing issues of active concern to actuaries. We have the working out of the National Pensions Initiative proposals, the changes in relation to pension annuities in last year's Finance Act and, more recently, the announcements in regard to advance funding for State pensions. I have no doubt that the motivation for all of these developments is fine and positive and I hope I don't sound like a typical bureaucrat if I express a certain caution in relation to them. There are no quick fixes in pensions but the Law of Unintended Consequences certainly can apply. I believe there is also a danger of creating unrealistic expectations. The Personal Retirement Savings Account can make a contribution, perhaps a significant one, to the widening and deepening of pension coverage but it is a lot to ask that it be ubiquitous, flexible, good value, cheap and commercial all at once? I have heard some criticism that the implementation of NIPPE has been slow to get off the ground - however, my own view would be that this is an area where the traditional civil service virtues of deliberation and caution should be to the fore and that the consultative process being adopted is the right one. In the case of the putative national pension fund, I would ask if similar prudence considerations and equivalent investment policy considerations apply to such a fund as to a large segregated private pension fund? I have my doubts and I think that this proposal will require a lot of fundamental and critical scrutiny. As actuaries, we pride ourselves as having particular expertise, engendered by a long specialised training and experience, in *"making financial sense of the future"* so I am sure that the Society will wish to play an active role in the consultations on all of these issues.

For some time the received wisdom has been that actuaries have rather lost out in the investment field to other disciplines. If that is the case, then we seem to be making a resurgence in that many of the more lively debates currently in the actuarial journals relate to investment matters. I am glad to say that the Society has been increasingly active in investment related areas. The latest initiative of the Investment Committee is to organise a three part introduction to financial economics for non specialist members which is arranged for the coming session. We also have a group looking at the issues surrounding market based valuations.

You will have seen that the Insurance Regulatory Authority issued a consultative document earlier this year in relation to the supervision of reinsurance companies and it occurred to me at the time that we in the Society had not paid much attention to reinsurance, no doubt on the basis that reinsurance is an international and multinational business not traditionally located here. With the development of the IFSC that has changed and we now have a number of reinsurance businesses and a number of actuaries based in the IFSC. I am looking forward, therefore, to a greater emphasis on reinsurance matters in our professional activities.

In relation to the IFSC, I should refer to the recent Government document "*Strategy for the Development of the International Financial Industry in Ireland*". This sets out an approach to the further development of the sector in the new taxation regime agreed with the EU Commission. The partnership between the IDA, the Supervisory Authorities and the professions in promoting the IFSC has, in my view, been very well managed. In particular, the line which the IDA have been able to draw between their efforts as promoters and the prudential responsibilities of regulators has been well and carefully judged. I have heard positive comments from prospective clients on all three parties to the partnership, as to their capability, flexibility and accessibility. I have no doubt that the partnership will work just as effectively under the new regime. The development of the IFSC has been hugely beneficial to the actuarial profession and we will, I am sure, continue to lend it our maximum support.

On the international front, a number of important issues are currently active. At European level, the Commission's long running review of the insurance solvency regime seems to be nearing a conclusion, the main outstanding issue being the question of a third parameter for assessing the minimum solvency requirement of a non life insurance company to add to the present claims based and premium based parameters - the objective being to cater better for long tailed business. Might I suggest that, when the Supervisory Authority comes to implement the changes which finally emerge from the review, it would be well to do this in the context of an updating of the valuation and solvency regulations generally. Such an updating is probably already overdue.

The Commission's initiative on supplementary pension provision also seems to be making progress. The IFSC is well placed to take advantage of any Europe-wide liberalisation which results and it is interesting to note that there has already been some indication of interest in establishing embryo pan-European pension arrangements there. The other "*hot topic*" in Europe is the impact of the low interest environment and the Euro on financial services, specifically life assurance and pensions. Some of our continental partners appear to be having particular problems, apparently arising from the fact that the "*technical rate of interest*" can be a political issue!

The development of international insurance accounting standards remains "*work in progress*" with a plethora of bodies involved - indeed, the volume of international exchange of electronic mail being generated is staggering. My predecessor's hopes that agreement would be concluded during his term on fair value accounting standards which reflect sound actuarial principles while also meeting accounting needs for international comparability proved optimistic. However, with all the effort being expended, there must surely be an outcome before too long.

So much for comment on our so-called traditional areas. Having made them, let me say, as some of you may have heard me say (ad nauseam!) in the past, that I rather dislike this idea of "*traditional*" areas, which I feel has been a force for a sort of self-imposed professional delimitation. Among other things, it has led us into forecasting exercises in relation to future employment capacities which I have always regarded in their presentation as rather misguided. The professional training of an actuary is very broadly based. It provides specific expertise applicable to all areas of finance, investment and risk and, no less than other professions such as law and accounting, it also provides a solid grounding for general management responsibilities. Speaking personally, I never found an actuarial qualification any impediment to a career in telecommunications, rather the reverse. I think we need to adjust our mindset in two ways (I believe that this has, in fact, already started to happen) - we should see our expertise as being broadly based in financial services in the widest sense rather than in specific industry sectors and we should regard mobility, both between functions and between sectors, as a normal feature of an actuary's career. If, as some claim, there has been a trend towards over specialisation and a narrow technical focus, then it has been largely self imposed and the remedy is in our own hands.

When I qualified to join the Society in 1976 (four years after its inception), we had 25 Fellow Members. Brian Reddin was President and the membership subscription was £7.50. The financial affairs of the Society were catered for by a small Notebook, which continued to serve the purpose until 1988/89! I well recall the annual dinner to which new members (there were four of us, unprecedented growth in those days) were invited, firstly, because I was regarded as something of an oddity and, secondly, because it was possible to seat the attendance, which constituted most of the membership, at a fair sized table. We have, of course, grown steadily since then to a membership at the most recent count of over 350, including 130 Overseas Fellows, and over 200 Students. Our constitution and activities have developed in tandem. A milestone was the adoption of a new Memorandum and Articles of Association in 1988 under which we became a fully fledged professional association with our own rules on professional conduct and practice and our own disciplinary scheme.

In light of the Society's continuing development, a review of the Constitution was initiated by my predecessor and Council will shortly be bringing forward proposals for a number of changes. The main proposal envisages an increase in the size of Council and an increase in the proportion of Council members elected as distinct from co-opted. This change is designed to meet what was seen by some as a "*democratic deficit*" in our present arrangements. We will also be proposing some other changes aimed at broadening the frontiers of the Society and also a series of, essentially updating, changes. I would like to take this opportunity to urge members' active participation in the consultative process on these proposals which are of fundamental importance to the future of the Society.

The Journal of the Institute of Actuaries used on its cover quote Bacon's dictum to the effect that *"I hold every man a debtor to his profession, from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto"*. I think it's a pity that the successor joint Institute and Faculty Actuarial Journal has dropped the quotation because it seems to me to encapsulate very neatly what the relationship between society at large, a professional body like our own and the members of a profession should be.

I see our debt to the public interest in those simple terms, a return on the confidence and recognition which Society reposes in us. Equally, we do owe a debt to the collective tradition, wisdom and reputation of the profession from which we benefit significantly both materially and in terms of personal standing. The debt to Society and to the profession is certainly not discharged by the membership subscription nor, save for the exceptional case, by one's individual contribution to the profession. This is where Bacon's concept of a duty to be an ornament (nowadays we would, I suppose, say a credit) to one's profession comes in. It is given to few to make the contribution to actuarial science of a Lidstone or a Redington - although, no doubt, we should all aspire to do so. But we can all endeavour, in serving our clients, to serve the public interest and the profession also. The valediction *"he was a credit to his profession"* should be universally attainable.

Happily, I see every indication that actuaries are alive to their responsibilities in these respects. I have been struck throughout my own career by the readiness with which fellow actuaries have shared their special technical expertise and experience. The assistance I received, both professional and personal, when (with a minimum of knowledge and background) I took up my present work went far beyond *"being nice to the regulator"* - not that it gets you anywhere to be nice to the regulator anyway! The very naiveté of the emphasis which Society Presidents have placed on the public interest - we even have an agenda item so called at each of our Council meetings - has been impressive in its sincerity. And I regard as most noteworthy of all the readiness of members to serve on Society Committees and Working Parties - for various reasons, we have had quite a number of additions to these in recent times and I cannot recall a case where a member approached declined. Having said this, I should add that there is always a warm welcome for any member who wishes to make a contribution to our professional activities. The Secretary is particularly keen to hear from members who have ideas for papers or research projects, at however preliminary a stage the plans may be - that's the obligatory sting in the tail!

Before delivering this Address, I had the pleasure of welcoming our latest new qualifiers into the Society. Coincidentally, this morning I had the further pleasure of attending the annual breakfast for first year students in UCD's Bachelor of Actuarial and Financial Studies degree programme. Many of the graduates of the programme would be expected to go on to take the Institute or Faculty examinations and to become Fellow Members of the Society. From talking to the students, it was very clear that the standard of prospective entry to the profession is as high as, if not higher than, it has ever been. I know that the same is true of the corresponding DCU programme. I conclude, therefore, that the future of our Society is as promising as its (brief) past is proud.

Every President is asked about his agenda for his term of office. Like Yeats, I am inclined to reply "*what can I but enumerate old themes?*". We shall continue to play our full part in shaping developments over the range of financial services while ensuring our independence of sectional and commercial interests. Ever mindful of the cautionary words of Adam Smith, we shall endeavour to take a public interest stance in commenting on public policy issues. We shall broadcast the advantages of the regulatory philosophy which I outlined earlier and the role which the actuarial profession can play in rendering it effective. We shall press ahead with constitutional changes designed to democratise our structures and broaden our frontiers. We shall organise a full range of professional development activities involving the widest possible range of the membership and stretching the boundaries of our interests.

All this is commonplace. But the fact is that the context is changing simply because of the growth of the Society. We have always been a significant body qualitatively - we are substantial now in numbers as well. That brings with it new opportunities to make our voice heard and to influence the course of events and new challenges, for example of internal and external communication. We are grown up now and, whether we like it or not, more will be expected of us as a fully fledged representative body and the scope and depth of our efforts must develop in step. Its a long way from the 1976 Notebook to here.

Our Society is in great shape and to have been asked to lead it into the new Millennium is the highlight of my career. We are certainly not an ageist organisation since I believe that I am much the oldest Society President! I shall do the job to the best of my ability. And, since I know from experience that I can rely on the wholehearted support of members of the Society, I have every confidence of success.

Thank you all for your attention.

