

Internal & External Surveys of the Society

While there was a poor attendance at the meeting held on 5th March to announce and discuss the results of the surveys, there was a very good discussion. Council is currently finalising the Report and Recommendations from the Internal Survey of Members and the Report will be available very shortly.

Involvement in the Society

If you are interested in getting involved in the Society, we would urge you to complete and return the form which was sent to you recently with your annual subscription notice. The form is also available on the Society's website.

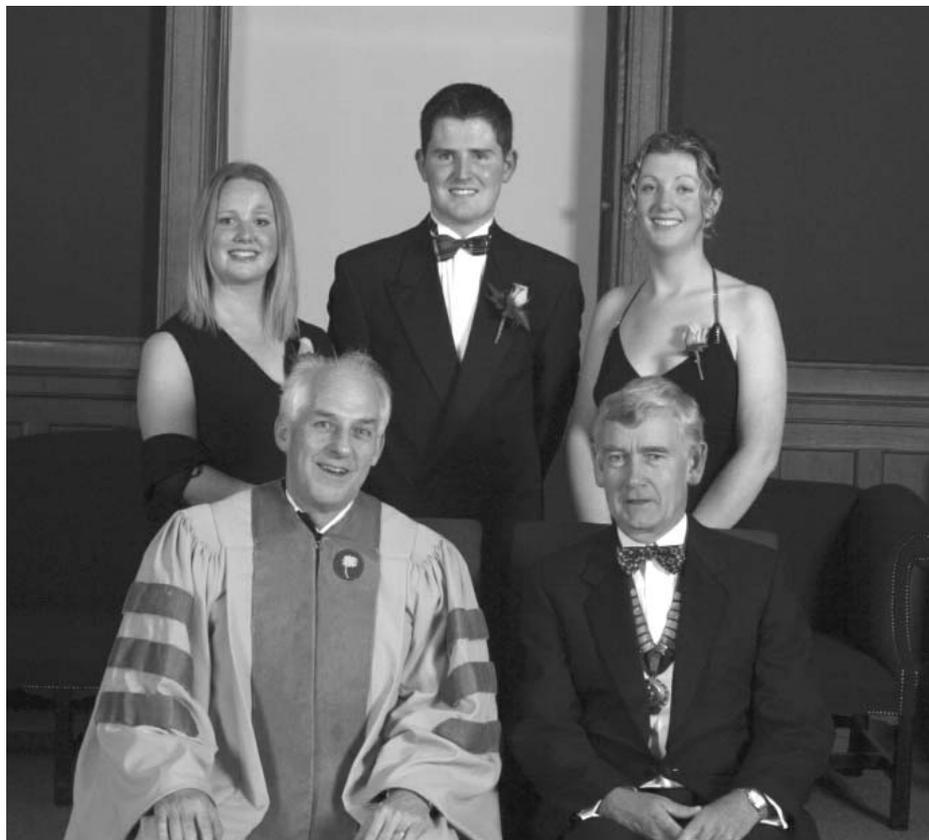
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UCD's Dean's List Dinner

At the dinner Eamonn Heffernan, President of the Society of Actuaries in Ireland awarded the Society of Actuaries Prize (to the student who in 2002 performed best in the final year actuarial subjects) to John Thornton (who graduated in 2002 and now works for Canada Life).

In the picture are Philip Boland and Eamonn Heffernan, and standing: Emer Casey (first place in UCD-BAFS level 2), John Thornton (first place in BAFS level 4 and Prize winner), and Nuala Broderick (first place in BAFS level 3).

Special sponsored awards were presented to students in the Actuarial and Financial Studies degree programme at a ceremony held in the Nora Greene room at UCD on Friday 21 March, 2003.

The prize winners were:

Emer Casey (2nd Year Prizes in Actuarial Mathematics and Statistics), Nuala Broderick (Watson Wyatt 2nd Prize in Survival Models), Conor Gaffney (Eagle Star Prize in German), Adrian O'Hagan (New Ireland Prize in French), Rafay Tariq (Mercer Prize in Japanese), and Tara Noonan (Watson Wyatt 1st Prize in Survival Models).

On the Move

➔ **Fellow Members** **Paul McNamara** has joined **AXA UK** from McKinsey & Company

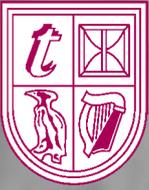
David O'Connor and **Kate O'Reilly** have moved to **Tillinghast-Towers Perrin, Dublin**

David was previously with Allianz Ireland and Kate was previously with B&W Deloitte.



Society of Actuaries in Ireland

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Newsletter

The Society of Actuaries in Ireland

May 2003



President of the Society of Actuaries in Ireland, Eamonn Heffernan and An Tanaiste and Minister for Enterprise, Trade & Employment, Mary Harney, T.D.

President's Dinner

The President's Biennial Dinner hosted by Eamonn Heffernan, was held on Wednesday 19 February in the Kildare Street & University Club.

This occasion affords the President the opportunity to bring together in a convivial atmosphere, representatives from Government Departments and from kindred professional organisations as well as Past Presidents and Council Members of the Society and other guests.

The Society was represented by Past Presidents and members of Council. Guests of the Society included, senior

civil servants, representatives of kindred bodies and other members of the business community.

The actuarial profession was represented by Tom Ross, President of the Faculty of Actuaries; Peter Nowell, Senior Vice President of the Institute of Actuaries and Jim MacGinnitie, President of the International Actuarial Association.

The guest of honour was An Tanaiste and Minister for Enterprise, Trade & Employment, Mary Harney, TD.

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Current Issues in Ireland's

A General Insurance Working Party comprising Patrick Grealy, Dermot O'Hara, Martin Ryan, Marian Keane, Brian Heffernan, and David Costello collaborated in sterling fashion to produce an excellent set of papers that were presented to the Society on February 12th, 2003. The comprehensive body of work produced succinctly addressed all of the issues affecting the Irish market with a particular focus on their effects for actuaries. There were excellent contributions from the large audience in attendance, and all left with plenty of food for thought.

E-Commerce: The Outlook for Online B2C Insurance in The Irish Retail Market

**Presented by, Brian Heffernan
and Martin Ryan**

Brian comprehensively addressed this broad subject which will undoubtedly have extensive effects across the industry in the coming years.

Demographic Data

Almost a third of Irish adults (895,000 people) currently use the Internet. 'Business-To-Consumer' e-commerce activity is highest among 35-49 year olds, ABC1s, those living in the East, credit card owners and people who have home access to the Internet. The top 5 purchase categories for Irish e-consumers are travel services, books, music, videos/DVDs and computer software. There is a 'digital divide' in Ireland when it comes to Internet access.

Trends in Insurance

The paper addressed trends in other countries regarding the convergence of the Internet and insurance sales / customer support. Buying insurance online is in its infancy, currently

composing approximately 1%-2% of sales. Insurance is a well-researched product online, particularly motor insurance. Brand is important but customers want value products that are easily understood. "Clicks and Mortar" is emerging as a key strategy for the success of online insurance. Consumers' perceptions of security are seen as one of the barriers to B2C growth.

After a slow start by Irish insurers, all the big players in the personal insurances market now have websites providing quotes for personal insurances with the lines of motor, household and travel being offered most often. Of the websites surveyed, there were varying degrees in difficulty and length of time associated in obtaining a quote. Some brokers have also moved online but generally the offerings here lag behind those of the insurance companies.

The paper concluded by stating that the Internet is here to stay as part of insurance companies' strategy. In the future, "E-strategy" will be measured in terms of Internet influenced sales in Ireland. Insurance B2C websites will evolve to meet these research needs as well as transactional needs.

Q&A

In the ensuing Q&A there were queries regarding whether insurers are doing all they can to encourage people to purchase insurance online, where future growth will be, and whether only specific types of targeted products could be sold online. In response, it was noted that an e-strategy requires considerable investment and this may not be approved because it cannot be justified.

Economic Profitability in Non-Life Insurance: A Historic Perspective on the Irish Market

**Presented by, Martin Ryan
and Marian Keane**

"You only get richer if you invest money at a higher return than the cost of that money to you."

Roberto Goizueta, the late CEO of Coca-Cola

Martin Ryan quoted the above to open his discussion on a unique economic perspective with which to examine the structural profitability of the Irish non-life market.

Background

Economic Value Added (EVA) is an alternative tool for measuring corporate economic profit in an environment where financial performance is monitored by demanding shareholders who choose between competing capital market investment projects.

The background to the EVA analysis shows that insurance and sales risks are not rewarded by the capital markets. The cost of capital for non-life insurers has declined in the 1990s. In this context, insurers should benchmark their performance against their cost of capital i.e. they should strive to enhance shareholder value by generating an economic profit. The structure of the insurance market makes it fundamentally less profitable than it would be if the effect of the underwriting cycle were eliminated.

EVA is the profit that remains after deducting the cost of all capital utilised in generating that profit. Thus EVA reflects the true profitability better than any other measure because it adjusts for the opportunity



Padraig Ryan., RIP

(1974-2003)

Our dear friend and colleague Padraig passed away on Saturday night 29th March 2003 after a long battle with respiratory illness. Padraig was a student member of the Society.

Padraig graduated from the Bachelor of Actuarial and Financial Studies course in UCD with 1st Class Honours. A regular attendee at the social events throughout university, he never let his illness affect his contribution nor enjoyment of student life. Padraig joined Lifetime Assurance in 1997 from UCD. He made a huge contribution to the work of the departments in which he worked and continued to do so from home when his illness progressed.

A native of Tipperary he was a huge supporter of the GAA and an avid defender of country life. He was a constant good natured thorn in the side of those of us who aspired to red wine and "dinner p-aar-ties" (despite being at the centre of the fun we had at them). And God help any city people who thought they knew anything about farm subsidies, fox-hunting or any rural issue. Although the most obvious trait of Padraig over the last year was his unwavering positivity in the face of his illness, it is his enormous wit and warmth that those of us who knew him well will remember most. We will miss him very much.

Our deepest sympathies lie with Padraig's parents Norah and Timmy and his brothers. We hope that they can take some comfort that he will be remembered as a brilliant, caring friend and that he will live on in the hearts of all of us who were privileged enough to know him.

Brian Grimes

Cuimín MacMahon., RIP

Cuimín McMahon was brave in facing new challenges in life. He was even braver when facing the cancer that finally claimed him from us in April last, at just 33 years of age.

A native of Shinrone, Co. Offaly, Cuimín was a star pupil in the local school, where his father Noel was headmaster. He was also gifted at music and was awarded a scholarship to study the piano at the Royal Irish Academy. He chose a different path in life, however, and joined Lifetime Assurance as an actuarial trainee straight from school in 1987. He progressed quickly through the exams, qualifying in 1993. In 1995, Cuimín took the brave step of resigning from his job in Lifetime to study full-time for an MBA at Insead. On graduating from Insead, he joined Mercury Asset Management, from where he moved to CGNU, to work in the Group's asset management division.

Cuimín was blessed with a quiet self-confidence, which allowed him to take on new challenges in the different phases of his short life. Nevertheless, although his studies and work took him far from home, he always remained true to his roots. His deep faith was a great consolation to him and to those close to him during his final illness, and he always retained his grá for the Irish language. He will be sorely missed by all of us who worked with him, but most of all by his parents Noel and Margaret, his sisters Marguerite and Niamh, and his fiancé Nicola. Leaba i measc na naomh go raibh aige.

Colm Fagan

Aisling Kennedy, Director of Professional Affairs

Aisling Kennedy joined the Society as Director of Professional Affairs in February 2003. We asked her to tell us a bit about herself and her new role.

Aisling, what is your background?

It has been quite varied. I started my actuarial career with Irish Life, just over 20 years ago. After some time in each of the group pensions, corporate actuarial and marketing departments, I spent a year working for Irish Life in the UK. This was followed by a year with Towers Perrin, in its pension consultancy practice. I passed my last actuarial exam in London in 1988 and returned to Dublin shortly afterwards. Another stint with Irish Life included a secondment to a joint venture with Irish Intercontinental Bank. I joined Mercer in 1990 and worked both on benefits and insurance consultancy projects. I was part of a Mercer team consulting to the Department of Health in relation to the regulation of the health insurance market and I subsequently moved to the VHI, where I spent two years as company actuary and director of business development.

I rejoined Mercer in 1996, initially to establish a practice consulting to employers on health care issues. I spent last year as content manager for Mercer's external websites in Continental Europe and Ireland, so I now know the word for "pension" in French, German, Spanish, Portuguese, Swedish, Turkish....!

Along the way, I married Brendan Kennedy, also an actuary, and we have three children, aged 12, 10 and 6.

What interested you in this new role with the Society?

When it was advertised late last year, it caught my interest because it provides an opportunity (or a challenge) to connect with actuarial activity and thinking across all practice areas. I also have a strong interest in communication, which is a key element of the role. I had had a fair amount of involvement with the Society over the years, having established the initial Health Care

Committee and having served on Council from 1995 – 2000, and knew that I would enjoy working with the various committees and Council. Finally, there was the opportunity for a flexible and part-time working arrangement, so that I could spend a bit more time with my children.

What does the role of Director of Professional Affairs do?

In essence, it involves supporting the work of the practice committees, the new Professional Affairs Committee and Council. Particularly as the statutory role for actuaries has expanded in recent years, the workload of the committees has increased considerably; I can provide support by carrying out research, drafting policy papers or guidance notes, etc. Where there are issues that concern more than one committee, I can facilitate liaison between the various committees concerned.

The role also involves maintaining contact with other relevant professional bodies, overseas actuarial associations and with regulators. And I will be available, where appropriate, to act as the Society's spokesperson on professional issues.

How have you found your first two months in the role?

The first couple of months have flown by, as I came on board at the peak time for the Society's annual activities. My strongest impressions so far are of the breadth of activity in which the profession is involved and of the increasing regulatory pressures and the pace of change. I have already learnt a lot both about areas of actuarial work that I haven't been involved in previously and about drafting guidance notes; I have realised that I am not going to be short of CPD hours for the foreseeable future.

I have had tremendous practical support from Mary Butler and Sarah Cahill as I settled into the Society's offices in Pembroke Road, for which I am very grateful.



Aisling Kennedy
Director of Professional Affairs

The Society welcomes Aisling Kennedy, a member of the Society, to this newly created position of Director of Professional Affairs.
Aisling.Kennedy@actuaries.ie



Mary Butler
Director of Member Services

Mary joined the Society in 1995 as Administrator. In the recent re-organisation of the Society, Mary was appointed as Director of Member Services
Mary.Butler@actuaries.ie



Sarah Cahill
Assistant Administrator

Many members will by now have met or at least spoken to Sarah on the phone. Sarah joined the Society last July. She provides administrative support for Mary Butler and Aisling Kennedy. It's Sarah you should email when making reservations for evening meetings, seminars and other Society events.
Sarah.Cahill@actuaries.ie

Non-Life Insurance Market

cost of capital. For the market value of a company to rise, returns over and above the opportunity cost for investors must be generated.

EVA captures this, and is therefore the most suitable tool to measure profitable growth, while prioritising shareholder value.

EVA is calculated as [(Return on Capital Earned – Cost of Capital) x average Capital], where $RoCE = (\text{Net Operating Profit after Tax} / \text{Average Capital Employed})$.

Profits are adjusted in certain ways e.g. eliminate margins in the claims reserve, discount claims reserves.

The cost of capital is weighted according to the levels of debt and equity, where the cost of equity capital is based on the well-known CAPM method.

The Irish Industry

The analysis of the Irish non-life industry in the context of EVA demonstrated that the market is extremely competitive, resulting in the destruction of shareholder value i.e. the industry has over and over again experienced economic losses. This led to the prediction that the industry will continue to destroy shareholder value, or at best break even (from an economic profit perspective), in the future.

Q&A

This paper provoked some intense discussion involving the entire audience.

It was noted that non-life insurance companies are involved in two distinct activities – underwriting risk and investment, with geared up investment using mismatched outstanding claims provisions. The investment activity has little to do with the insurance business.

Therefore, we should separate the two activities and look at the impact of one activity on the other.

The impact of Basle 2 on solvency requirements means greater scrutiny on insurance companies regarding capital that must be held. Performance should be measured on capital that has to be exposed to risk. This raises the question of the level of capital an insurance company needs to hold. The capital required to get an AAA rating is prohibitive. The floor also queried if insurers are less savvy at managing capital than their banking counterparts.

Banks need to hold various tiers of capital. They don't have any excess capital really - the extent of share buybacks shows this. Banks are good at transferring credit risks to insurance companies.

Martin ended the discussion by stating that investing in equities does not give return to shareholders. If shareholders want to invest in equities they will do it themselves.

Spiraling Costs of Insurance in Ireland

Presented by David Costello and Dermot O'Hara

David presented this paper which investigated a consistent thorn in the side of the Irish non-life market.

Motor Insurance

There are 1,769,684 motor vehicles currently registered in Ireland with a written premium of €1,669.3m. In 2001 outgoings totalled €112 per €100 of premium received. Personal Injury claims account for over 70% of the total claims cost. Legal costs can be very significant as a percentage of the settlement amount e.g. in 1998 non-compensation cost accounted for 28% of total claims cost. MIBI

incurred costs have increased by 4% over the period 1995 to 2000 to a current level of 8%.

Motor premiums increased significantly in 2001. However, when viewed over the past 10 years motor premiums have not increased by unusual amounts. Over the period 1994-2001, insurers made underwriting losses in all periods. In recent years investment income was not sufficient to compensate for the large underwriting losses and insurance losses have been made. There has been marked consolidation in the Irish market in recent years – in 1994 eleven companies wrote 90% of premium income in the motor insurance market, but by 1999 five companies wrote 84% of premium income in the motor insurance market.

Motor insurance business is very cyclical, so it is not appropriate to study any two-three year period in isolation. Motor insurance costs have not spiraled over the past ten years – wage and medical inflation outstripped insurance premium inflation in this period. The motor insurance market in Ireland made losses in 1999, 2000 and 2001. These losses are explained by the premiums charged failing to keep up with the underlying elements affecting premiums.

Household Insurance

In 2001, outgoings totalled €115 per €100 of premium earned. However investment income did not bridge the gap and insurers had an overall loss in 2001. Household premiums increased significantly in 2001 but premium inflation did not match rebuilding cost inflation in the period 1991 to 2001. Some of the large premium increases in 2001 were due to a catch up of underinsurance.

Current Issues in Ireland's

Household insurance profits have been volatile over the period 1994 to 2001. Volatility is a necessary feature of household insurance as the claims are sensitive to large weather related events. Expense ratios have decreased between 1994 and 2001. However, the average expense per policy has remained reasonably stable.

Real reinsurance costs increased dramatically in recent years in response to the frequency and size of large weather related events i.e. an increase of at least 10% of written premium between 1995 and 2001.

Household premiums are also cyclical, but the cycle is not as pronounced as motor premiums. Household insurance costs have not spiraled over the past ten years – wage and re-building inflation outstripped insurance premium inflation in this period. The household insurance market in Ireland made losses in 2001. While premium increases over the period 1995 to 2001 have been sufficient to cover increases in the underlying premium drivers, underinsurance in the market has led to insurers moving from a point of profitability in 1995 to loss in 2001.

Q&A

The audience stated that it was depressing to hear the papers on the Irish non-life market. People questioned the business model and the viability of its parameters.

There was reference to the new Penalty Points system which had made a recent debut with some seemingly impressive initial results. However, it was acknowledged that it may be too early to place too much reliance on the accident statistics at such an early stage after the introduction of the system.

Effect of Insurance on Society (in Ireland)

Presented by Marian Keane and Pat Grealy

Pat discussed this paper regarding the fundamental effects that insurance has on society and the flowback effects in the other direction – an often overlooked issue.

Benefits to Society

Since its early days, non-life insurance has brought many benefits to society, including peace of mind, efficient use of resources by freeing up capital, support for trade, and loss control through a system of rating, which rewards risk prevention measures with lower premiums.

Creating a "Compensation Culture"

However, insurance has led to a more litigious society and has played a big part in the development of the "Compensation Culture". Insurers decide whether or not to admit liability, whether or not to settle, and how much to offer. These decisions are based on commercial reasons, leading to practice that encourages opportunistic claims – there is little to be lost in having a go. The existence of insurance cover can lead to higher award payments – the "Deep Pocket" Syndrome.

Effects of the "Compensation Culture"

The "Compensation Culture" has negative effects on our society, causing breakdown of the community and a sense of trust due to fear of lawsuits. It has also caused a situation where Irish motorists are being charged much more than what their counterparts in other countries would pay. This culture also creates a climate of dishonesty and opportunism. The Alliance for

Insurance Reform (AIR) estimates that 75% of total claims made in Ireland are either exaggerated or bogus. Insurance for businesses has also become unsustainably expensive or, in some cases, completely unavailable. The compensation culture results in exaggerated claims to Local Authorities. It has created a climate in which people take less responsibility for their own actions.

The "Compensation Culture" does have some beneficial effects for society. It promotes a culture of safety because of the risk of litigation. It also engenders a fairer society because, to some extent, wrongdoers are punished and victims are compensated for their loss through the personal injury compensation system.

Pat proceeded to outline the unique problems and solutions that are relevant to the Irish context – these have been expanded on in great detail at various other presentations and will be familiar to most people by now. At least it looks like there has been some critical mass achieved in an effort to move some of the solutions forward.

Role of Actuaries

Actuaries in Ireland cannot directly affect the 'perfect-ness' of the Irish insurance market place. This is a matter for governments and regulators. However, general insurance actuaries may be able to fulfill their public service obligations by taking a lead in providing informed and balanced comment in the discussion of issues affecting the insurance market. Actuaries, individually and collectively, may need to be more proactive in performing the self imposed public interest role by taking a lead in providing informed and balanced

Non-Life Insurance Market

comment in the discussion of issues affecting the insurance market. The Society of Actuaries in Ireland has started along this path by sponsoring and partaking in seminars and events that address public interest issues

Q&A

There was some discussion about the compensation systems used in other countries. New Zealand has a “no blame” system that seems to have a beneficial effect on the compensation culture. The usual point made against this system is size. Sweden has a good State compensation system which takes pressure away from the private sector.

Recent Developments in Insurance Insolvency (An Irish Slant on a Global Problem)

Presented by David Costello

David presented this paper against the backdrop of the recently published report from the UK working party entitled “Insurance Company Failure”.

Background

There are a number of reasons why actuaries should care if an insurance company becomes insolvent: Policyholders lose; Loss of confidence in the industry; Levies for the other industry members; Shareholders in insurance companies will require higher returns causing a higher cost of capital for insurers.

A number of questions arise when solvency is considered i.e. solvency on a statutory basis or company accounting basis, the level of explicit or implicit solvency margins included in an analysis, whether margins should be deterministic or based on a risk based approach.

Methods for the forecast of insolvency include: Ratio analysis;

Multiple regression models; Neural networks; Rumors; Qualitative approaches i.e. noting changes in structure that could presage poor underwriting and reserving practices. Credit Agencies have varied results in predicting insolvencies.

The reasons why a company can become insolvent are legion and sometimes more than one force can contribute to the failure. There is evidence to support that there are peaks in failures just before the hardening of the market. The paper cited PMPA, Insurance Corporation of Ireland, Independent Insurance Company, UK Policyholders Protection Act, and the Irish Insurance Compensation Fund as examples of insolvencies and their after-effects that have impacted the Irish market.

Solutions to Prevent Future Insolvencies

Increased reporting ensures that failure is more quickly identified. Increased legislation may reduce the number of insolvencies but at what cost e.g. restrict entry into the market, discourage competition. Claims that arise many years after initial cover was provided are a real problem e.g. asbestos. These types of claims may warrant a time bar on claims. Should actuaries sign off on the rates being applied as well as the reserves? Tighter controls on directors and senior managers could help prevent the collapse of insurance companies due to incompetence. Solvency II in Europe proposes that reserves be valued on a risk based approach. In Ireland the actuary has been given a prestigious position in certifying reserves. This gives confidence to investors, the company, the public and the authorities that the reserves as declared by the company are sufficient.

The report suggests some improvements in the role of actuaries:

- Independent actuaries should be seconded to their clients for a protracted period to develop a better understanding of the company.
- Reviews should happen on a six monthly basis.
- There should be compulsory presentation of reports to the board and subsequent review and follow up.
- Widen the scope of the reports to include verification of the information provided.
- Peer review of reports by a completely independent third party.
- The Signing Actuary should not provide any other services for a certain period after the issuing of a report. All these recommendations increase the cost of the work and it is not likely that the client will wish to pay for these additional costs.

Q&A

The main theme touched upon in the subsequent discussion was that of “dominance risk” i.e. a strong boss bullies people into low reserving and inadequate claims handling. Actuaries’ responses to this pressure are an important issue to consider.

Conclusion

The President, Eamonn Heffernan, wound up the proceedings by noting that non-life discussions often ultimately go back to motor insurance and its associated problems. Many forums have taken place regarding motor insurance. Eamonn offered his sincerest thanks to the working party for their hard work, stating that it is a positive feature of the work of the Society that there have been so many papers of high quality.

John Hannon
John Gregan