Newsletter

August 2006

The Society of Actuaries in Ireland

Risk-based Capital and its Practical Applications to Non-Life Insurance

John McCrossan, Colin Manley and Declan Lavelle presented a paper to a well attended evening meeting of the Society at the Davenport Hotel on April 27th.

Overview

Risk-based capital (RBC) models can be used to provide a valuable insight into a general insurer and give senior management practical tools to help them make informed decisions.

Capital and Risks

Capital is needed to absorb unexpected changes in the values of assets and liabilities so that a company can remain solvent. In order to determine the RBC we need to use an Asset Liability Model (ALM) that projects future cash flows, profitability and solvency allowing for the interaction of risks that the company faces. The new Solvency II regime and the current FSA regime in the UK provide a template of the risks that should be considered:

- underwriting risk
- market risk
- credit risk
- operational risk

Business assumptions for the ALM should cover:

- claims (frequency, severity, inflation)
- premium & policy count
- expenses
- underwriting cycle

A stand-alone economic scenario generator (ESG) would generally be used to provide an internally consistent set of economic scenarios to drive the asset model. For RBC calculations which require stochastic simulation, it is vital that attention is given to the spread of assumptions. Parameter uncertainty is an issue in RBC assumption setting, particularly when there is little data to work with (i.e. large claims) or at the extreme tail of distributions.

Calculation of the RBC figure

To determine the RBC figure we need to project the future realistic solvency position of the company and determine how much capital is required to ensure solvency at a given probability. This can be compared to the existing available capital to ascertain the current level of cover. For each simulation the model will project the profit & loss account and corresponding balance sheet at each year-end on both a statutory and realistic basis. For the purposes of this paper RBC can be thought of as the excess capital required now to ensure, at a given confidence level, that the company will have sufficient assets to meet all liabilities at every point over the entire projection period.

The risk tolerance is the required probability of remaining solvent over the term of a projection. In practice, for a risk tolerance of say 99.5% with 10,000 simulations, we would require the company to be solvent in all but the 50 “worst” simulations. If we were to use too tight a risk tolerance over too long a time period, we would have an impractically onerous capital requirement given the greater uncertainty of the results as we move further in time (the “expanding funnel of doubt”). The practical response to this problem is to use a risk tolerance that reduces over time. Risk measures, such as VaR and tVaR, look at the tail of the distribution of outcomes. VaR looks at a particular percentile of the distribution whereas tVaR looks at the conditional expected value of the distribution, given that the value exceeds a particular percentile. The final RBC result will depend on the combination of risk measure, risk tolerance, time horizon and the run-off period chosen.

Capital Allocation

The motivation for attempting the allocation of capital to lines of business is to allow management to assess whether individual lines are contributing adequately to overall profitability. This question can be answered by measuring the return on capital by line of business and the cost of capital.

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In order to compare this to the appropriate return on capital, it is first necessary to allocate capital to each line of business. Capital allocation methods aim to allocate diversification benefit to lines of business in a way that reflects the risks inherent in each line and the correlations between them.

RBC and Reinsurance

A possible ALM could retain the results net and gross of reinsurance and maintain a separate module for reinsurance arrangements. The ability to pass data and assumptions through a reinsurance module with results recorded net and gross will allow the user to analyse different reinsurance strategies.

We can also consider the impact upon the company's capital requirements when reinsurance strategies are changed; keeping all else constant, by how much does our capital requirement change if we increase the retention limit? This analysis will allow us to assess the balance between giving away profit and reducing the volatility of the result. For this part of the analysis we need to know the cost of reinsurance. Then we can comment upon the balance between cost and reduction of capital.

Reserving and Optimal Decision Making

Stochastic reserving is becoming a more important tool in the reserving process. The role of stochastic reserving will increase as regulators and reserve setting for financial statements move towards a more risk based regime. Stochastic reserving normally considers the distribution of future claims payments from a fixed point in time. An ALM allows the evolution of the stochastic reserves themselves to be examined over time.

Many of the practical applications described above are essentially optimal decision making strategies. Many problems can be expressed in this way and the RBC model and techniques can be adapted to try to solve them.

Among the types of questions that might be tackled are:

- What is the optimum Investment Strategy for a given company?
- What mix of new business by class should be aimed to minimise RBC requirements or to maximum return on capital?
- Is there an optimal business mix to take advantage of diversification benefit?

Practical Problems

A number of issues should be considered when calculating the RBC or applying the techniques, including:

- communication of results
- parameter/model risk
- sample error
- operational risk
- behavioural/dynamic feedback effects

Questions and Answers

Reflecting the nature of the subject matter, the session after the presentation consisted mostly of questions from the floor regarding the practicalities of capital modelling and a general commentary on the value of such an approach.

Some of the issues raised were:

- The setting of correlations within the model. The importance of splitting data (e.g. claims history) into heterogeneous yet sufficiently meaningful classes to aid the process was emphasised, John stating that actuarial judgment was crucial in this regard. More esoterically, a question was asked as to whether correlations within development factors in claims triangles would inform underwriting cycle correlation across classes of business. John replied that the model presented modelled the underwriting cycle separately but that some link might theoretically exist, and speculated as to the existence of automatic correlation.

- The modelling of frictional costs within an RBC model. Is it correct to allocate capital unless frictional costs can also be allocated? Agency costs, taxation, structural costs, maintenance of market share and politics were among the few that were mentioned. John replied that the model, strictly speaking, allocates risk, which would then inform the allocation of capital. The direct allocation of capital and frictional costs would be the next step from the current state of RBC modelling as described in the paper.

- Reconciliation to company plans was of particular interest, especially the (in)flexibility of assumptions to facilitate this. John recommended leveraging the effort that goes into an RBC model by adopting it as the planning tool; in essence, running it as a deterministic model with the same assumptions as the RBC model. This would drastically simplify the bridging process with the ideal situation resulting in the plan being the mean of the RBC model.

- Parallels were drawn with the banking world where capital is modelled as a scarce resource that drives capacity and where Basel II is causing the regulatory and economic requirements of companies to converge. The criticality of extreme-event modelling within banking, post-Long Term Capital Management, was emphasised.

Conclusion

It was generally agreed that, while RBC modelling is in its infancy and has a long way to go both in terms of technique and acceptance, it serves a vital role in focusing management on critical risks and could well evolve into providing competitive advantage. The challenge for actuaries lies in developing the skills required to implement robust RBC models and most importantly, to communicate the results to stakeholders.

Michael O'Sullivan

This paper and accompanying slides, complete with case study and full appendices, are available on the Society's website.

The Cost of Capital for Financial Firms

Andrew Smith of Deloitte in the UK, accompanied by the 'Smith Model', gave this presentation at a well attended meeting in the Alexander Hotel on the 23rd of May 2006.

Problems raised and questions asked

Andrew began by saying that, in his view, traditional actuarial thinking was being slowly challenged by newer market consistent techniques from the world of Financial Economics. Before addressing the main theme of his presentation concerning the amount of capital that a financial firm should hold and its required return, Andrew outlined some of the current pitfalls with regard to the modelling of economic capital.

In his view, there is some confusion among insurers and actuaries as to the type of capital model that best meets their needs. Confusion also exists as to the exact measures used to quantify the amount of capital a company should hold. Some measures commonly used include the following:

- hold an amount of capital to maintain a desired credit rating, or
- hold twice what the regulator says should be held, or
- hold an amount of capital that ensures the probability of insolvency is within a pre-specified level.

For the third option here, the question then arises as to what the correct confidence level actually is and who actually decides it.

Another issue raised by Andrew is that many metrics used to measure and determine capital requirements focus on protecting the policyholder. What about holding the correct amount of capital to maximise shareholder value and shareholder returns? Equivalently, this is saying that we should allocate capital to maximise the market capitalisation of the company.

'P world' versus 'Q world'

A brief contrast was then given by Andrew between what he terms the 'P world' and the 'Q world'. The 'P world' focuses on past statistical data to derive models and assumptions for hedging risk. Andrew sees current risk based capital techniques as lying in the 'P world'. Risk appetite and threshold probabilities are largely determined by past experience. Andrew's main question here is how much past experience and past data do we need to ensure our models and results are correct? This dependence on past data can be eliminated by moving to the 'Q world' and by calibrating models to current market data. A point was made from the audience that it is not possible to replicate exactly all liabilities in the market e.g. employer default risk in a defined benefit pension scheme. Andrew agreed that the 'Q world' was not always trivial to apply and that not all risks could easily be hedged in the market. A further question was also raised as to how the required capital a firm should hold would change if we moved from the 'P world' to the 'Q world'?

Two false starts

Andrew then outlined two approaches to capital allocation – each on its own does not give an optimal solution but when combined might just give the required answer.

The first approach is Return on Risk Adjusted Capital (RORAC). This means that capital should be allocated to areas that give the highest return allowing for the risks involved in generating that return. This approach essentially says that the shareholders' return can be continually increased by continually allocating capital to business areas where the RORAC is highest. The optimum amount of capital is infinite.

Andrew's second false start was the Embedded Value (EV) approach. Additional capital is invested in the market and earns the risk free rate. However the return on capital is diluted due to frictional costs such as double taxation, agency costs and total loss in the event of company failure. This essentially says that the optimum amount of capital is zero.

Optimum amount of capital

Andrew's view is that credit spreads, priced in the market, can be reduced when extra capital is allocated to a business. Extra money means there is a lower chance liabilities will not be met and so credit rating improves. The RORAC theory is dominant at low levels of capital – extra capital reduces the chances of insolvency and increases a company's credit rating.

The EV theory is dominant at high levels of capital - extra capital does not increase shareholder value and can be eroded by frictional costs. Optimal equity is reached when an additional €1 of capital increases market capitalisation by €1.

Franchise value and product pricing

Andrew then went on to add to the above argument by stating how important it is that when shareholder returns are looked at that franchise value is allowed for. Franchise value is essentially total market capitalisation less net asset value. A higher franchise value essentially means that shareholders require higher returns for their investment, all else being equal. It was noted by a member of the audience that franchise value is essentially brand value or the price that would be paid for a particular brand. Overall the required return of shareholders allowed for in product pricing should take account of franchise value.

Discussion

A lively discussion then followed with a number of interesting points being raised from the floor. Issues relating to whether pricing bases should change in response to changes in franchise value were of interest to those in attendance. Queries also followed in relation to an example used by Andrew of the high franchise value of Prudential from 1999 to 2001 and whether, in fact, the market 'got it wrong'.

Colm Fagan closed the meeting and thanked Andrew for his presentation. The presentation and paper on which it is based are available on the Society's website.

Richard McMahon

Address by the President of the

Introduction

This year's address by the President of the Institute of Actuaries, held during Pensions Awareness Week, saw Michael Pomery give a very interesting presentation on the Institute's response to the Report of the Pensions Commission in the United Kingdom.

After welcoming Michael to the very well-attended meeting, our own president, Colm Fagan, took the opportunity to thank Michael for his support since Colm's election as President of the Society of Actuaries in Ireland.

In particular, Colm thanked Michael for his support when he first outlined our Council's plans to move to a new stage in our relationship with the UK profession. The Council of the Society of Actuaries in Ireland has recently removed the requirement for members of the Institute and Faculty based in Ireland to maintain their membership of the UK body. Given this, Colm still reiterated that there was no intention of declaring complete independence from our UK colleagues. Our professional requirements will be kept as close as possible to that of the Institute in the UK. There is also no intention of introducing a separate examining body. Colm concluded that it is still the desire of the Society of Actuaries in Ireland that as many members as possible will retain their membership of the UK profession.

UK Pension System Reform

Before starting his presentation, Michael reiterated that the Institute feel that the direction now being taken by the Society of Actuaries in Ireland is a natural one. The Institute cites the Society of Actuaries in Ireland as an example of an actuarial body that started off being very dependent on the UK but then developed the critical mass to establish its own identity.

Michael's presentation then began with a brief summary of the Report itself.

Pensions Commission Report

The Report of the UK Pensions Commission, chaired by Adair Turner, looked at the adequacy of the four main pillars of retirement provision in the UK.

It concluded the following in this regard:

- Provision under the first pillar, the Basic State Pension, is too low and will continue to decline due to its linkage to price inflation rather than wage inflation.

- Coverage under the State Earnings Related Pension is low due to the fact that individuals can opt out. The overall benefit provided under this pillar is also too complicated and difficult to compute.

- Given the low level of retirement provision under the two pillars above, more and more individuals in future will be relying on the third pillar of retirement provision, a means-tested pension.

- Overall retirement provision under the fourth pillar (Occupational Pension provision) is in decline, reflecting the fall off in provision through Defined Benefit pension schemes. The inevitable switch to Defined Contribution will transfer the risk of appropriate retirement provision from the employer to the employee and if, uncontrolled, will lead to lower funds at retirement due to lower overall contributions.

Raising the State Pension Age gradually, improving the amount of Basic State Pension and linking it to earnings instead of prices were highlighted in the Report as possible ways of dealing with the inadequacies of retirement provision under the first pillar. A proposed solution to the shortcomings of second pillar provision was to phase out the opt-out option. The possible introduction of a National Pension Savings Scheme (a Defined Contribution scheme with automatic enrolment) with set percentage contributions by employees, employers and the State was cited as a solution to the falling retirement provision under the fourth pillar.

Institute's Response to the Pensions Commission Report

The Institute's response to the report naturally splits into two main parts. The first part dealt with increasing longevity and how this fits in with the suggestion, from the Report, to increase the State Pension Age. The second part of the Institute's response deals largely with what has now been christened 'Decumulation'. This is the conversion of pension assets accumulated during working life into a pension income to be spent in retired life.

Increasing Longevity

The Pensions Commission proposed an increase in State Pension Age from 65 to 68 in three stages between 2030 and 2050, in order to respond to increasing life expectancy. The Commission also highlighted the trade-off between higher taxes and a higher State Pension Age. The Pensions Commission's proposal is that the proportions of life spent in work and retirement should be constant over time. It applied a rule, which assumes that individuals currently spend approximately 70% of their adult life working and 30% of their adult life retired. If you are to maintain these proportions in the future, then the State Pension Age should be increased by 30% of the estimated future increase in life expectancy.

The Institute pointed out that increasing the State Pension Age might not be fair to everyone since longevity varies significantly between different socio-economic groups. It also pointed out that improving longevity does not necessarily mean that we are living a longer healthier life. Another point centred on how the focus on youth in our culture has the effect of limiting opportunities for the older workers.

The Institute's key message under this heading is the need to understand the great uncertainty surrounding future life expectancies. As Michael pointed out, nobody knows what the life expectancy will be in 2050 for the generation now in their early twenties. When using estimates as a decision making tool one must be very clear on their limitations.

Institute of Actuaries

Given this great uncertainty, the Institute have therefore asked that the new system will be designed with flexibility in mind so that changes can be made if needs be. They have also asked that any changes to retirement provision be announced well in advance. Finally, they also ask that a permanent Pensions Commission be put in place, which will regularly review life expectancy forecasts and report regularly to Parliament on the trade off between changes to State Pension Age and the impact on taxation.

'Decumulation'

Given the inevitable growth in Defined Contribution plans and the proposed National Pensions Savings Plan, the question arises as to how individuals, at retirement, are going to turn their individual pots of money into appropriate income for themselves for their retirement. The Report gives much attention to how funds are to be 'accumulated' prior to retirement but largely ignores the issue of 'Decumulation'.

The Institute states that many pensioners could spend their money faster. The trebling of inheritance tax revenue in the UK in the last five years clearly indicates that pensioners do not appreciate their wealth and how to use it in their retirement. The Institute wants retirement presented in a more positive light rather than the savings process being constantly presented as a duty.

The Institute's response to the Pensions Commission also argues that there should be a move away from the standard inflexible annuitisation at retirement age towards more innovative products and more education for individuals to empower them to take control of their own finances. People will need greater assistance and education in order to make this happen and this will present a major challenge.

In a call for more innovative products to match people's varying needs in retirement, the Institute divide retirement into three phases:

- Partial retirement, where individuals may work part-time and have some reliance on retirement income. Here income needs are low but variable. Flexible products where income levels can be adjusted to meet changing circumstances will be needed.

- Full-time retirement, where the pensioner is wholly dependent on retirement income. In this phase, there is definitely more of a need for the traditional annuity product. The Institute suggest that the government increase their supply of bonds at longer durations in order to help alleviate some of the pricing pressures in the current annuity market. As needs are declining for the individual in this phase, the purchase of a flat retirement income rather than an increasing income may be more practical for individuals.

- Later years, where the pensioner may well require long-term care. The appropriate products for this phase fall back on the insurers.

Michael then summed up this fascinating presentation by saying that we, as pensions professionals, need to play our part in finding a solution to this huge problem. He wil be very disappointed if the pensions question simply gets lost in a political battle.

Discussion

A sample of the wide range of the perspectives proffered in the very lively question and answer session that ensued, is set out below.

Pat Ryan asked Michael if actuaries should have taken the lead on switching to Defined Contribution and not waited for Turner to tell us of the decline of Defined Benefit. Michael believes that the issue should not be simply perceived as a black and white case of Defined Benefit versus Defined Contribution. Actuaries should explore alternative ways of sharing risks and he spoke very highly of a number of interesting concept hybrid schemes. In fact, Turner himself was keen that we research these schemes.

David Kingston felt that Defined Benefit and State systems are currently too rigid and he emphasised the need for flexible systems to deal with future uncertainties. Michael urged caution if increasing flexibility meant giving people more choices and decisions to make. The Swedish system was mentioned as a system with a degree of built-in flexibility.

Gerry O'Carroll focused on increasing the period of saving beyond the working lifetime to include the time from birth to commencement of employment to bridge the savings gap at retirement. Michael explained that this idea is under consideration in the UK and highlighted Gordon Brown's baby bond as a step in this direction.

Jim Kehoe discussed how the scale of the pensions problem may be overstated, referring to academic studies on the subject. Other contributors echoed this thought on the night.

Kevin Murphy said that the State should focus on simply ensuring that people have at least a minimum level of income in retirement. He feared that anything beyond this objective would overly complicate matters and risk achieving no objective whatsoever.

After much discussion, Colm closed the meeting thanking Michael Pomery for a most enlightening presentation.

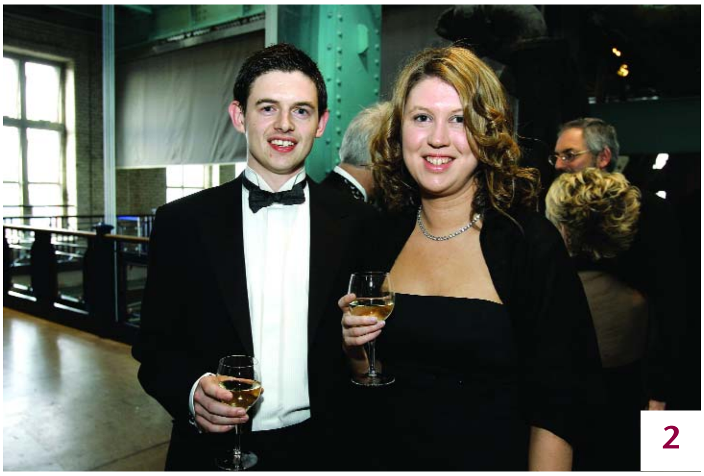
The two papers which make up the Institute's response are available on the Society's website.

Una Flynn

The Society's

1

Gareth Colgan, Heather Jeffery, Irene Colgan and Tony Jeffery



2

Martin Donovan and Sarah Parks

3

Mary Fagan, Colm Fagan, Joan Coyle and Pat Coyle

4

Shelia and Eamonn Heffernan

5

Karl Meade and Naomi Cooney

6

Sandra Grant, Michelle Neary and Grainne Kelly

Annual Ball

7

Eoin Harte, Maeve Fitzgerald, Nuala Broderick and Vincent Crimmins

8

Conor Ryan, Evelyn Ryder, Maria Quinlan and Ross O'Hanlon

9

Paul Victory, Jen Victory, Frances Kehoe, Rachael Ingle, Paul Burgess and John Kehoe

10

Paul Kelly, Joan Healy and Pat Healy

11

Lily Garvey, Anne Maher, Paddy Maher and John Gibson

12

Gerry and Jasone O'Carroll with two of the Murder Mystery actors

Continuous Professional Development

New CPD scheme

The revised CPD scheme for Fellows of the Institute & Faculty is effective from the 1 July 2006, on a prospective basis i.e. the new requirements will have to be met over the year to 30 June 2007. This scheme is mandatory for all "professionally active" actuaries, which includes all actuaries in Ireland who are members of the UK profession. The Society of Actuaries in Ireland is introducing an equivalent CPD scheme for its Fellows, also with effect from 1 July 2006. The Society's CPD requirements are set out in a draft guidance note, which is available on the website along with a summary of the requirements.

http://www.actuaries.ie/member/DraftGuidance/DraftGuidance.asp.

The new CPD requirements include attendance at a professionalism event accredited by the profession at least once every ten years. The Society intends to hold a number of these events over the next year or two to enable members who have not attended a professionalism course over the past ten years, or ever, to meet this requirement.

FAQs on the new mandatory CPD Scheme

So what do you need to do?

1. Decide which Category you are in.

2. Unless you are in Category 4 as defined in the guidance note, you will need to complete and submit a CPD record form by 31 August 2007 in respect of the first "CPD year" i.e. 1 July 2006 – 30 June 2007.

The detailed requirements are specified in a draft guidance note which is available on the website at:

http://www.actuaries.ie/member/DraftGuidance/DraftGuidance.asp.

The guidance note includes a sample CPD record form. We will provide you with further information shortly about the process for submitting CPD records. We will prompt you when the time comes to complete your CPD record form.

What if you are a member of both the Society and the UK Actuarial Profession?

The Society's new scheme is equivalent to the new UK CPD scheme which has the same effective date. We expect that the UK Actuarial Profession will formally acknowledge the equivalence of the Society's scheme after the summer. The Society will likewise recognise the UK CPD scheme. This means that, if you are a member of both the Society and the Faculty or Institute, you will not have to complete CPD record forms for both the Society and the UK Actuarial Profession (unless you hold practising certificates in both Ireland and the UK).

We expect that actuaries who are resident in Ireland will choose to submit their CPD records to the Society, and that those who are resident in the UK will submit theirs to the UK Actuarial Profession.
If you have submitted your CPD record to the Society you may also be asked to make an annual declaration to the UK Actuarial Profession that you have met the requirements of the Society's scheme, and vice versa. We are still discussing this with the UK Actuarial Profession, and will let you know when it has been clarified.

What are the requirements for those who hold practising certificates?

UK-resident actuaries applying to the Society for practising certificates will need to submit their CPD record to the Society as part of the application process. Similarly, an actuary resident in Ireland applying for a UK practising certificate will need to submit his or her CPD record to the UK Actuarial Profession.

Until July 2007, if you are applying for a practising certificate, you should submit a CPD record form that covers the 12 months prior to the date of your application. The new form should be used, but you do not have to meet the requirements of the new scheme in relation to CPD outside your actuarial specialism. Practising certificate applications after July 2007 should be accompanied by a CPD record form in respect of the most recent "CPD year" i.e. the year ending on the 30 June prior to the date of the application.

If you have any questions about the CPD requirements, please contact either Mary Butler or Aisling Kennedy.

mary.butler@actuaries.ie
aisling.kennedy@actuaries.ie

Education

Modeling Course (CA2)

The first Dublin based modeling course was held in DCU in February –many thanks to John Appleby and his team in DCU for their hard work in the preparation and delivery of this module. We plan to make this an annual event, and may even consider a second course in the Autumn of 2007 if we have sufficient demand from students.

Business Awareness Module (CT9)

The Society of Actuaries in Ireland has taken the view, at least for the time being, that students here should attend a UK course for the business awareness module in order to give them a wider choice of dates. We will revisit this in the Autumn to see whether a Dublin based course in 2007 is feasible. The Society strongly recommends Irish based students attend a BAM within 18 months of joining the Institute/Faculty.

University update

DCU has introduced a new postgraduate course entitled the 'Graduate Certificate in Actuarial Science'. This part-time course (two evenings plus Saturday morning) covers the syllabi for the core application CA1, CA2, and CA3 exams. DCU is in the process of agreeing actual exemptions with the Institute & Faculty of Actuaries. The DCU website has lots of information (www.dcu.ie) - just track through the mathematical sciences, post-graduate study headings. DCU therefore brings an alternative education supplier to ActEd - if you are responsible for your company's study package you may want to consider this new option.

Just to show I have no favourites - UCD hosted a very successful Actuarial Teachers' and Researchers' Conference on the 13th and 14th of July. Further details of the materials covered are available at http://www.ucd.ie/statdept/events/atrc2006.htm.

Mike Claffey
Education Committee Chairman
mike.claffey@lifestrat.ie

New Qualifiers

Congratulations to our 28 new qualifiers from the April 2006 exams.

John Bolger..........Hibernian
Nuala Broderick..........Irish Life
Eric Brown..........Mercer HR
Barbara Browne..........Mercer HR
Diarmuid Costello..........Norwich Union International
Barry Cotter..........Eagel Star
David Creaven..........Watson Wyatt (Ireland)
Pat Curtin..........Watson Wyatt (Ireland)
Ramona Dolan..........Life Strategies
Gary Dunne..........B & W Deloitte
Sarah Fee..........Mercer HR
Anna Marie Fitzgerald..........Ark Life
Niamh Gaudin..........Finaref Insurance
Padraig Gregan..........Hibernian
Julie Guy..........Hibernian
Mary Hall..........Standard Life
Eoin Harte..........Irish Life
Conor King..........Coyle Hamilton
John King
Roisin McCool..........HCM International
Michael Moloney..........Tillinghast, France
Karl Murray..........Life Strategies
Arran Nolan..........Sun Life Reinsurance
John O'Connor..........Allianz Ireland
Bryan O'Higgins..........Watson Wyatt (Ireland)
Aideen O'Neill..........Revios Reinsurance Ireland
Sheila Purcell..........Eagle Star
Billy Shannon..........Hibernian

Presidents' Reflections

For most of us, December is the time for reflecting on the year gone by and planning for the year to come. For some reason, however, I find myself doing this reflecting and planning mid-year rather than at year-end.

Part of the reason for this end-of term feeling is exams, and more importantly, exam results. This year, we celebrate the 27 students who joined the ranks of newly qualified actuaries following the exam results in June. I'm sure that you will join me in sending them our warmest congratulations and best wishes for their future careers. I look forward to welcoming them in person at the professionalism course and the new qualifiers reception later in the year – of which more anon.

Another reason for the end-of-term feeling is the change of personnel on Council and on the various practice committees. I want to take this opportunity to thank our colleagues who gave so much of their time over the last 12 months, whether it was on Council, or chairing or serving on one of the Society's committees or sub-committees. Without voluntary input from our members, the Society would be lost, and we are always looking for new volunteers. If you're not already involved, please volunteer your services now. It's a great opportunity to make a contribution, to make new friends, and to learn what your peers in other companies are doing. You don't have to make a major commitment: every little bit helps.

This time of year also marks the midpoint in my term as President. I've enjoyed the last year immensely. Most of all, I've enjoyed meeting members, whether at evening meetings, seminars, members' meetings, forums, the professionalism course for new qualifiers or the new qualifiers' reception. I'm particularly pleased with how well two innovations worked out. One was the new qualifiers reception and the other was the SAI convention.

The new qualifiers' reception, which was covered in the June edition of the Newsletter, proved a great success. It was very much appreciated by the qualifiers themselves and by partners, parents and other close family members who attended the event. I am very much looking forward to our next reception on 7 September in Dublin Castle.

Another innovation was the half-day SAI convention, held on 18 May last. This consisted of forum meetings for the individual practice areas in the first part of the morning, followed by a plenary session on developments of general interest in the profession and a buffet lunch. There was a great turn-out and the feedback following the convention was very positive. Definitely a date for our calendars in future years!

The mid-point in my presidency is also a time for reflecting on achievements to date and seeing what else has to be done before handing on the baton.

In my presidential address last September, I set out my stall. My primary concern was the lack of independent oversight or scrutiny of standards for actuarial work, and the extent to which the profession itself and individual actuaries would be exposed should anything go wrong. I said that the profession must take all necessary steps to reduce or eliminate the risk that the siren call of misguided professional judgement might cause us to suspend our powers of rational analysis in favour of an approach that suited our clients' or our own vested interests. This might make for an easier life in the short-term, but if it could not stand up to close challenge and scrutiny from our fellow professionals or other experts, it could lead to disaster in the longer term.

I went on to say that there must be a counterforce to the natural bias that exists in any self-regulating organisation against doing anything that could prove unacceptable or controversial to members. I said that Council had committed itself to working towards the establishment of such a counterforce, i.e. a body independent of the Society of Actuaries, with responsibility for setting actuarial standards, and that we would look to government and regulators for support and input to the establishment of such a body.

I am pleased to report substantial progress on that front. As I told you in an earlier communication, we have now sent a paper to the government and regulators on options for actuarial standard-setting in future, and we plan to start round-table discussions with them after the summer break on how best to bring those plans to fruition. There is still a long way to go before we can claim to have achieved our goal under this heading, but I am happy that we are on the right road.

One of the other major goals, as set out in my presidential address, was to redefine our relationship with the UK profession. Council's decision earlier this year to remove the requirement for Fellow members of the Society of Actuaries in Ireland to remain as Fellows of the Institute or Faculty was not taken lightly. We are very proud of the strong bonds with the UK profession and we had no intention of doing anything that would endanger that relationship. At the same time, we had to recognise that times have changed from when the Society was little more than a dining club for UK-trained actuaries living and working in Ireland: the Society of Actuaries in Ireland is now fully responsible for the professional conduct of Irish actuaries, and the professional/ regulatory environment in which actuaries discharge their responsibilities in both jurisdictions is diverging fast. It was unreasonable to ask our members to support full professional support structures in both countries.

Against that background, the recent news that the Institute and Faculty have introduced lower subscriptions for actuaries living outside the UK, and who are not practising in the UK, was very reassuring. In the light of this decision, I hope that Irish based members of the UK profession – which accounts for almost every actuary in Ireland - will retain their membership of those bodies.

One consequence of the change in our relationship with the Institute and Faculty is that we will lose the subvention that we receive at present to help defray our regulatory costs. Last year's subvention was £100 per member. Our finances are in good shape however and I am confident that under the stewardship of Pat Ryan, Treasurer, we will succeed in addressing this particular challenge to everyone's satisfaction.

Colm Fagan

Council 2006/2007

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Richard O'Sullivan
Liam Quigley
Evelyn Ryder

Peter Clark, RIP

It was with great sadness that the Society heard of the sudden and untimely death of Peter Clark on 11 June last.Peter was a Past President of the Institute of Actuaries, a current member of the Institute's International Committee and in-coming President of the IAA.

The Society had the pleasure of welcoming him to many Society events over the years. The President, Colm Fagan along with members who had worked with him on so many actuarial international committees, represented the Society at his funeral. Our sympathy goes to his wife, Lynda, and their family.

A memorial service for Peter Clark will be held in London on Wednesday 15 November 2006. The venue and time will be advised shortly.

2006 SAI Ball

This year, the Member Services Committee formed a Social Committee to help promote the Ball and we virtually doubled the attendance from last year's ball. We decided to try something different this year and used a new venue, i.e. the Guinness Storehouse with a Murder Mystery theme. While it was a very enjoyable evening, following the Ball the Committee surveyed members in their organisations and as a result we have decided for 2007 to try to concentrate on getting a more appropriate venue, good food and to have a band instead of a DJ and no theme.

We hope that all of you who attended this year will join us again for the 2007 Ball and that those of you who didn't attend will consider coming along to meet up with old friends, former colleagues and classmates or even to socialise with fellow members in your own organisations! Details of the 2007 Ball will be in our September issue. Watch this space!

Groupe Consultatif publications and events

The latest (6th) edition of the Solvency II Newsletter is now available on the Groupe's website at:

www.gcactuaries.org/solvency.html

The brochure and registration form for the 19th Colloquium, to be held in Edinburgh on 22 September, on Risk and Capital Management in Insurance are now available on the Groupe's website:

www.gcactuaries.org/documents/19th_colloquium_full.pdf

SAI eNews

In order to keep members up-to-date with current issues in the Society, eNews Bulletins are issued regularly. You can access all eNews bulletins on the Society's website under:

About the Society /Society Publications / eNews Bulletins.

www.actuaries.ie

On the Move

Fellow Members	**David Costello** has moved from Eagle Star to **Allianz Worldwide Care**
	Patrick O'Sullivan has moved from Coyle Hamilton Willis to join **Mercer HR**
Associate Members	**Kelly Rendek** has moved from Centre Reinsurance International to **Imagine Re**
Student Member	**Darragh Kirwan** has moved from Aon Consulting to **Coyle Hamilton Willis**

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