

THE SOCIETY OF ACTUARIES IN IRELAND

Speech to Biennial Dinner of the Society of Actuaries in Ireland

19 February 2009 - Philip S. Shier, FSAI

Tánaiste, guests and members of the Society

It is my great pleasure to welcome you all to my President's Dinner this evening. It has become a tradition that each President hosts a dinner towards the end of the two year term of office to meet with Government ministers and officials, representatives of regulatory and other bodies with whom we interact, colleagues from other professional associations and other friends, and to thank them for their support. I am particularly pleased that you, Tánaiste, were able to be our guest of honour this evening and I thank you for your challenging address. Despite, or perhaps especially because of, the difficulties facing this country at present, it is essential that we look forward to the challenges of the coming years in a positive way by creating new opportunities and learning new skills. I know that this is a key priority for you as Minister for Enterprise, Trade and Employment, and I was pleased just yesterday to attend when you launched Finuas, the new enterprise-led training network for international financial services companies.

I am pleased also to welcome Olwyn Enright, Fine Gael Spokesperson on Social and Family Affairs and Pat Rabbitte, Spokesperson on Justice for the Labour Party. May I also extend a "Céad Míle Fáilte" to those who have travelled from abroad to be with us this evening, and in particular, the Officers and Secretary of the Groupe Consultatif Actuariel Européen, the association of actuarial associations in Europe. Time does not permit me to welcome other guests individually but I hope you all have an enjoyable evening.

The events of recent months have highlighted the importance of effective regulation of financial services institutions. Whilst the focus has been on the banking sector, it is just as important that insurance companies and pension funds are properly supervised so that the interests of policyholders and pension scheme members are protected. Responsibility for regulation lies with Government, and is discharged through the regulatory bodies which it has established. The approach adopted to date is one of the factors which have helped to make Ireland a good location in which to establish international insurance and reinsurance operations and indeed a possible base for pan-European pension schemes. However, the image of Ireland as a place to do business has been tarnished by recent events, and it is essential that steps are taken to restore our reputation, both at home and abroad. A robust and well-resourced regulatory system is essential, with clear responsibilities being placed on regulated entities, and with real teeth to sanction those who do not discharge their responsibilities appropriately.

It is my strong belief that, although it is necessary to lay down rules to be followed, it is even more important to have clear principles which must be applied in all areas and which, where appropriate, should override the strict requirements of the rules. A

system which is essentially a list of rules which must be followed can lead to a slavish adherence to the letter of the law, whereas a requirement to comply with fundamental principles allied to the exercise of professional judgement can lead to a more holistic and appropriate approach being adopted. This is not just a domestic issue – the Groupe Consultatif is currently debating with the European authorities the approach to be taken to regulation of insurance companies under the Solvency II framework, and the International Actuarial Association has recently issued a statement calling for the tools and methodologies being developed in the field of Enterprise Risk Management to be adopted by financial institutions and in the regulation of these entities.

Those of you who have glanced through the menu for this evening may have noted the Society's recently revised mission statement which includes, and I quote:

To develop, maintain and enforce actuarial standards that require actuaries to advise their clients with integrity, professionalism and objectivity.

The Society has developed professional conduct standards and a suite of practice standards covering the areas in which actuaries have statutory responsibilities in relation to insurance and reinsurance companies, occupational pension schemes and PRSA providers. In order to bring some independent oversight to the setting of these standards, the Society has engaged with Government and regulators over the past two years, and we look forward to the establishment of an oversight body to help ensure that the standards to which actuaries discharge their responsibilities are not, and are seen not to be, set solely by the actuaries themselves. A further safeguard for the public is the monitoring of compliance with these standards, which has been introduced on a statutory basis for pension scheme actuaries, and the Society is considering whether it would add value to introduce similar requirements in other areas. In recent years, we have also reviewed our disciplinary scheme which now has significant non-member involvement and demonstrates the Society's intention to ensure that members meet the professional standards that are rightly expected of them.

The collapse of global stock markets has led to major shortfalls in pensions. Those in defined contribution arrangements will typically have seen a fall of one-third in the value of their funds over 2008. This is a major concern, especially for those approaching retirement age who have remained (perhaps without realising it) substantially invested in equity and property assets. The recent announcement by the Minister for Finance that the purchase of an annuity can be deferred for up to two years provides some breathing space, but those who take advantage of this facility will have difficult decisions to make regarding investment of their funds during the deferral period and the timing of the eventual annuity purchase. We believe that a better solution would be to give all those covered by defined contribution arrangements the option, subject to appropriate safeguards, to invest their retirement pots in an Approved Retirement Fund to be drawn down during retirement. This would provide greater flexibility and would remove the anomalies which currently exist between different categories of retirees.

The Society's submission to the Green Paper consultation exercise last May focussed on three key themes of adequacy, sustainability and security. It is our view that the most appropriate and efficient way to ensure that everybody has a socially desirable minimum level of income in retirement is through the State pension, rather than introducing mandatory private provision. We have consistently advocated an increase

in the State retirement age to recognise longer life expectancy, and we would support any legislative changes required to permit similar increases to retirement ages in occupational pension schemes. We also expressed our concern that defined benefit schemes "over-promise and under-fund" due to the structure of the statutory funding standard, and the reliance on the continuing strong performance of equity investments and the commitment of the sponsoring employer. Regrettably, the severe fall in global stock markets and the difficulties faced by many companies as the economy has moved into recession has led to a situation where employees who believed that they had "guaranteed" defined benefit pension entitlements may not only lose their jobs, but also a substantial part of their retirement provision.

In response to the current difficulties facing defined benefit schemes, we have, in conjunction with the Irish Association of Pension Funds, submitted to Government a package of measures which we believe would go some way towards alleviating the crisis. These include:

- the provision of a mechanism whereby the employer, the employees and the trustees could agree to reduce benefits in order to make a scheme viable,
- the introduction of a debt-on-employer requirement to strengthen the commitment of solvent employers,
- a revision of the priority order on wind-up to give a more equitable distribution of the available assets, and
- the introduction of a facility whereby the State would provide annuities on "not-for-profit" terms in circumstances where a scheme winds up with an insolvent employer.

The current economic crisis, and the poor short to medium term outlook, poses many challenges for Governments around the world, for financial services companies and for pension schemes. Actuaries must take the lead in the development of more robust and transparent structures, and regulatory regimes to oversee them, by applying our technical risk management skills and professional judgement and by acting with independence and integrity in all that we do.

In conclusion, may I once again thank the Tánaiste and all of our guests for taking the time to join us, and also my colleagues on Council and other members of the Society for their support this evening and throughout my term of office. I would also like to thank the Royal College of Physicians of Ireland for permitting us to use this lovely building, and for what I am sure will be an excellent meal. I thank our Director of Member Services, Mary Butler, for all the work she put into making the evening a success.

Thank you for your attention.