Newsletter
March 2002
The Society of Actuaries in Ireland

News in Brief

Welcome to the first edition of the 2002 Newsletter. We have decided to replace the editorial with *News in Brief*. We hope that this introduction will help to keep members up to-date with the issues being addressed by the various Committees. We would greatly appreciate your views on this change and, as usual, any suggestions or articles for the Newsletter are always welcome. Contact Michelle Roche, Frances Kehoe or Mary Butler at **actuaries@iol.ie**

Life Committee

- A letter on with-profit bonds was issued by the Society following concerns in relation to headline year one bonus rates and some wider aspects of the marketing of with-profit bonds.

- The Society recently wrote to the Tanaiste with concerns in relation to the proposed Disability Bill and restrictions it would place on underwriting. The Life Committee has also indicated support for a proposal from the DETE to reduce the base illustration rates used in quotations from 8% to 6%.

- The Life Committee is holding a life seminar on Wednesday 24 April on strategic issues facing the life assurance industry.

Cross-Border Life Committee

- A working group produced a paper "The Appointed Actuary's Role in Relation to Policyholders' Reasonable Expectations for Life Assurance Written on a Cross-Border Basis" last November. Their recommendations were subsequently presented to both Council and the Life Committee.

- A working group led by Peter Caslin is investigating permitted links and expects to report in the first half of this year.

Healthcare Committee

- A report on issues relating to long term care is due from the Department of Social, Community and Family Affairs this month. We await the report with interest.

- The Committee is currently working on a position paper on a national health insurance system. This paper may be particularly useful as the issue of the structure of the healthcare system is likely to receive much comment in the run up to the General Election.

- The Working Party on Risk Equalisation is currently grappling with these complex issues. This group is due to present a paper to the Society on 2 May.

Pensions

- The Pensions (Amendment) Bill 2001 is making its way through the Oireachteas, and the Minister intends that it should pass all stages by Easter. We were pleased to see that Government amendments to the Bill in relation to defined benefit schemes in the Seanad have included some items suggested by the Society.

- The Pensions Committee is preparing a Guidance Note on FRS17 calculations, similar to that proposed by the Institute and Faculty of Actuaries.

- We are planning an afternoon CPD session on 23 May and further details will follow.

Functions Committee

Two events to watch out for in particular are : Departing from our usual location on St. Stephen's Green, the "Current Topics Paper" - presented by a number of recently qualified actuaries - will be held in the Guinness Storehouse on Monday, 29 April. The Annual Ball this year will be held in Powerscourt, Enniskerry on Saturday, 11 May.

General Insurance

- An Evening Debate on the McEneaney Judgment will take place on 26 March.

- Following the completion of the introduction of Signing Actuary Certificates, the Committee will now consider meeting with the regulators to ascertain views on how the certification process has worked.

Contents

Self-Regulation Working Party

In November 2000 the Society held a symposium in order to get the views of members on the issue of regulation/self regulation of the profession. Based on feedback from the symposium's breakout sessions there was strong support generally for the principle of self-regulation. It was seen as being the only viable approach that could satisfactorily embrace the high technical content of the profession's work and be flexible enough to deal with changing circumstances.

A Society Working Party, under the chairmanship of Paul O'Faherty, was subsequently established "to assess the spectrum of possible approaches to self-regulation of the actuarial profession in Ireland against objective criteria (including in particular practicality) and to make recommendations to Council". The membership of the Working Party also includes Pat Healy, Neil Hillary, Jimmy Joyce, Bruce Maxwell, David Paul and Paul Victory.

The present framework for the regulation of the work of actuaries in Ireland comprises specific statutory requirements together with the Society's own Memorandum on Professional Conduct and Guidance Notes. Many of the latter have their origin in functions effectively delegated or entrusted to the profession by various regulators. Compliance with these rules is currently the responsibility of individual members. There is no active monitoring of the effectiveness of this by the Society though, in some areas, the regulators involved take an active role, for example, the checking of the timeliness of actuarial funding certificates by the Pensions Board. Any breaches of compliance fall to be dealt with under the Society's disciplinary code.

The Working Party initially concentrated on information gathering. This phase included a review of trends in relation to the regulation of professions generally in Ireland, developments on the international actuarial scene and confidential interviews with representatives of the relevant regulatory bodies and other centres of influence. The Working Party then considered the arguments for and against strengthening the existing self-regulation approach and went on to consider specific changes under the broad headings of

- defining the rules
- monitoring compliance
- enforcing compliance

The work of the Working Party was set against a fast moving backdrop. In the UK the unfolding Equitable Life and Independent Insurance situations over the course of 2001 led to a sea change in the profession's attitude to the whole area of self-regulation. Closer to home the introduction of the requirement for the actuarial certification of non life reserves raised questions as to how members should best discharge and be seen to discharge their new responsibilities in such a potentially volatile area.

The report of the Working Party is currently being finalised and it is hoped to present this report to a meeting of members before the summer break.

A User's Guide to FRS 17 - 28 November 2002

James Atherton of Deloitte & Touche presented a paper entitled "A User's Guide to FRS 17" to the Society at the Stephen's Green Club.

FRS 17 is the new standard on employer accounting for retirement benefits and is being implemented on a phased basis over a 3-year period (accounting periods ending on or after 22nd June 2001, 2002 and 2003). James began his presentation by noting that very few companies had opted to adopt the new standard in full for the first period to which it applies. He also observed that a lack of preparation was evident in many cases. He briefly compared FRS 17 with the existing standard (SSAP24). While SSAP24 is profit and loss account driven, FRS 17 is balance sheet driven. The single most important principle of FRS 17 is that assets and liabilities should be measured at their fair value. As a result, both the profit and loss account and the balance sheet will tend to be more volatile under FRS 17 than was the case with SSAP24.

The next stage of the presentation dealt with the FRS 17 process. In this regard, planning is vital and the responsibilities of each of the parties involved in the process must be identified at a very early stage. The role of third parties (e.g. investment managers) must not be overlooked in this exercise. The process should be driven by an overall timetable, whilst taking into account the following:

- It will be necessary to agree the assumptions to be adopted for the calculations (which are ultimately the directors' responsibility although they will normally be set on the advice of the actuary).
- Membership data will be required and information on the scheme assets (including net current assets /liabilities) must also be provided.
- The document in which the results of the FRS 17 calculations are communicated to the client should be drafted bearing in mind the fact that the auditors are likely to use this as a source of reference. The auditors will expect "the sums to be right" and will be particularly interested in the methodology, the assumptions and the data used. They will also wish to see consistency from period to period. The auditors' materiality requirements should be ascertained, preferably by direct contact with them, and the methodology adopted should be appropriate in light of the response obtained.

James outlined a number of points relating to the actual calculations themselves including:

- The surplus revealed may be greater than the surplus that the employer could recover either through reduced contributions or refunds from the scheme. The recognisable surplus in this case must then be restricted to the maximum amount recoverable by the employer.
- For UK schemes where the FRS 17 calculations reveal a deficit, the deficit on the MFR basis does not represent an upper limit on the FRS 17 deficit.
- Insured pensions must be included in the calculations if they are held in the name of the trustees.

The presentation closed with a brief consideration of some of the broader issues around FRS 17:

- Companies have to decide whether or not to adopt the standard in full up-front. (Multi-nationals seem to be more inclined to take this approach.)
- There may be scheme mergers in order to increase the amount of recoverable surplus.
- The impact of the standard on a company's distributable reserves (and hence its ability to pay dividends) must be considered.
- Whether the standard will have an impact on the investment strategy pursued by schemes remains to be seen. (The move out of equities by Boots was mentioned.)
- Equally, the commonly held belief that the new standard may be the final nail in the coffin for defined benefit schemes can only be tested after a sufficient period of time has elapsed.

A number of the guests made comments at the end of the presentation. The auditors present mentioned that materiality needs to be considered further and also that they envisaged a lot of cases where FRS 17 will not be considered until it is too late to go through the process correctly. It was also mentioned that it is possible to manage the volatility in asset values without necessarily having to use bonds to do so. In the UK at least, the new standard seems to be better understood than SSAP24. James said that in his experience UK analysts tend to ignore the pension figures on a company's balance sheet.

This was an informative, well presented paper and the large attendance was testimony to the importance of the new standard.

Martin Keane

Summary and Comparison of Approaches Used to Measure Life Office Values (UK) - 6 February 2002

Introduction

Mick Sheard and Colin Wilson, both members of the Life Assurance Value Measurement Working Party (UK), presented the Working Party's paper, Summary and Comparison of Approaches Used to Measure Life Office Values, to the Society of Actuaries in Ireland.

Mick Sheard explained the background to the Working Party and its terms of reference.
In hindsight, he felt that the terms of reference were too broad and hence each area could only be looked at superficially. Further working parties are continuing work in this area.

Value Measurement Methods

Economic Value Added (EVA)

Colin discussed different methods of valuing life assurance business. He began by suggesting that 'Shareholder Value' was the new buzzword but that there was no clear definition of what this cliché meant. The main aim is to align the interests of shareholders and management.

He noted that company management could only create value for shareholders if the company generates a return on capital greater than its cost of capital. This concept is embedded in the EVA measure of financial performance developed by Stern Stewart & Co. who use the definition:

EVA = net operating profit after taxes - [capital * the cost of capital]

This definition does not define profit, capital or the cost of capital and these are generally chosen as follows:

- For long term business the profit measure needs to be the change in a value measurement, where this value measurement is based on future cashflows.
- Capital can be allocated based on the explicit modeling of contributory risk.
- The cost of capital depends on the degree of systematic risk (i.e. risk which cannot be diversified) in the different parts of the business.

Discounted Cashflow Methods

Colin noted that historic accounting measures were of little value for prospective valuations, as evidenced by recent accounting scandals. Prospective valuations need to look through to the underlying economics of the business, project future cashflows and then discount those cashflows.

This sounded quite familiar to the embedded value practitioners in the audience and Colin felt that the actuarial profession might be ahead of parts of the banking profession in terms of the methods used to value loan portfolios.

Colin went on to point out the problems with embedded value methodologies, which include:

- The subjective choice of discount rate.
- Whether there should be a common discount rate or cashflow-specific rates.
- The choice of projection period.
- The subjective nature of the lapse, expense and other assumptions required.
- What assumptions should be made regarding future investment returns?
- Should cashflow projections be on a deterministic or stochastic basis?

Capital Asset Pricing Model

The next measurement tool considered was the Capital Asset Pricing model (CAPM) which recognises that a market price exists for pricing systematic risk. The main difficulty with the original CAPM is that it is only a single period model.

Option Pricing Models

Colin then considered option pricing (or contingent claims) methodology. There are two approaches to option pricing:

- The "risk neutral" approach, and
- The "real world" approach with state price deflators

The basis underlying option pricing theory is that if, starting with an initial portfolio of tradeable assets (called a replicating portfolio), you can devise a dynamic hedging strategy to match the payoff on an option, then the value of the replicating portfolio is the cost of the option.

Numerical Example

Colin then considered a numerical example of an artificial insurance contract valued using the following different valuation methodologies:

- DCF methodology with deterministic projections
- DCF methodology with stochastic cashflow projections
- The CAPM model , and
- Option pricing methodology.

The contract valued had option characteristics with a non-linear payout to the policyholder.

The range of values for the contract to the company was surprisingly large, varying from +11% of premium to -2% of premium depending on the valuation method. The +11% value was given by a DCF deterministic valuation and the -2% value was determined using option pricing methods.

The main reason for the large variation in results is due to the presence of the non-linear payoff from the contract.

The example highlighted the need for companies to use an appropriate valuation method in order to avoid large losses.

Future Developments

Looking forward, Colin mentioned that the International Accounting Standards Committee's project on insurance fair values would be implemented for all EU listed companies by 2005. It is unclear whether the US will follow the fair value approach or stick with its GAAP methodology. Recent accounting scandals in the US may make it more amenable to the fair value approach.

The involvement of investment banks as advisors to insurance companies will mean that option pricing methodology will become more prevalent in valuing insurance business.

Actuarial education is also now embracing option pricing methodologies.

Discussion

A number of contributors agreed with the principles underlying the CAPM model and option pricing theory where assets and liabilities are assessed at market value. It was suggested that the arrival of fair value accounting would hasten the market based valuation approach.

Mick was not convinced that a 'market value' could be placed on the liabilities of an insurance portfolio, i.e. that a replicating portfolio of tradeable assets and a dynamic trading strategy could be constructed to replicate the cashflows from the liabilities of an insurance portfolio. He felt there was room for all the methods discussed in the paper, including the traditional actuarial discounted cashflow method, in appropriate circumstances. Mick and Colin agreed that there was disagreement among Working Party members on this topic. One contributor felt that the reinsurance market was placing a higher value on guaranteed risk business using market values than the direct writers were assuming using traditional valuation methods. 'Inappropriate' valuation methods were therefore leading to a loss of value for the direct writer.

There followed further discussion on accounting standards and the possibility that the USA might adopt fair value rather than US GAAP accounting standards.

Peter Caslin

News from the Education Committee

Work continues on the first Irish based Professionalism Course.
All new qualifiers are required to attend a Professionalism Course approved by the Society in their first year after qualification (from paragraph 6 of the Continuing Professional Development Scheme in the Member Guidance). Attendance at a Professionalism Course is also a requirement for Practising Certificates for Appointed Actuaries, Scheme Actuaries and Non Life Signing Actuaries, unless the applicant was admitted as a Fellow of the Institute of Actuaries on or before 1 July 1992 or as a Fellow of the Faculty of Actuaries on or before 19 November 1990. This can often require actuaries entering the Society under mutual recognition arrangements with other actuarial organisations to attend a Professionalism Course.

It is planned that the Irish based course will also be approved by the Institute and Faculty of Actuaries. As this is the first time the Society has run such a course, it will be facilitated by a staff tutor from the Institute of Actuaries but attended and run by Irish based actuaries.

The exact date of this inaugural course is not yet set, however it is planned for September/October 2002. This makes the course suitable for new qualifiers from the September 2001 and the April 2002 exam sittings. The two day residential course will cover such issues as the Code of Professional Conduct, dilemmas of professionalism versus commercialism and case studies from each of the major fields in the actuarial profession. Each of the committees of the Society has already commenced volunteering members to facilitate expert work shops over the two days, and the recruitment continues!

The course is also a welcome to the Society of Actuaries and includes a celebration dinner for attendees. For further information please contact Mary Butler at the Society.

Michael Claffey

Student Society of Actuaries in Ireland

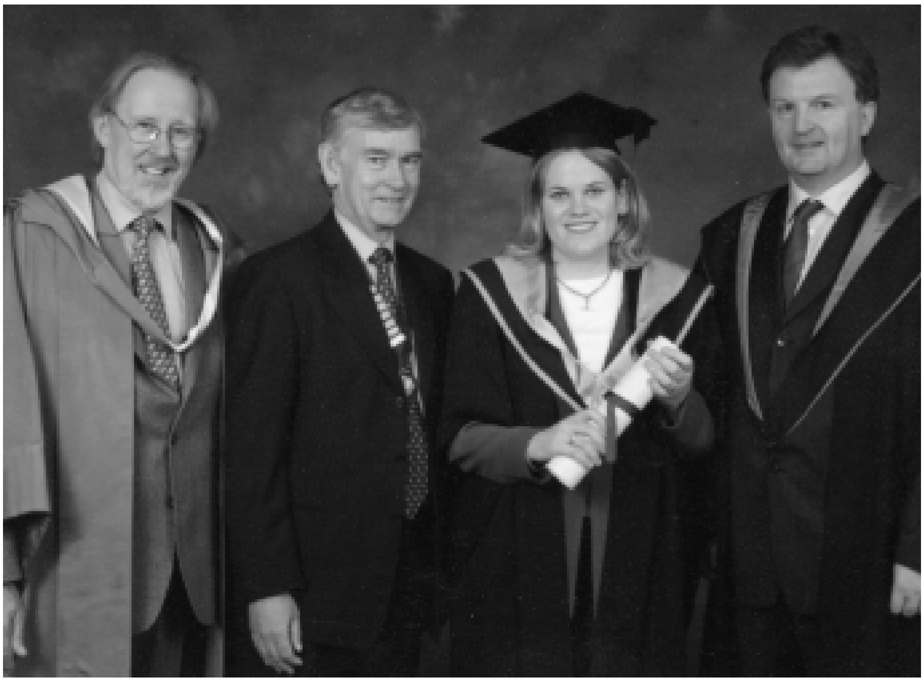
A new year and it's time for a new SSAI committee. Congratulations to the outgoing Chairman, Barry Cudmore, who qualified last September. The new student committee is as follows:

Chairman:	Eoghan Brady
Secretary:	Linda Collier
Treasurer:	Ian McMurtry
Committee members:	Donnie Salisbury, Paul Bermingham, Sinead Fennessy

At the prompting of Duncan Robertson, Chairman of the SAI Education Council, I recently sent around a brief survey to all students regarding subject 103 (Stochastic modelling). The purpose of this was to determine why Irish students find this exam particularly difficult. This has proven to be quite an emotive topic and several issues have been raised in response. If anyone else has comments or has not received my survey, please contact me at Eoghan.Brady@ScotProv.ie.
I will certainly raise these issues at the Student Consultative Forum in May (albeit too late for those sitting the exams in April) and pass on all feedback to Council.

I'll keep you all posted about social events via email. We hope to see as many of you as possible during the course of the year.

Eoghan Brady



Dublin City University - Graduation Day - 3 November 2001
Society of Actuaries in Ireland, President's Award, for the Top Actuarial Student 2001

Prof. Alastair Wood, (Head of School of Mathematical Sciences, DCU); Mr. Eamonn Heffernan, (President of the Society of Actuaries in Ireland); Ms. Emer O'Connell (Prize Winner); Mr. Michael Marsh (Chairman of the BSc in Finance & Actuarial Mathematics, DCU).

Question Time

Career summary

Actuarial Manager of Finaref Life and Finaref Insurance in Dublin since October 2000. Previously with Hannover Life Re for 2 years and Skandia International for 6 years both based in Paris.

Full name:
Olivier Wallerand.

Family: Married to Hildegarde; daughters Emma (1 year 1/2) and Romane (due the 27th February or 13th March depending on the nationality of the obstetrician!)

Year of qualification:
1991 in France.

Current employment:
Actuarial Manager of Finaref Life and Finaref Insurance.

Time you start work:
7.45 (am!)

Do you regularly take your work home? Unfortunately yes too often.

If you weren't an actuary what would you be?
Perhaps a mathematical teacher. Unfortunately this kind of profession is not valued as it should be but is nevertheless very important for students.

What is the worst thing about being an actuary?
The fact that just because you are an actuary, you should know everything on the many actuarial areas.

Pet hates: Lies and injustice.

Favourite actuarial joke:
The only ones I know are those published in the SAI Newsletters. Maybe this is because the actuarial profession is not yet as publicly recognised in France as it is in Ireland.

Would you recommend the actuarial profession to someone leaving school now?
Yes definitely if he is not afraid to live with figures all around during most of his time at work!

Favourite Holiday location:
In Ireland, we were in Connemara twice last year under the sun in April and under the rain in August (which is a surprise for a French person). South East France and also Brittany where my parents live.

What do you do to relax?
Playing with my daughter; so, more relaxation time in the near future with the arrival of her sister (not so sure!).

Last book you read:
Do you want to slay with me? (stories chosen by Alfred Hitchcock).

Favourite tipple:
White Burgandy wines (Corton Charlemagne, Meursault,...) which are unfortunately very difficult to find and far too expensive in Ireland.

Favourite Dublin hostelry:
The Dropping Well.

What famous person from history do you most admire?
Mother Theresa.

Favourite TV / Radio programme:
I don't watch too much TV but it's for sure I will not miss the next soccer World Cup final: France against Ireland?

What car do you drive?
Nissan Prairie during weekends only (I have the pleasure to commute by Bus to go to the office and therefore have some special experiences: see next question) and with the prior formal authorisation of my wife (it's her car!).

Most embarrassing moment:
After less than a week in Dublin, I was asked by the Bus driver how to get to the City Centre!

Favourite music:
Pink Floyd, U2, Beethoven.

Dying words: Is it serious?

Forecasting in Finance Conference - Monday 24 June 2002

A one-day conference on Forecasting in Finance will take place on Monday, 24 June 2002, in Trinity College Dublin. The day promises to be of special interest to actuaries with experts on asset-liability modelling in actuarial applications being joined by others bringing different techniques to forecasting risk and returns. Speakers include David Wilkie, Andrew Smith, Jon Exley, Ronan O'Connor, and Shane Whelan.

The conference is part of a two-day event entitled International Symposium on Forecasting. For the one day Special Session on Forecasting in Finance, a special rate of m275 is available to members of the Society of Actuaries in Ireland.

This rate covers attendance at all sessions on Monday 24 June, together with coffee, tea breaks and lunch in Trinity College Dublin on the day. Registered delegates are also invited to a state reception for the conference at Dublin Castle on the evening of 24 June. Members of the Society might like to consult http://www.isf2002.org/finance.html for more details on the Finance Day itself or contact Shane Whelan at 7167155 for further details.

The conference organisers would like to thank the Society of Actuaries in Ireland for their help in organising the day and Hibernian Investment Managers, Mercer, and Watson Wyatt Partners, for their generous support.

Summer School 10-12 July 2002, Milan, Italy

The topic is Finance of Life Assurance, including asset liability modelling and embedded values, as applied to traditional profit sharing business, and to unit linked and index linked business. The whole programme will be conducted in english.

The full programme and details of the Summer School are available on http://www.italian-actuaries/summer-school.htm

Latest news from the Groupe Consultatif

Visit the new section of the Groupe's website for a short e-newsletter giving the latest news from the Groupe. http://www.actuaries.org.uk/groupe_consultatif/news.htm

Diary Date

Life Assurance Morning Seminar

Wednesday 24 April, Berkeley Court Hotel

"Strategic Issues facing the Life Assurance Industry"

Golf

Matchplay competition

The Piers Segrave-Daly Matchplay competition will be held from April to July.

Captain's Day

Diary Thursday 18th July for the Glen of the Downs Golf Club. Entry forms will be circulated nearer the time.

Bryan O'Connor
Captain

E-mail Addresses

The Society intends to start communicating via e-mail to members to:

- alert them of forthcoming events.
- alert them of additions to the website.

If the Society does not have your current email address, please email Mary Butler at actuaries@iol.ie.

Winner of the Christmas Puzzle

Congratulations to Peter Delany, winner of the Christmas Puzzle. We hope he enjoyed the champagne, presented to him by New Ireland Assurance.

On the Move

Fellow Members	Padraig O'Malley has joined Life Strategies from Eagle Star Life
	Colin Murray is joining Watson Wyatt Partners from Scottish Provident Ireland
Student Members	Jeff McFerran has joined Hewitt Associates
	John O'Sullivan has joined Irish Life from IPA

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