THE SOCIETY OF ACTUARIES IN IRELAND

Press Release

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Actuaries concerned about unregulated investment products
Current regulatory system has weaknesses

The Society of Actuaries in Ireland is concerned that certain investment products, in particular those relating to overseas property, are outside the scope of consumer protection regulation, and has asked the Minister for Finance that property investment schemes should be brought within the remit of the Financial Regulator, and should be subject to the same advertising and disclosure standards as other types of investment. This morning (Thursday November 23rd), Mr Colm Fagan, President of the Society told a conference organised by the actuarial profession on 'Consumer Understanding of Risk' that their concerns include the following:

- In many cases, advertisements relating to property investment schemes include references to high "target" or "projected" rates of investment return that convey the impression that such returns are guaranteed.
- Many such schemes involve risks, including currency risk and substantial gearing, which potential investors may not fully appreciate or be in a position to assess.
- Information provided about such schemes may be insufficient to enable potential investors to fully assess the risks involved.
- In particular, consumers may not appreciate the potential for capital losses.
- Disclosure of charges and commissions should be required on the same basis as other investment products, particularly as charges under such products can be very high.

“The Society of Actuaries in Ireland believes that similar protections to those in the Consumer Protection Code published recently by the Financial Regulator should be extended to consumers of property investment schemes. The risks associated with such schemes, and their increasing prevalence, are such that they should not remain exempt from regulation on an equivalent basis to other kinds of investment.”

Also on the theme of regulation, Mr. Tony Gilhawley, an independent consultant, will tell the conference that the current regulatory system has a number of weaknesses when it comes to protecting consumers from high-risk investment products. /…

“Standard risk warnings on brochures and advertisements, etc. do not adequately convey the potential scale of investment risk which some investment products may contain. There are no standardised definitions of what commonly used terms such as ‘low’, ‘medium’ or ‘high’ risk mean in terms of the scale of potential investment loss to the consumer. Providers can put a ‘low’ or ‘medium’ risk tag on products or funds, without any strong independent scientific basis for such attributes.

“Significant and growing numbers of Irish consumers are investing in collective geared property funds, which are structured in such a way as to fall outside the Investment Intermediaries Act, 1995 regulatory system. A common device used is a ‘co-ownership’ based in a foreign jurisdiction. Investors (who are often pension investors) in such funds are completely unprotected if something goes wrong, e.g. not covered by the Investor Compensation Scheme. The marketing and sale of such products is also not subject to any regulatory restrictions or standards.”

Ends

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice and relevant solutions for financial, business and societal problems involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a number of statutory roles relating to the supervision of pension schemes and insurance companies.

The Society seeks to make an impartial contribution to public debate on social policy and public interest issues where an actuarial perspective can add value.