Newsletter

July 2005

The Society of Actuaries in Ireland

Veterans' Endurance Wins Through

An eye witness account of the events that unfolded at the Actuarial Ball, including

- Young Turks lose honours despite early success.
- Veterans gain strength through ancient rock chant.
- Captain Whyms leads squadron in perfect flypast.
- Past President gets G******d.
- After-dinner speaker apologises.

The Annual Actuarial Ball held on 14th May in the Four Seasons Hotel still remains the source of speculation and gossip in Dublin actuarial circles. The attendance was somewhat down this year, presumably due to the event clashing with the warm-ups to the Eurovision Song Contest. However, those attending made up for their missing colleagues by attacking the libations, viands and entertainments with gusto, voracity and élan.

The ladies were gaily attired in the full panoply of fashion that is all too readily available in the newly established Dundrum Town Centre. The common affliction of the day was nowhere to be seen, as the young Bucks were rakish thin and the ladies wispish light. This year, the dominant colours for the ladies were shimmering coppers and golds, with some creams - a marked movement from the traditional black cocktail dress.

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The nine dinner tables were set out in a 3 by 3 square. In front of the tables was a small dance floor and in front of the dance floor was the stage. Rows one and two were reserved for the older actuaries and companions. Row three, lined against the dance floor, was the preserve of new or soon to be qualified actuaries. The centre table was occupied by the President, a Past President, two Future Presidents and their spouses.

Mr. Johnston, the after dinner speaker, said the arrangement of tables reminded him of ancient Roman battle formations. The young inexperienced troops were positioned at the front. There they remained, facing the foe, secure in the knowledge that what lay behind was worse than what lay ahead. Thus did the Roman General protect his most valuable assets whilst providing the novices with needed seasoning. On this night, the front row was in fine form.

Mr. Johnston admitted to being nervous about addressing such an important audience. He was, however, relieved at the high spirits of the tenderfoots, or the Young Turks as he called them.

"My talk relied heavily on audience participation, and that needs fellows able to cast away conventional inhibitions. I became more relaxed as I realised that the Young Turks were flying."

The dinner itself was the grand affair that one comes to expect of the Four Seasons. There was also actuarial amusement as a new round of amusing quiz questions came with each course. There was to be a Jeroboam of Champagne for the winning table. Despite the best efforts of the veterans, the honours went to the Young Turks.

It was time for the after dinner speech.

Mr. Johnston, speaking from the raised stage, started in a grand theatrical style designed to capture the audience's attention. He regaled how 13 years previously he had fallen in with a company of Young Turks, including the now respectable Captain Whyms. Mr. Johnston whetted the appetite of the audience by inviting Captain Whyms to make ready his famous impersonation of a piloted single seated light airplane.

It was at that point that Mr. Johnston realised he was in trouble. His next planned tactic was to enjoin the company of Young Turks into the affray and thus provide a bridgehead to allow the more restrained veterans to cross into the unfamiliar territory of audience participation.

Unfortunately, the Young Turks were in a state of complete abandon. The early quiz victory had gone to their heads. There was a general backslapping and circulation around the tables. All attention was on sharing the spoils of honour and champagne. A Mr. Enver Pasha, the leader of the Young Turks, swung the captured booty around, splashing the champagne into the glasses of his adoring followers.

Mr. Johnston was perplexed and filled with foreboding.

"I felt like the Roman General watching as ill disciplined troops, flushed with early success rush off in pursuit of a retreating tribe; only to be brought back as an appetiser for the remaining troops, chariot-trailed and innards removed."

The effect of finding oneself in front of an important and expectant audience with nothing to say is indeed marvellous. It induces panic and a rush of adrenalin. Senses are heightened and time stands still and so it was for Mr. Johnston. For what was a second to the audience was a lifetime to him.

At that time-stretched instant he was aware of a number of transfixed couples scattered across the matrix. These couples were unaware of dinner or speeches. Even the raucous behaviour of the Young Turks had little pull on their interest.

In his new sense of awareness, Mr. Johnston could see that around each young head was a purple aura that resembled the magnetic fields illustrated in scientific articles and textbooks.

For each couple, the two globes of attractive forces transformed at the nearest point to three unbinding lines of force. Connecting eyes-to-eyes and lips-to-lips these bonds had remarkable effects on the young lovers. Eyes dilated, lips pouted and any twist or coy turn of the head was matched with empathy. The strain of resisting the forces tugging these heads together must have played cruelly on young neck muscles.

But love never runs smoothly and one over confident beau, perhaps to impress his fellow Turks, affected cool with the lounge lizard's pose. A sharply turned head of his young lady whipped the bonds of love. Our culprit, in confusion, was catapulted from his seat along the table and crashed his head against his lover's chair. A little gasp of concern. A gentle hand on a bruised temple. Head on shoulder, peace was restored.

The accidental crash of the young lover ended the time warp and Mr. Johnston was moved to action.

He had to work the veterans.
"If you are going to help me," pleaded Mr. Johnston" you have to shout, **we will help you**"

The first response was muted but there was a chance. It was repeated. He decided to split the columns to generate competition and perhaps a little rhythm.

Mr. Johnston:
"Column one; **we will.** Column two; **we will.** Column three; **help you.**"

The veterans complied and the process was repeated. Nervously at first but with increasing tempo the volume increased. Then in a moment of inspiration a veteran stood up and instead of "help you" shouted "Rock You."

The effect was electric. The veterans immediately snapped to full attention. The ancient rock anthem of their youth was now the order of the day. The years spent watching Top of the Pops had not been wasted. The veterans belted out the Queen chorus to Mr. Johnston's refrains. Mr. Johnston had won the battle of crowd participation.

The rest was easy. A clapometer was quickly constructed to enable the audience to vote on which of five topics should be used for a lengthy address (there had been seven but two had been passed not suitable for an actuarial audience).

The Topics and scores out of 100 are listed below -

Topic 1. How to plan a book club. Score 22
A poor score for this topic of self-improvement. This talk outlined everything needed to organise a book club. How to choose the book, the people, locations, food and flower arrangements. With this knowledge, one would never be short of dinner parties.

Topic 2. The meaning of life. Score 45
A good score, indicating the philosophical nature of the average actuary. Questions such as: Does God exist by definition? Can time go backwards and would we notice?

Topic 3. Pension plan design. Score 31
A disappointing score for this professionally orientated discourse. Plans featured the Porridge Plan widely touted as a mainstream for the future. Also the Plasma Plan producing an annuity, payable five yearly, for the purchase of the best in audio and digital equipment. Finally the Vanity Plan, the most expensive of them all, which keeps the holder in the latest fashions and allows cosmetic surgery up to a 5% annual reduction in skin cover.

Topic 4. How to make a male actuary romantic? Score 88
This was the topic least favoured by Mr. Johnston. Although he had worked out a 100% guaranteed method for igniting the romantic side of the male actuary, he had had insufficient time to find a way of switching it off. The talk also provided tips on how to encourage the diffident bachelor actuary to propose marriage.

Topic 5. Exposé. Score 88
This hard-hitting talk exposes the secret lives of the actuaries. Mr. Johnston held out the prospect of discovering the many salacious details available. The dynamic pursuits of these actuaries would leave the audience breathless.

The two last topics had different followers. The ladies went for the romantic actuary with enthusiasm. The males, even those faced with exposure, stamped feet, wolf whistled and applauded the exposé option. The voting was a dead heat but Mr. Johnston, fearing the responsibility of late babies and early weddings, threw his casting vote with the exposé.

Before moving to the eagerly awaited dirt, the assembled audience were entertained by Captain Whyms who demonstrated on the dance floor the art of impersonating a single piloted aircraft. He showed the audience how to lift the hand-made goggles (available at each table) and how by twisting arms one could place them over the eyes. Volunteers were called for from the audience. Four veterans sprang up and press-ganged a Young Turk still celebrating the quiz win.

Captain Whyms formed a triangulation with his new pilots and to the stirring sound of Dam Busters, the squadron took off. Captain Whyms with wingmen Ms. Butler and Ms. Kennedy executed a perfect banking manoeuvre and flew past the President and his guests. The Presidential Party stood and saluted this unique moment of actuarial and aviation history.

Stringent libel laws do not allow us to publish details of the exposé. Mr. Johnston admitted that, with the aid of an accomplice, he had Googled leading members of the profession. They had received a multitude of titillating and fascinating responses. Mr. Johnston commented that one Past President had delivered 17,200 entries in less than a second. One had to admire the dynamism. This actuary, supposedly retired, was involved around the country in a fantastic range of activities including scoring goals for Leixlip Town's soccer team.

As the talk progressed, Mr. Johnston was increasingly aware that each new revelation was not met by gasps of outraged shock but by increasing howls of laughter. In a desire to bring the talk back to a more serious level he suggested that Ms. Kennedy, Director of Professional Affairs, draw up professional guidelines on Googling colleagues. The proposal for the new Googling Guideline, Gn (O.O) did little to improve the atmosphere and left Mr. Johnston with no other option but to cut to the philosophical finale: With great feeling, he sang the Galaxy song from that Monty Python Classic - The Meaning of Life. This brought his part in the proceedings to an end.

The enjoyment continued as young and old threw marvellous shapes on the dance floor to the magnificent trumpets of a blues band. Any danger of overheating was avoided by frequent visits to the Ice Bar.

Footnote: After-dinner speaker apologises.

Mr. Johnston has two apologies to make.

The S2S club is not a singles speed-dating agency as Mr. Johnston suggested. It is a group intent on promoting a cycle path from Sutton to Sandycove. Any offence is regretted and a donation will be made to promote the aims of this worthy group.

In singing the Galaxy Song, Mr. Johnston accidentally omitted the lines:

"And our galaxy is only one of millions of billions,
In this amazing and expanding universe."

This omission may have given the impression that our Galaxy is equivalent to the Universe and that we are, in fact, not quite so insignificant. Mr. Johnston apologises to those actuaries who formed an inaccurate assessment of their importance.

The Society's

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Annual Ball

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1. David O'Connor, Pat Healy and Joanne Burke.
2. Declan O'Neill and Kerry Hiddleston.
3. David Harney, Colm Fagan, Marguerite Bolger and Jim Murphy.
4. Brendan Johnston.
5. John Lyons, Pat Healy and Gabrielle Bowe.
6. Louise Potts, Anthony Brennan, Peter and Helen Gough.
7. Jim Murphy, Anne Quigley, Brid Quigley and Liam Quigley.
8. Sarah Parks, Tadhg Clandillion, Michelle Neary, John Groarke, Siobhan Keogh, Barry Cudmore, Greg Ward, Linda Collier, Oisin O'Shaughnessy and Pamela Doran.
9. Brid Quigley, Ivor O'Shea, Susan White and Brian Murrray.
10. Vivianna Pascoletti and Tom Donlon.
11. Mary Fagan, Sheila Heffernan and Joan Healy.

Photo of new pilots with Captain Whyms on front page:

Jim Murphy, Ivor O'Shea, Maurice Whyms, Colm Fagan and Aisling Kennedy with Brendan Johnston, the after dinner speaker, in the background.

Evening Meeting Review:

On the 18th May I took myself along to my first ever Society evening meeting, where the Life International sub-committee was giving a presentation on Solvency II. I had recently been asked to submit a Preparatory Field Study for our company to IFSRA on this very subject, so any help on the topic was welcome indeed. This being my first meeting, I was naturally very excited about it. However, as I had foolishly agreed to Mary Butler's request to write a review for the Newsletter, my excitement had developed into something more like the terror felt on the morning of that exam for which you never really studied.

Anyway, I arrived at the Davenport in time to get a good seat where I could take copious amounts of notes, and was greeted by one of the few actuaries I know in Dublin outside my own place of employment. And what's more, Viviana was presenting that evening – bonus! Unfortunately, she refused to write the review for me, so instead you must settle for my recollections (backed up by Viviana's presentation and notes) of the evening.

Background

Michael Culligan, who chairs the sub-committee, was the first to present, discussing the background to the current developments. The current EU rules date back to the 1970s and have remained substantially unchanged since then. Solvency I tinkered with the rules somewhat in 2002, but they would only be considered refinements of the regime applicable at the time.

Recently, there has developed a general acceptance that the current system is outdated and possibly inadequate. The emergence of single financial industry super-regulators in many countries has led to comparisons between the insurance and banking regulations, with Basel II widely considered a more sophisticated regime. This pressure for change led to a 'root and branch' review of the entire model of insurance supervision in Europe to establish a solvency system that 'is better matched to the true risks of an insurance company'. As a first step, the EU commissioned two reports: the first by KPMG on solvency regimes elsewhere in the world, and the second by a group of supervisors on recent 'near misses' (known as the 'Sharma' report). The KPMG study concluded that a Three Pillar approach, similar to the Basel II approach, would be most suitable, while the Sharma report also felt that any new prudential system should include a whole set of regulatory tools, of which capital requirements would be just one.

From these reports, and consultations with interested parties, a list of key objectives for a new regulatory regime was drawn up. The new supervisory system should:

- Be risk based, not focussing solely on 'quantitative' aspects and should incentivise good risk management.
- Provide supervisors with appropriate tools to assess the overall solvency position of an insurance company.
- Provide a level playing field
  - > Across sectors (life and non-life, direct and reinsurers);
  - > Across borders.

An approach similar to the Basel II approach was deemed most likely to meet these objectives, whereby supervision was considered under three pillars:

Pillar 1 – Rules regarding technical provisions, assets, minimum solvency requirements, etc.

Pillar 2 – Internal controls and risk management, and supervisory practices.

Pillar 3 – Disclosure and publicity.

Current Developments

Duncan Robertson and Viviana Pascoletti then took us through the current state of play, with Duncan going first.

The European Commission is presently looking for input on Solvency II from the various stakeholders. It issued three waves of 'calls for advice' to CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors), who in turn consult with other stakeholders and interested parties. The first wave has just been completed and dealt mainly with Pillar 2 items. CEIOPS will be delivering its report to the Commission this month (June 2005). The second wave will then start around July 2005, aiming to conclude around October 2005 and will concentrate on Pillar 1 issues. Then, the final wave will commence and will focus on topics from both Pillar 2 and Pillar 3, with a planned end date of February 2006.

First Wave

Included within the first wave call for advice are internal controls and risk management. The suggestions emanating from the first wave cover the roles and responsibilities of directors and senior management and would be considered common sense by most. The first wave also looked at supervisory practices with the aim of establishing standards that all supervisors would apply. They are unlikely to be too different from IFSRA's current approach. Some highlights include:

- Supervisors will need to apply quantitative and qualitative elements to evaluate the prudential conduct of insurance companies.
- Supervisors will need to include on-site visits similar to those already applying in Ireland.
- Supervisors may prescribe the use of quantitative tools by companies.

Second Wave

The second wave call for advice covers many of the Pillar 1 issues, including technical provisions, safety measures and reinsurance. It also includes some Pillar 2 points, such as the powers of supervisory authorities,

Solvency II – an update

criteria for management (fit and proper) and supervisory peer reviews. This is where we currently are in the process, so the presentation concentrated heavily on this area.

The key capital adequacy measure will be the Solvency Capital Requirement (SCR), which is defined as the level of capital that enables an institution to absorb significant unforeseen losses and give reasonable assurance to policyholders. Currently, capital requirements are technical provisions plus a solvency margin. However in Solvency II, capital requirements will be effectively a separate risk-based calculation, albeit with risk modelling of these technical provisions, which are likely to be 'best estimate plus explicit risk margins', where the risk margins are set at the 75% point of the probability distribution. The current proposal for 'significant unforeseen losses' is a ruin probability of 0.5% with a one-year time horizon. A 'simple' formula model will be available, although the use of internal models will be allowed (and even encouraged).

The Minimum Capital Requirement (MCR) is a level of capital below which immediate regulator action is taken. It will have an absolute floor and will be quick and easy to calculate, thereby avoiding ambiguity in terms of when the supervisor can intervene. CEIOPS are considering various options for the MCR, including retention of the current Solvency I approach.

Viviana then spoke to us about some of the other aspects of the second wave, starting with reinsurance. As with the rest of the industry, the aim of the new solvency requirements is to take a prospective, risk sensitive approach. Hence, the effects of risk mitigation through reinsurance and other tools (e.g. hedging through derivatives) should be reflected more accurately in a company's SCR under both the formula model and the internal model approach. However, any reduction in risk would need to be reliably quantified before it could be reflected in the SCR. Since reinsurance has a double effect of reducing underwriting risk and increasing counterparty risk, the SCR should reflect both of these effects.

As part of the second wave, the European Commission has requested some Quantitative Impact Studies to assess the economic consequences of the Solvency II project. The investigation looks at the possible future effects of the new regime on:

- The insurance industry – including cost of capital and international competitiveness.
- The financial markets – market efficiency and systemic risk.
- The policyholders – cost / benefit trade-off, implications on product availability and prices.

Preliminary work has already started in this area in the form of a 'Preparatory Field Study' (hence my interest in this presentation) to assess the value of companies' assets and liabilities under a range of different assumptions and to help identify practical problems that may arise when calculations are refined as Solvency II progresses.

The final topic discussed under the second wave concerned the supervisors. The new regime will increase the complexity of supervision, especially with the requirement for consistent application across the EU. This is likely to be achieved through supervisory peer review, every 3 to 5 years, under the responsibility of CEIOPS. It is hoped that such an approach would:

- enable a system of mutual recognition and general financial stability;
- encourage a learning process between supervisors, leading to an improvement in the level and quality of supervision; and
- ensure that supervisory practices do not differ excessively between member states.

Third Wave

The third wave call for advice was issued in February 2005 and concerns all three Pillars of Solvency II, but concentrates on Pillars 2 and 3. Some of these issues relate to supervisory practices (independence and accountability of supervisors, co-operation between supervisors and public disclosure). Others include procyclicality (when pressures to sell assets or raise capital means that companies behave in a similar way, leading to more pressure to sell assets or raise capital) and issues for small /medium sized companies. Responses to the third wave are due by the end of February 2006.

Summary and Next Steps

Michael finished the presentation with a summary of the key points and what the next steps are.

The broad shape of Solvency II is starting to emerge but there is still plenty of work to do on the details. The main ideas being put forward are:

- Three Pillar system.
- Supervisory tools to assess 'overall solvency' rather than just quantitative tools.
- Two levels of capital requirements – SCR and MCR.
- Risk-based capital approach.
- Focus on risk measurement and management.
- Allowance for some use of internal models if desired.
- Technical provisions to be on 'best estimate plus explicit risk margin' basis.
- Compatibility with emerging IFRS and IAIS thinking.

The next steps are the completion of the 'calls for advice' for CEIOPS for the Second and Third Wave. The Commission has started work on a Framework Directive, a draft of which is expected in April 2006.

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Solvency II - an update...continued

Meanwhile the impact studies are ongoing and are expected to be presented around the same time as the draft Framework Directive. The Head of the Commission's Insurance unit recently suggested that Solvency II would not be fully implemented until 2010.

The presentation finished by informing us of the opportunities that Irish actuaries still have to get involved and influence the process both through the Groupe Consultatif and through IFSRA's Preparatory Field Studies and Quantitative Impact Studies.

More information can be found at the following websites:

–European Commission
http://europa.eu.int/comm/internal_market/insurance/solvency_en.htm

–CEIOPS
http://www.ceiops.org

–Groupe Consultatif
http://www.gcactuaries.org/solvency.html

Discussion

The post-presentation discussion focussed on three areas – the ruin probability under the SCR, 'regulatory arbitrage' and the proposed implementation date.

A ruin probability of 0.5% within one year (or a 1 in a 200 year risk) raised the question of how that would apply in Ireland, especially given that the famine was within the 200-year window. Would we need to apply mortality rates of 12.5% to test for solvency? Similarly, if the explicit margin for the technical provisions is to be at the 75% point of the probability distribution, would we exclude some significant risks? Can models be built for these criteria? Unfortunately, we didn't have the answers to these questions.

It was suggested that the slight differences between insurance and investment contracts could lead to 'regulatory arbitrage', where certain types of policies may escape the new regime. The Commission are trying to avoid that situation, but it was accepted that it is unlikely to get it perfectly calibrated. However, they have stated that overall they expect the total amount of capital required by the industry to remain static, although it may increase for some companies and reduce for others.

The 2010 implementation date was based on comments made by the Head of the Commission's Insurance unit, and we didn't know if this comment related to the start or end of a transition period.

Final Comments

The presentation and ensuing discussion were a very enlightening and informative review of the Solvency II regulatory regime. While not professing to have expert knowledge of what the supervisory system may look like (as is evident from this article!), I certainly have more of an idea of what the changes might be, and I will now do my bit and complete our Preparatory Field Study.

Darren Egan

Life Forum

A Life Forum was held by the Life Committee of the Society on Tuesday 21st June in the Berkeley Court hotel. The purpose of the Forum was to give an update on the issues currently under consideration by the Life Committee. It was great to see the Forum so well attended and it was particularly good to see so many actuaries over from the UK for the occasion.

Richard O'Sullivan and Colin Murray commenced the afternoon with a presentation on their sub-committee's activities in relation to Customer Disclosure. This gave rise to an excellent discussion on the type of disclosure information that should be given to customers.

A presentation by Brenda Dunne on Prudential Regulation included an update on the proposed role of the Appointed Actuary going forward and some feedback from IFSRA regarding changing valuation regulations and Financial Condition Reports.

Michael Culligan followed this with an update on Solvency II and there was a general update from the other Life sub-committees, namely the Governance / Regulation, Insurance Risks, PRSA, Accounting Issues and Cross Border committees.

Aisling Kennedy then gave an overall review of other recent Society activities. These included the review of practising certificate schemes, the review of the CPD scheme and the National Pensions Review. Finally Colm Fagan gave a very interesting presentation on the new FSA regime in the UK and the implications of this for the actuarial profession.

For those who were unable to attend the Forum, the slides are available on the Society's website. In addition, the Life Committee has now compiled a list of those who would like to receive updates on items of interest. If you would like to have your name included on this list please contact the Society at info@actuaries.ie

Brona Magee

Website Review: www.actuaries.ie

In August, we plan to carry out a review of the Society's website. Before doing so we are anxious to receive comments from members. We are especially eager to hear of any criticism of the structure of the site and equally would appreciate hearing any suggestions for improving the site.

Please email your views to Mary Butler at mary.butler@actuaries.ie

Member Search

Don't forget that contact details for members are available on the Society's website in the Members' Section

Book on-line for evening meetings and seminars

www.actuaries.ie / Resources / Events & Papers

Book on-line for Captain's Day – Tuesday 16 August

www.actuaries.ie / Members' Section / Social Events

Evening Meeting Review:

The evening of 24th May saw a new Society Council elected, to be presided over by Colm Fagan.

Colm, clad in his new chain of office, duly introduced Kevin Murphy to the sizeable group gathered in the Stephen's Green Hibernian Club. Golf, bookmakers' odds, overreactions in markets and investment managers being economical with the truth were some of the many topics touched upon over the course of the evening, which proved very stimulating and thought-provoking.

Presentation

Summary

The actuarial profession urgently needs to produce a set of investment tables to illustrate the range of potential outcomes from investment markets, firstly (and of primary importance), to aid our own understanding of variability and secondly, to use this new-found understanding and skill to advise our clients.

Why so much variation?

Variation in investment outcomes arises not only as a result of the inability of the market to correctly price in new information as it emerges i.e. the familiar market inefficiency argument, but also as a result of market-sentiment which comes into play in the absence of full information. Optimism, pessimism and over-reactions pervade decision making in the markets. We often see headlines referring to massive selling of a stock. Of course, if there is massive selling of a stock there must equally be massive buying. Kevin illustrated the two-sided nature of a transaction; the combination of the driving conviction of one party and the reluctant acceptance of the counter-party serving to overly inflate or deflate a given market price. It is well worth reading the Lee Westwood example, illustrating the difference between market valuations and rational valuations, on page 6 of Kevin's paper.

Same advice applied to Defined Benefit and Defined Contribution Clients?

Traditionally, actuarial investment advice has centred around the DB scheme with its long term outlook and high capacity for risk. However, the current pensions landscape is radically different. The mushrooming of DC provision and regular solvency checks on DB schemes force a much shorter term outlook with implications for return and more importantly the variability of that return.

Kevin identified three distinct categories of investors with very different risk tolerances and potential ranges of outcomes (contingent on whether they invest and extract their money over an extended timeframe or at a single point in time):

- Single Premium Investors (e.g. buy-out bonds, endowment policyholders etc.)
- Regular Premium Investors (e.g. DC investors)
- DB Schemes

Kevin focussed on the DC investor, which he believed represented the future of pensions business, yet had remained under-discussed to date.

Both DB and DC investors invest premiums regularly over a timeframe of 10-40 years. However, as a general rule, DC investors exit the market at a single point in time and are therefore exposed to considerably more outcome risk coupled with less ability to take this risk (afterall, they are reliant on their DC funds to provide an income in retirement).

In spite of these distinct differences in investment risk tolerances, the balanced fund approach has been almost uniformly applied to DB, DC and Single Premium investors alike, with identical asset allocations in all three cases.

Need for tables

Our actuarial education tells us that equities are volatile, more so in the short term than in the long term. But do we truly know how volatile they are? How is the distribution of returns shaped – a narrow bell-shaped curve or a flatter curve spread out over a larger area? How does this distribution vary over time?

Methodology

A decision is needed on the average return and standard deviation of return for each asset class. We then proceed to use these figures to calculate the expected outcome, the best outcome and the worst outcome. After that we need to decide what a "bad outcome" is, which may well vary by client, product and so on. It could be argued that a bad outcome is achieving anything less than the risk-free rate. Finally, we calculate the percentage of bad outcomes and decide on whether this number is acceptable. Figures calculated for a typical balanced fund illustrated that the percentage of bad outcomes was approximately 22%.

Surprising result

The somewhat surprising result emerging from the study was that lifestyling does not reduce the number of bad outcomes. It does reduce the average outcome but the probability of bad outcomes is much the same.

New asset classes

As we come to better understand the range of possible outcomes and seek to narrow that range, we will be forced to understand other asset classes such as hedge funds, private equity, property and the variety of fixed term contracts available to achieve greater diversification.

Discussion

The President thanked Kevin for his stimulating presentation. He recognised that the major challenge ahead is to provide useful advice to DC investors. Even in his own personal experience, Colm found advice on lifestyling arrangements to be sadly lacking. Kevin's challenge to the profession is well timed but the question remains, how can we react?

"It's the Outcome, Stupid!"

Pat Healy was first to contribute, congratulating Kevin on a refreshing presentation. He questioned whether Kevin had considered funding for pension rather than simply lump sum at retirement and how this would affect the work? Kevin informed us that in considering a pension liability, the percentage of bad outcomes would rise by 4-5%.

Extending Pat's question, Colm Fagan raised the issue of ARFs which permit individuals to be invested for much longer and mean that disinvestment doesn't occur at a single point. Philip Shier, incoming Vice President, commented that the inclusion of ARFs in the study would almost certainly reduce the range of outcomes.

Kevin pointed out that there are two types of DC investor, wealthy DC investors and poorer DC investors (who will not have the luxury of purchasing an ARF). We have a responsibility to ensure all DC investors are catered for at retirement (i.e. deciding on an asset allocation strategy which will result in an appropriate range of outcomes). He assured Colm that the model could also be adjusted to accommodate the wealthy DC investor.

David Kingston wondered whether the percentage of bad outcomes would vary depending on the level of the market. Kevin advised that his model assumes the market is at its average level today and so is most suitable for the provision of advice to DC investors who invest premiums regularly.

A number of commentators were dubious that the profession would ever reach agreement on a single table. In response, Kevin suggested that we need to be leaders in this field and that we cannot afford to become overwhelmed by the complexity of the issues. He suggested that we learn from the experiences of those involved in the production of mortality tables. The investment tables could be updated periodically as is done in the mortality field.

Eamonn Heffernan (whose talk at an investment conference a few months previous had prompted the paper), recognised the need for us to use our expertise to a far greater extent in the DC arena but equally to use the investment tables to generate useful and necessary information for DB schemes.

In relation to DB schemes, we are already in "bad outcome land" and so the investment decision to be made now, is essentially one of timing of a large single premium.

Jim Murphy cautioned on the need to avoid giving the impression that so much certainty will get rid of uncertainty. For example, current DC illustrations use a deterministic 6%.

Jonathan Gould advised that the Life Committee had been steered by the regulator in the direction of deterministic DC illustrations. The 6% used represents an average balanced fund return. Given that the illustration uses a stable return from year to year, he argued that the stable return used should be no more than the risk-free rate.

He also suggested that we disclose in a more user-friendly, understandable fashion. For example, findings in the UK were that consumers have a poor understanding of probabilities but a good grasp of bookmakers' odds.

Bruce Maxwell was concerned that the default PRSA fund would rebound on the profession if it did not deliver what consumers expected of it.

It was suggested that the incoming Council should undertake a review to ascertain whether the balanced fund is deemed appropriate as the default investment strategy for PRSAs.

Colin Murray emphasised the need for clear communication in relation to the tables. He was concerned that we might be apportioned blame for not having been involved at an earlier stage.

A widely held belief that property would not exhibit any negative volatility was cited by Colm as an example of one of the misconceptions in relation to volatility. John Morrissey pointed out that perhaps they were correct by referring Colm to diagram 9 in Kevin's paper, which showed the range of returns from property over a 20 year time frame in the range 4-9%.

Kevin maintained that property was the preserve of a select few and to date the majority of pension members would have been primarily exposed to equities. For customers who do not understand investments, diversity is essential. The responsibility lies with us to figure out the right mix of assets to achieve the appropriate levels of diversification.

Closing

In his closing speech, Colm appealed for ideas on how to take the proposals forward. Kevin suggested that actuarial education needs to change. We need to re-think what we do and move away from our blinkered long term outlook. A second-order discussion then needs to take place on the issue of disclosure to customers.

As the default PRSA fund is a statutory responsibility of ours, Pat Healy recommended this is an area to look at first.

It was felt that due consideration should be given to the employment of bookmakers' odds in DC illustrations.

Finally, the President urged the profession once more to unravel its naivety in relation to investment markets which are much more volatile than we think. He urged the profession to grasp the opportunity presented – let's go for it!

Kevin's paper and presentation are available on the Society's website under Resources / Events & Papers.

Joanne Roche

President's Forum - Colm Fagan

We all start new jobs with a degree of trepidation: Will I do a good job? Will I manage to achieve all the things I want to achieve? So it is with me as I take on my new job as President of the Society of Actuaries in Ireland for the next two years.

I am lucky in that I have a great Council behind me and members who I am sure will give me their wholehearted support. You can show that support by telling me - and other Council members - how you think we're doing and what you think we should be doing. Tell me where we're going wrong, but also when we're getting things right. Above all, tell me – whatever it is.

One of my goals as President is to make sure that members hear about new developments and planned initiatives as soon as possible. With that aim in mind, I propose in this article to talk a little about the new Council's first planning and strategy session, which was held on 30 June last.

"The actuarial profession will be recognised for its integrity, high standards of practice, and quality of work". That statement, taken from the Canadian Institute of Actuaries statement of strategic objectives, captures in a nutshell my aspirations for my presidency. I'm sure you all share that aspiration. It formed the main theme for our discussions on 30 June.

We are lucky in that the actuarial profession in Ireland already comes reasonably close to achieving that goal (in my opinion anyway, but then I'm biased). As a profession, we are highly respected by regulators, by other professionals, and by the general public. We must ensure that it stays that way. Prevention is better than cure. If anything ever happens to make us lose the respect of our various publics, it will be very difficult, if not impossible, to get it back. Trust is a fragile commodity. It must be handled with care.

One of the main strands in achieving that goal is to set high standards for our professional work. We want standards that are fundamentally sound and sensible, that are consistent across practice areas (unless there are good reasons why they shouldn't be), standards that minimise the scope for us to bend our professional advice to suit the commercial interests of our clients rather than to do what is objectively right. We want standards that ensure (as far as is reasonable) that two actuaries charged with doing the same piece of work will produce roughly the same answers – or at least can provide good and clear reasons for their differences. It is hard to quibble with these objectives, and we are already making reasonable progress along that path.

But we need to go further. At Council's strategy session, there was general agreement that our current standards rate as "pass". For actuaries, scraping a pass is just not good enough! We should be aiming for a good "honours" mark. The broad consensus at our meeting was that by continuing along our present path, we would never make the breakthrough needed to achieve that honours score. We must take a more radical approach if we want to achieve an honours grade.

Part of the reason why our standards of practice only score a pass at present, and why we will find it difficult if not impossible to make the breakthrough to an honours mark by continuing along the same path, is that our approach to standard - setting is not subject to independent external review. Because proposals for new standards or for changes to existing standards only have to command majority support from our own members, they are set at a level that suits actuaries, not at the level that is objectively "correct" or that the users of actuarial advice consider appropriate.

The problem we face in setting standards for our own professional work is that we have no commercial incentive to raise the bar too high. In fact, commercial considerations mean that the opposite is often the case. Furthermore, the requirement for majority support means that standards are set, not even at the level that the majority of actuaries find acceptable, but at the level that will command majority support among actuaries. There is a subtle distinction between these two levels: the latter being the lower level that will gain the support of the final marginal supporter of change.

Whilst continuation of the status quo might mean an easier life in the short-term at least, the modern world is intolerant of professionals in any walk of life who want to write their own rules. There is no reason why actuaries should be different, as our UK colleagues are finding out in the wake of the Morris report on the UK actuarial profession. The simple reality is that if we don't move with the times, then change will be forced upon us. In the process, we could lose much of the trust and respect that has stood us in such good stead up to now.

In the light of the above considerations, at its recent strategy session Council quickly came to the conclusion that we must establish a counterforce to help us raise our standards to a level that will ensure we score an honours mark in future.

We are now moving on to consider what form that counterforce should take and how it will link in with existing decision-making structures within the profession. We are still at an early stage in our thinking. We are committed to creating and maintaining an ongoing dialogue with members as we develop our thoughts. Watch this space. In the meantime, if you have any thoughts on this topic, a topic that is of vital importance for the future of our profession, please call me, write to me, email me at colm.fagan@actuaries.ie or raise it with my colleagues on Council.

Colm Fagan

Council 2005/2006

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Colm Fagan . . . . President
Philip Shier . . . . Vice President
Ivor O'Shea . . . . Treasurer
David Harney . . Honorary Secretary

Immediate Past President

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Pat Ryan

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Education (sub committee of MSC)	Mike Claffey
Finance & Investment	Pat Ryan
General Insurance	David O'Connor
Healthcare & Social Policy	David Harney
International	Jim Murphy
Life	Brenda Dunne
Member Services Committee (MSC)	Declan O'Neill
Pensions	Liam Quigley
Public Relations (sub committee of MSC)	Gareth McQuillan
Practising Certificates Committee (sub committee of PAC)	Philip Shier
Professional Affairs Committee (PAC)	Bill Hannan

Student News - Evening Meeting

On Monday 4th July, a meeting with Trevor Watkins was held in the Fitzwilliam Hotel. In attendance was:

- Mike Claffey - Chairman of the Society's Education Committee.
- Mary Butler - The Society's Director of Member Services.
- Trevor Watkins – Head of Education & CPD, Institute of Actuaries.
- Dr. John Appleby & Sonja McKenna – Dublin City University.
- Prof. Philip Boland – University College Dublin.
- Eamonn Mernagh, Naoimi Cooney & John Nugent – Members of the Society's Student Committee.

The purpose of the meeting was to review the April 2005 exam sitting and to provide an opportunity for the Student Committee to put forward the strong feelings of many of our fellow students concerning the examination process.

Exam Administration

The first topic under discussion was the recent exam sitting, which for many, was an extremely painful and troublesome process.

The Institute experienced problems processing exam entry forms for the recent April sittings. The problems were mainly due to the Institute failing to anticipate the difficulties with the transition from the old exam structure to the new exam structure. The Institute told us that they will do their best to ensure that the September sitting is a much smoother one.

Waiting Time for Exam Results

We then went on to discuss the "waiting period" for exam results and why it is so long. We learned of the rigorous exam-marking process, a process which Trevor Watkins likes to call the "Rolls Royce" process of correcting exams!

The process begins with 5 scripts being randomly selected, each photocopied and sent out to the exam markers. The exam markers then meet to discuss the exam paper, model solution and a discussion on any possible interpretation problems with the questions. The 5 test scripts are also used to get an initial feel for the standard required.

Following this benchmark stage, all exam papers are sent out to the markers. Each script is marked and sent to another marker for an independent second marking.

Scripts are marked a third time if they are borderline pass, or if the two previous markings show a large variance. The third marking is done by the Chief Examiner. An examiner's meeting is then called 10 to 12 days after all scripts have been corrected.

It was clear from the meeting that there is an appetite amongst students for a quicker turnaround in relation to examination marking.

The Society's Student Committee would like to challenge this process and query the need for such a rigorous marking procedure with the Institute.

Exam Timing

The discussion then progressed to the timing of exams. It was proposed by the Student Committee that the twice yearly sitting would take place at six monthly intervals. While Trevor Watkins agreed that this is the ideal situation for many students, it was difficult to find two times of year that suited everybody. He added that the Institute would remain open to suggestions on this matter.

DCU Exam Centre

Another encouraging topic was how DCU plan to make the exam sitting process easier. In particular, they suggest:

- making invigilators more aware of candidates' needs;
- working closely with the Student Society representatives before and during the exams.

All in all there was a positive message that the examination process is one that will continue to develop and improve.

Issues, Strategy and Closing

Trevor Watkins then gave a presentation to the Society summarising the issues arising in the April exams, and also outlining the future Education Strategy including the impact of the Morris review in the UK. While attendance was low for the meeting, the students who were there ensured, in the Q&A session that followed, that they gave feedback to Trevor on their experience of the first sitting under the new exam structure. Issues discussed included the link between the exam questions and the ActEd material, the breadth of the CA1 exam, and the range of pass rates on the later exams (some as low as 29%).

John Nugent.

Honorary Fellow Membership

Council has appointed two new Honorary Fellow Members, Dr. Garret FitzGerald and Professor Phelim Boyle, bringing the total number of Honorary Fellow Members in the Society to seven. Our eminent Honorary Fellows are:

Professor Philip Boland
Professor Phelim Boyle
Professor Emmanuel Buffet
Dr. Garret FitzGerald
Chand Kohli
Professor Brendan Walsh
Professor Alastair Wood

The following is the criteria for selection of Honorary Fellows:

- Notable Irish academics in a discipline with relevance to the actuarial profession (such as mathematics, economics, finance) who have achieved some special distinction or who have some particular affinity with the actuarial profession.
- Industry leaders in the financial services field in Ireland (such as insurance, pensions, investment) who would be generally recognised as outstanding managers, innovators, etc.
- Distinguished members of other professions in Ireland, such as accountancy, who would be recognised as such in their own profession and in the actuarial profession and who would have had a particular connection with the actuarial profession.
- Distinguished Irish public servants, who would be recognised as such by their peers and in the actuarial profession and who would have had a particular connection with the actuarial profession.
- Prominent international figures in the actuarial profession who would have some particular connection with the Society or with Ireland.

We are honoured that both Professor Phelim Boyle and Dr. Garret FitzGerald have accepted Honorary Membership.

Dr. Garret FitzGerald, is a former Taoiseach and an eminent economist with a keen interest in issues within our profession. He has participated in research projects within the Society and has chaired many Society seminars. He will address the Society at an evening meeting on Thursday 15 September 2005 in the Stephen's Green Hibernian Club and the title of his address is *Reflections*. The President Colm Fagan is anxious that we have a large turnout of members to this meeting when we will also formally confer Honorary Fellow Membership on Dr. FitzGerald.

Professor Phelim Boyle, is a Fellow of the Canadian Institute of Actuaries. He has a very strong academic background and is an expert in financial economics. Professor Boyle is based in Canada, so travel plans permitting, we hope that he will also address the Society in the coming year.

Resumés of the careers of both Dr. FitzGerald and Professor Boyle are posted on our website www.actuaries.ie under About the Society / Membership.

Calendar of Events - full details are available on the Society's website and further events will be posted there shortly.

Date	Event	Title	Speakers	Venue
Tuesday 13 September	Forum	General Insurance Forum	General Insurance Committee	The Alexander Hotel 4.00 p.m. to 6.00 p.m.
Thursday 15 September	Evening Meeting	Reflections	Dr. Garret FitzGerald	The Alexander Hotel 6.30 p.m. followed by dinner
Monday 19 September	Forum	Pensions Forum	Pensions Committee	Berkeley Court 4.00p.m. to 6.00p.m.
Tuesday 27 September	New Qualifiers' Reception & President's Address	Address by the President of the Society of Actuaries in Ireland	Colm Fagan	Stephen's Green Hibernian Club 5.30 p.m. Reception 6.30 p.m. Address 8.30 p.m. Dinner
Thursday 27 October	Seminar	Modelling and Managing Corporate Liabilities and Portfolios	Speakers to be advised	St. Helen's Radisson Hotel 8.30 a.m. finishing with lunch at 1.00 p.m.

Reviewers of Evening Meetings

The newsletter team is always very grateful to members for agreeing to review meetings for the newsletter. Equally the newsletter team is very embarrassed when Tara Greally readily agreed to review Harvie Brown's address for the June issue and Tara picks up the newsletter to see that her colleague, Emer Reid, was credited with reviewing it! Thanks to Tara and Emer for understanding the error and all we can say is apologies to Tara, and Emer should expect a phone call once the autumn meeting season commences!

New Qualifiers

Congratulations to our 21 new qualifiers from the April 2005 exams.

Michael Butler	Mercer HR
Noreen Collins	Royal and Sun Alliance
Martin Ettles	Standard Life
Thomas Farrell	Coyle Hamilton Willis
Cormac Galvin	Anglo Irish Assurance
Ian Geary	Mercer HR
Seamus Howlin	Coyle Hamilton Willis
Paul Kenny	Mercer HR
Edward Lynch	Irish Life
Denis Lyons	Heissmann
Michael Marshall	Eagle Star
Tara Noonan	Canada Life
Niall O'Callaghan	Mercer HR
Thomas O'Brien	Life Strategies
Brian O'Donoghue	Hibernian
Fearghus O'Rourke	Bank of Ireland Life
Julie Reilly	Watson Wyatt LLP
Sandra Rockett	Mercer HR
Patrick Ryan	Chairman, Finance & Investment Committee
Enda Walsh	Hewitt Associates
Orlagh Woods	Mercer HR

Golf Update

The May Weekend outing in Waterford was enjoyed by all with Brian Murphy being victorious and earning a place on the Society's team against the Faculty on 28 September next. We will hold photos and a full account until our Autumn issue which will also include photos and results from the Piers Segrave-Daly Matchplay Competition and Captain's Day.

Matchplay Competition

We are now at quarter finals stage. Best of luck to all!

Captain's Day - Tuesday 16 August – South County Golf Club

Reservation form on the Members' section of the website – under Social Events – or email or phone the Society.

Match against the Faculty of Actuaries – Wednesday 28 September 2005

Selection process is outlined in David Harney's letter which is posted on the website www.actuaries.ie – under Social Events.

Survey of Members following the Society's Annual Ball

We received a tremendous response from members to our survey, both from those who attended and those who did not. The Social Committee would like to sincerely thank members for responding. After due consideration of all comments, we are proposing the following for 2006:

- Continue similar format – i.e. black tie dinner
- Look for other more economical venues other than hotels (or possibly a hotel more centrally located than the Four Seasons)
- Set a target cost of €100 per head
- Promote it earlier and more heavily – we expect to let members know the date in the Autumn Newsletter, so there will be plenty of time for those who need to cancel weddings!

On the Move

⇨ **Fellow Members**	John Feely has joined **Mercer HR** Gerard Davis has joined **Anglo Irish Assurance** from Life Strategies Fiona Daly has moved from Heissmann Consultants to set up **Rubicon Investment Consultants**
⇨ **Students**	Neil McConville has joined **Mercer HR** from AON Consulting

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