



# Newsletter

June 2005

The Society of Actuaries in Ireland

## Morris, Self-Regulation, Oversight and Governance of the UK Actuarial Profession



*Harvie Brown, President, Faculty of Actuaries; Pat Healy, President, Society of Actuaries in Ireland, with members who qualified from the April & September 2004 exams, Conor Darcy, Cathal Fleming, Alan Hughes, Eoin O'Baoighill, Angela Mc Nally, Una Flynn, Emer O'Connell, Cecelia Cheuk, Paul O'Byrne, Marie Ryan, Dan Carroll, Helen Waugh, Joanne Roche, John Cashman, Shane Fahey, Paul O'Callaghan, Brendan Mc Carthy, Tom Donlon, Billy Galavan, Niall Clifford, Gordon Lee. (Absent from photograph: Tadhg Clandillon, Conor O'Donovan, Donal Hyde, John Thornton, Michael Frazer and Patrick McKenna.)*

A large group gathered in the Stephen's Green and Hibernian Club on 12 April to listen to the President of the Faculty of Actuaries, Harvie Brown, give an interesting talk on the Morris Review and the changes likely to be seen in the UK actuarial profession in the future.

Pat Healy opened the evening meeting by welcoming Harvie, who became President of the Faculty in June 2004. He also welcomed the new qualifiers, who had enjoyed a wine reception prior to the meeting. He added that the Society of Actuaries has set up a working party, chaired by Philip Shier, to address how the Society progresses following the publication of the Morris Review

and that any comments arising from this meeting would be taken on board.

### Review of Presidential Address

Harvie began by summarising the main aspects of his presidential speech, which he gave prior to the final publication of the Morris Review. Prior to Lord Penrose's report on Equitable Life and the review of the UK actuarial profession by Sir Derek Morris, the profession had already identified specific areas that needed change – the disciplinary scheme, the education syllabus and continuing professional development (CPD) to mention but a few.

**continued**

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# Morris, Self-Regulation, Oversight and Governance of the UK Actuarial Profession *continued...*

The numerous corporate scandals, such as Enron and personal pension mis-selling in the UK, had resulted in public mistrust of many professions, including the actuarial one. Professional reviews of the actuarial profession had already been carried out by non-actuaries in the US, Canada and Australia and it was inevitable that such a review would take place in the UK. Self-regulation was no longer considered appropriate and it was felt that an external body for overseeing the profession was now needed. Openness, transparency and accountability were becoming a necessity. It is because of the original initiatives which were put in place prior to the Morris Review that Harvie believes many of the areas highlighted would have been addressed, even if the Review had not taken place.

Some of the major issues that Sir Derek outlined in his review were that the profession should involve more independent non-actuarial people, be more outspoken when we have concerns and advance new initiatives at a much faster pace. The disciplinary scheme, which was reviewed before the publication of the Morris Review, has now been amended to include senior non-actuarial people.

## **Morris Review Recommendations**

The Morris Review was published on 16 March 2005 and is the work of Sir Derek Morris, a past Chairperson of the Competition Authority.

In relation to actuarial roles, Sir Derek recommended that reserved roles in life assurance and pensions should continue and that general insurers must take advice on risk assessment and valuation of liabilities from either an actuary or a suitably approved person. He also addressed the issue of the conflict of interest inherent in pension schemes, in that many actuaries work for both the employer

and the trustees. Sir Derek recommended that this practice should continue where the three parties agree that there is no material conflict of interest; if there is a conflict, then the trustees should reserve the right to retain the services of the actuary. He also highlighted the conflict between company interest and public interest that many actuaries face.

Sir Derek recommended that the profession should be subject to independent oversight by the Financial Reporting Council (FRC), with regulation also from the Actuarial Standards Board (ActSB) and the Professional Oversight Board for Accountancy and Actuaries (POBA). ActSB would have the remit to set technical standards in the form of guidance notes, while the actuarial profession would set ethical standards (Professional Conduct Standards) with oversight by POBA.

To protect the public interest, actuaries should whistleblow and report to regulators in specific circumstances and comply with both ethical and technical professional standards.

Sir Derek recommended that there be greater scrutiny of actuarial advice and supported the need for more transparent and independent peer review.

Education and CPD also played a part in Sir Derek's recommendations. He believes that the education system should be more broad-based, have a shorter qualification route and be more college orientated than work based. The obvious counter-argument to this is that employers usually prefer practical work experience over academic achievements. As Sir Derek's background is in economics, he believes that there should be a greater role in the education system for financial economics. He also

questioned whether the CPD scheme was effective and thought that the number of formal hours should be increased.

As Sir Derek was Chairperson of the Competition Authority, he is also keen to improve the competition for services within the actuarial market. One of his recommendations was that pension scheme trustees should invite separate tenders for actuarial advice, strategic investment advice and fund manager selection advice. If the trustees don't do this, they need to explain why separate tenders were not issued. Also falling within this category, Sir Derek recommended that trustees need to report compliance or if not compliant in some area, explain why not. He also recommended that the ActSB develop standards on better communication which should cover assumptions, methodology, risk and scenario analysis to name but a few.

## **Views of the UK Profession on the Review**

The UK profession does not agree with all of the criticisms outlined in the Morris Review but supports the central recommendation that the profession needs to change. However, many of the changes recommended had been initiated by the actuarial profession prior to the Morris Review. The profession is in favour of an independent actuarial standards board and of the continuation of self-regulation but with oversight by the FRC.

However, setting up these boards and oversight bodies will cost money – how is this to be funded? One of Harvie's suggestions was that a third of the cost should come from government funding, a third from the actuarial profession and a third from the companies themselves.

The profession supports the continuation of reserved roles and the

real value they have to play in protecting the public interest.

Finally, before we all get too depressed about the Review, it is worth noting that Sir Derek found no evidence that the vast majority of actuaries were anything other than skilled and dedicated professionals.

### Comments

Philip Shier commented that he thought it was a good idea to involve non-actuarial people in the profession. In relation to education, he also suggested that perhaps qualified actuaries should be required to retake exams every, say, five years, much to the horror of the newly qualified actuaries in the room (even if suggested in jest).

Tony Jeffery commented that he would prefer to see a European actuarial professional body than a UK based actuarial professional body, to which Harvie replied that it would be a difficult enough task to merge the Faculty and the Institute, let alone all European actuarial bodies and that there already exists the Groupe Consultatif and the International Actuarial Association.

Jonathon Gould queried whether subscription fees would be increased to cover the increased costs of this oversight by the FRC.

Duncan Robertson questioned the relevance of this review to Ireland, to which Harvie replied that the FRC will oversee the profession rather than individual members and that most actuaries in Ireland are members of the Institute or the Faculty, in addition to being members of the Society of Actuaries in Ireland.

### Conclusion

Pat Healy summed up the evening by stating that the Morris Review is the push in the back that the profession needed and that the recommendations are clearly aligned

with the direction in which the profession wishes to go, both in the UK and Ireland.

Although I did not stay for the dinner following the meeting, I believe that all were most impressed when Harvie produced some fine bottles of scotch whisky for sampling.

**Emer Reid**

## The Morris Review - the perspective of an actuary from outside the UK who was an external advisor to the Review

### Presentation:

The wet evening of April 14 did not stop a varied crowd gathering at the Alexander Hotel for a very interesting speaker, although the weather may have been a leading indicator of what was to come. Paul McCrossan is a Canadian actuary and was elected as a Member of the Canadian Parliament three times between 1978 and 1988. Of more relevance to the assembled audience, he was president of the Canadian Institute of Actuaries (CIA) when they introduced strict professional standards which has ensured the integrity of actuarial self-regulation in Canada. This background made him ideal for the role of Independent Expert to the Morris Review team.

The presentation started with the run up to the Morris Review - failure of the Independent, pensions mis-selling, bonus rate cuts, closure of defined benefit schemes, Equitable Life and the Penrose Report etc. – and then following some conclusions came the damning key recommendation of the Review, that “Continued self-regulation by the profession is unlikely to restore public confidence”!

“I have met the enemy and they is us” ran Paul’s final slide, which ended a presentation that went through the various past failings of the actuarial profession. These failings included communication, conflicts of interest when dealing with sponsors and members of pension schemes, failure to justify assumptions (both through the arrogance of “we are right and that is it” and falling behind on modern economic thinking). Paul thought one of the biggest mistakes was previously alienating key potential allies, especially the accounting profession through an unwillingness to work with them to develop a better overall accounting system for life assurance, for example. He also suggested that the profession let itself down when given the opportunity to contribute before the Morris Review was finalised. Paul

pointed out how these past failings are now coming back to haunt us and he felt we had few allies on the Review board. One measure of the lack of faith in the actuarial profession was that at one stage the new Actuarial Standards Board was only going to have two actuarial members out of eight, which was eventually changed to “a majority” following intense late lobbying. He felt this highlighted us as an inactive and uncommunicative organisation and was particularly damning when you consider that accountants managed to get seven out of eight members on their equivalent board.

For anyone who was unable to attend the meeting and who would like to get perhaps the best and most honest inside track on what led to the Morris Review, the full detail of Paul’s presentation is on the Society’s website.

### Discussion:

After a sobering presentation, a wide-ranging and interesting discussion followed. Colm Fagan opened by pointing out that perhaps our profession has too much of a consensual approach, not challenging each other sufficiently unlike say our legal counterparts who are happy to go hammer and tongs at each other. Basically the actuary’s opinion is sacred and fellow actuaries are not inclined to question other actuaries’ work. He argued that if we were more challenging on each other it would lead to better self-regulation.

With a tone of agreement Paul McCrossan informed us of how the CIA has overcome this, although not out of choice but rather necessity. Across all professions (actuaries included) in Canada it is illegal to observe professional misconduct and not report it. Paul then gave us an insight into how this came about. Two interesting cases in the 80’s led to this code of conduct being introduced across all professions. The first was a case against the medical

profession. A suit was initially taken against a medic for gross misconduct. The Court ruled not only against the chief protagonist, but in addition all of his fellow professionals that were aware of the misconduct on the basis that they had not come forward. The professional bodies appealed the decisions all the way to the Supreme Court but to no avail. In the late 80’s, the legal professional bodies and senior members in the perpetrator’s organisation were also implicated when one of their members carried on processing illegal documents for immigrants for a period of time. These cases sent shockwaves across Canada and changed mindsets towards whistle blowing within professional bodies.

This transition was both costly and uncomfortable. Complaints against actuaries rose initially, however they eventually fell again after standards improved. On the cost side, amongst other things the CIA employ a Judge as chairman with two actuaries on each internal disciplinary tribunal. On the uncomfortable side, Paul himself while President of the CIA was subject to two complaints that he had a conflict of interest. Under the new CIA system the Tribunal cleared Paul of any misconduct, and in the interest of transparency, transcripts of the entire process are available to the public. Following a recent review after 10 years of implementation, the strict code of conduct was retained by the CIA despite any negatives and is here to stay.

Paul Dillon then mentioned an actuary’s obligation here to report misconduct after going through the various initial steps. However, Paul McCrossan restated the strength of the Canadian professional system with a no confidentiality clause. One of the earlier CIA tribunals involved a government actuary and he was told turn up and be seen or be thrown out. He did turn up, though Paul conceded with an army of heavies (lawyers)!

Bill Hannon seconded the general mood of the evening that the transformation from self-regulation to statutory would be painful and that public faith in self-regulation had taken a bashing. Bill felt we needed to gain public confidence in standard setting. Paul repeated that while expensive and painful to implement the right conditions, he felt it would be better not to lose self-regulation.

Paul Dillon then queried the relevance of a small society like ours fighting for self-regulation compared to larger entities such as the medical bodies. Paul McCrossan felt size was irrelevant pointing out that similar duties were taken away from US accountants following scandals in 2002 as they were seen as not discharging their duties. He argued this happened despite the fact that there are probably more accountants in New York City than there are actuaries in the world. He felt the old model has served us well and repeated the much trumpeted view we all know but have not been acting on - that younger actuaries need to get involved and bring this model forward in line with the times.

Tony O'Riordan felt that even though most of the discussion of the night had centred on Pensions and Life the same issues applied to General Insurance. He also suggested the current education system was dangerous in that a virtue to successfully answering exam questions was to regurgitate how things were done in the past, which discouraged a challenging and questioning ethos.

The discussion then turned to actuaries working in other areas. Tony Jeffrey questioned if we should have different qualifications suggesting the possibility of, say, a "Master" actuary for undertaking research or applying actuarial techniques to new areas. Paul agreed but noted that these ideas were not new and enlightened us that the

Australians and Mexicans were ahead of other actuarial bodies in this area. In Mexico they tried to implement a system to get the best of the best into the actuarial world. There, after study, you work for a year without remuneration applying actuarial techniques to new areas. If, after that, your dissertation passes you become an actuary. As a result, actuaries are found in all walks of life in Mexico. After the 1993 North American Free Trade Agreement (like the EC, this meant free movement of workforce), the three actuarial bodies reviewed each other. The US actuaries acknowledged the general superiority of Mexican actuaries. This came in stark contrast to the initial preconception of 'a sombrero wearing tequila-drinking actuary'! Paul put this down to their active profession and desire to work outside of traditional roles. Paul mentioned the Australians had similarly reinvented the wheel following the collapse of the pensions market and the consolidation of the life industry down there.

The fact that the Australian and Mexican societies diversified and progressed, and the Canadians backed up self-regulation with a tight code of conduct and all out of necessity rather than choice lifted the earlier atmosphere of doom and gloom for our Society in the audience.

At the end of the discussion, the President, Pat Healy, thanked Paul and the audience for a lively debate. General comments from the audience agreed it had been a sobering presentation. Pat concluded by presenting Paul with a gift from the Society. Outside the weather continued to reflect the mood inside.

**Niall Dillon**



## The Road to Qualifying as an Actuary - How Long is it?



On Thursday the 12th May, the Education Committee, chaired by Michael Claffey, had the pleasure of inviting Donal McMahon, a postgraduate of UCD's Actuarial and Financial Studies course, and Professor Philip Boland, professor of statistics in UCD, to give a presentation in the Fitzwilliam Hotel on "The Road to Qualifying as an Actuary – How Long is it?". At the core of the presentation was Donal's research into and analysis of the, sometimes scarily, vast quantity of data that Prof. Boland maintains on those who pass through the UCD actuarial course. In particular, he looked at the average qualification time for UCD graduates compared to other student members of the Institute and Faculty, the average qualification time for different groups and cohorts of UCD students and the possible factors that would point to shorter or longer expected qualification times, for example, whether those with first class honours degrees tended to qualify more quickly.

As befitted a talk on exams and qualification, the presentation was well attended by student members of the Society eager to find out how many more sittings it would take them to qualify. We were also assured that this attendance had nothing to do with the Student Society's offer of

free drinks after the presentation! Both students and non-students alike were treated to an excellent presentation which used the statistical methodology we are all examined on to analyse our progress through those same exams.

As you would have expected from a presentation given by the man behind the UCD actuarial degree, the most telling conclusion was that those who come through the UCD course are significantly more likely to qualify as Fellows than those from the general population of students. In fact, Donal predicted that almost 80% of those from the UCD course, who went on to do the actuarial exams, would eventually go on to qualify compared to less than 50% of the general student population. His comparison of how the respective UCD classes had fared post college was equally interesting and while not wanting to spoil the main conclusions, I think the salient point was that the class of 2000 was by far the most intelligent the college has ever seen!

Amongst all the various factors, Donal's work also showed that the most important pointer for predicting time to qualification post-degree was how the individual had done in their in their final year in college. Those with higher final year results tended

to qualify appreciably more quickly. For example, those achieving over 80% in their final year exams had a median time to qualification of seven sittings, this rising to 12 for those achieving over 70% and so on.

The only downside of the presentation was that other colleges, DCU and the UK colleges offering actuarial degree courses, did not keep or provide such excellent data as Prof. Boland to allow a similar analysis of their students and a comparison with the UCD degree. This and the many findings of the presentation were objectively debated by the ex-UCD and DCU students (and the one Trinity student) over a few drinks afterwards.

Finally, on behalf of the Education Committee, I would like to thank Donal and Prof. Boland for an excellent and very enjoyable presentation and congratulate them on their tremendous work.

The full text of the presentation is available on the Society's website, under Resources/Events & Papers.

**John Groarke**

# Question Time - Brian Heffernan tells us about his experience with Ironman Lanzarote



To begin with, we asked Brian some questions about himself before delving into his training regime, the race and how he manages to fit all of this in with his work commitments.

## **Brian, can you tell us about yourself and where you are from?**

I'm from, live and work in Dublin. After a degree in maths from Trinity College, I spent a further year studying actuarial science in the City University in London before beginning my career working with Irish Life. I have spent the last 9 years working in non-life reinsurance, including 3 years in Sydney with the Zurich Group. Returning to Dublin in 2001, I now work for Imagine Reinsurance, a specialty insurer and reinsurer dealing with a worldwide client base.

## **You are currently very involved in the the sport of triathlon, which culminated in your participation this year in the Ironman Triathlon in Lanzarote. Can you tell us what a triathlon involves and how you got involved in the sport?**

A triathlon race involves a swim, a cycle and a run with the stages being done continuously and no breaks in between. Most triathlon races are Olympic distance, which mean a swim of 1.5km, a cycle of 40km and a run of 10km. My first triathlon was in 2002, as a charity event, taking part to raise money for the Children's Hospital Crumlin. I managed to get bitten by the triathlon bug at the same time, joined the triathlon club 3DTri, and have been involved in the sport ever since.

## **How did work support you in your Ironman Lanzarote triathlon goal?**

I had great support from colleagues over the last few months as they encouraged me and listened to me talking about little else but Ironman! Work also managed to fit in with my training schedule so if I needed a few extra hours on the bike or in the pool during the week, it wasn't a problem.

## **When and why did you decide to do Ironman Lanzarote?**

Having done Olympic distance triathlons for the last few years an Ironman race seemed like the next step. IM Lanzarote is known as the "toughest Ironman in the world" so it was the obvious one to go for!

## **Had you completed other Ironman Triathlons prior to this?**

Lanzarote was my first but hopefully not my last. There are about 25 official IM races around the world every year in some great locations, so there's plenty to choose from.

## **Can you give us a brief description of what Ironman Lanzarote entailed?**

An Ironman race consists of a 3.8km open water swim, followed by a 180km cycle, followed by running a marathon (42km). Lanzarote gets it "toughest IM in the world" tag because the 180km cycle around the island is very hilly with over 2.6km of climbing on the course.

## **What was your training and dietary regime leading up to the triathlon?**

I started training for the race about 6 months beforehand, training about 10

hours a week. Over time that built up so as I got closer to the race I was training up to 17 or 18 hours a week. So most of my weekends and a lot of my spare time during the week was taken over with training.

On the diet side, it was a case of eating loads and trying to keep it healthy! When you're training that much, you feel hungry the whole time. Colleagues at work joked that I ate every hour on the hour. A regular training breakfast for me was 2 bowls of porridge, 2 bananas, a grapefruit, 4 slices of toast and two bagels.

## **Given the temperature difference between Ireland and Lanzarote, did you find the heat difficult to cope with? Which race stage was the most difficult for you?**

I think everyone finds the marathon the most difficult as it comes last of the three stages and at the end of a very long day. I had never run a marathon before Lanzarote, so by the last 20km of the run I was really suffering. It was over 25 degrees as well and no amount of training in Ireland ever prepares you for those conditions!

## **Was there ever a point where you thought of "throwing in the towel"?**

Never. My plan was just to keep moving forward no matter what, even if it meant walking for part of the marathon. There were thousands of spectators along the route of the cycle and the run which gave great encouragement, particularly towards the end of the race.

## **Can you describe what you felt when you crossed the finish line?**

Sore, tired, relieved (in that order I think) and then delighted when I realised the time I had finished in (12 hours and 43 minutes).

## **When is your next triathlon?**

All going well, I'll be taking part in a few of the Premier League races over the summer in Kilkee, Kinsale and Galway.

And just in case anyone is thinking of getting into the sport, full details of races and triathlon clubs can be found on: [www.triathlonireland.com](http://www.triathlonireland.com)

## Briefing Statement on Medical Statistics

The Healthcare & Social Policy Committee recently published a briefing statement on the interpretation of health statistics.

This explains why such statistics may be confusing or potentially misleading and suggests ways of presenting statistics which may help to achieve a better understanding of risks and outcomes.

It is available on the Society's website under Press Office/Briefing Statements.

## National Pensions Review

Following a consultation meeting in April, a working group has prepared a submission to the National Pensions Review on behalf of the Society. This will be made available on the member section of the website.

## Annual Ball Photographs

Watch out for the July issue of the Newsletter

## Golf Diary Dates

- **Piers Segrave-Daly Matchplay Competition**  
This competition is now well under way.
- **May Weekend 36 Hole Competition**  
The Captain, David Harney, will provide a report and photos for the next issue.
- **Captain's Day – Tuesday 16 August South County Golf Club**  
Check that you have this date in your diary.



## On the Move

### ⇒ Fellow Members

**Aidan O'Donnell** moved from Anglo Irish Assurance Co. to **Hartford Life**

**Neil Guinan** has joined **Montepaschi Life (Ireland) Ltd** from Acorn Life

**Ian Carey** has moved from Tillinghast to **Barclays Capital**

**Frank Downey** has joined **Invesco** from Heissmann Actuarial Consultants

**John O'Neill** has moved from London Reinsurance Group to **Royal Bank of Canada Reinsurance**

**Brian Griffin** has joined **Mercer Investment Consulting** from Bank of Ireland Global Markets

### ⇒ Students

**Arran Nolan** has joined **Sun Life Reinsurance (Ireland)** from Canada Life



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