Newsletter
November 2010
The Society of Actuaries in Ireland

The Future for Irish Actuaries - the International Dimension

L to R: Bruce Maxwell, Chairman, Groupe Consultatif Actuariel Europeen; Paul Thornton, President, International Actuarial Association; Kevin Murphy, President, Society of Actuaries in Ireland and Philip Shier, Chairman, Groupe Consultatif Pensions Committee

The Alexander Hotel hosted an interesting Society talk on 21st September on 'The Future for Irish Actuaries', from an international perspective, presented by the following speakers:

- Philip Shier, Chairman of the SAI's International Committee and Chairman of the Groupe Consultatif Actuariel Europeen Pensions Committee
- Paul Thornton, President of the IAA (International Actuarial Association)
- Bruce Maxwell, Chairman of the Groupe Consultatif Actuariel Europeen

In addition to Society members present, a number of members from the 'Faculty' were also welcomed. In a nutshell, the objectives of the talk were to:

- outline the role the Society plays in international matters;
- explain how the day-to-day work of actuaries in Ireland is being influenced by the international agenda;
- illustrate the benefits of participating; and
- highlight developments around actuarial standards in Europe and internationally, and the part the Groupe Consultatif plays.

First off, it should be noted that a lot of what is done on the international stage is done on a voluntary basis by actuaries driven by their ideal of development of the profession's future. And to that end, hats off!

Put simply, much of the work done broadly takes two forms:

- Development within the Profession (e.g. professional standards); and
- Development of the Profession, its position and reputation among other bodies: legislative, regulatory and among other professions.

From the perspective of the Profession as a whole, the need for these developments results from the organic growth of financial services, and its increased globalisation and for the need which exists for a representative actuarial body to interact at international level. Step forward the Groupe Consultatiff and the International Actuarial Association.

From the perspective of our own Society, part of the drive is to ensure Irish aspects of international developments are recognised, to ensure we contribute to European and global developments, and to build upon the reputation of the Society among our international peers.

Ultimately, the clear point: that our Profession is better as a result of these organisations and people, and that the prospects for the Profession's international future are bright.

To this end, a point highlighted was the strong role played by the Society internationally and a call for involvement, raising the question why we, as individual actuaries, should not aspire to be part of this development? Put another way, as with any volunteer organisation, do not forget the need for support for it to continue to exist or to grow. Importantly

continued

The Future for Irish Actuaries - the International Dimension..*cont.*

too, it affords opportunities for career development (CPD if you'd prefer) and to broaden your horizons. The call for involvement was amiably referred to as the 'need for young blood' and the consensus on what constituted this - anywhere below 50 years of age!

How do I get involved you ask? Contact your local representatives. And while it probably goes without saying, do visit the respective websites of the IAA and the Groupe.

Paul and Bruce gave a brief overview of the IAA and the Groupe respectively.

The International Actuarial Association *(http://www.actuaries.org/)*

Originally formed in 1895, the IAA has currently 63 Full Member Associations and 22 Associate Member Associations, representing over 50,000 actuaries in over 100 countries.

Its vision is for the actuarial profession to be recognised worldwide as a major player in the decision-making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well-being of society as a whole.

Among its objectives:

- Identify, establish, and maintain relationships with key supranational audiences to improve the soundness of decisions being made on important issues with a global impact.
- Facilitate the use and expansion of the knowledge and skills of the profession, even beyond the traditional areas, to help enhance actuarial services offered by individual members with in excess of 400,000 items of research available.
- Establish, maintain and promote common standards of actuarial education, principles of professionalism and model standards.
- Support the development, organisation and promotion of the actuarial profession in areas of the world in which it is not present or is not fully developed.
- Provide an international forum for discussion.

Some of the bodies within the IAA include:

- ASTIN – Actuarial Studies in Non-life Insurance
- IACA – International Association of Consulting Actuaries
- AFIR – Actuarial Approach for Financial Risks
- IAAHS – IAA Health Section
- PBSS – Pensions, Benefits and Social Security
- AWB – Actuaries Without Borders
- LIFE – Life Section

Groupe Consultatif Actuariel Européen *(http://www.gcactuaries.org)*

Established in 1978, this body has 35 member associations in 32 countries, representing over 18,000 actuaries. Its purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, CEIOPS and their various committees - on actuarial issues in European legislation and in addition to act as a focal point among European actuarial associations.

Critically, the advice and comment it provides is independent. The Groupe is an independent professional organisation, not an industry lobby group.

The Groupe regularly publishes surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.

Examples include:

- Solvency II (including Glossary);
- Report on system of actuarial principles for valuation of assets/liabilities of institutions for retirement provision;
- Advise on technical issues relating to pensions portability; and
- Gender differentiation in insurance.

The Groupe is naturally heavily involved in Solvency II, and Bruce's mention of the Solveny II Role of the Actuary is worth noting:

- The role of actuaries is specifically recognised in the Level 1 text (which is a first);
- It runs the risk of actuaries being "boxed-in" to discharge specific tasks; but
- The Actuarial Function can be (partially or fully) integrated with Risk Management Function, affording opportunity there.

Finally:

As regards other international bodies and professions, I found some light relief in rumours that the W.H.O. consider actuaries to be very similar to accountants and that economists often ponder what we add!

With respect to critical International actuarial developments and the 'Faculty', it was pleasing to see the Tom Ross trophy remaining this side of the Irish Sea, at least for another year.

Niall Mulvey

SAI's INTERNATIONAL COMMITTEE - Call for volunteers

The International Committee is seeking new members. If you are interested in getting involved and would like to hear more about the work of this Committee, please contact the Society at: info@actuaries.ie

UK Periodical Payment Orders - A Reinsurer's Perspective

If you were in a car crash, suffered brain damage, and needed care for the rest of your life, then in Ireland you would probably end up with a court-sanctioned once-off lump-sum settlement. Legal, medical, and actuarial advisors (not you, you wouldn't be doing much actuarial work anymore) would estimate the required monetary sum. One side's number might be twice as high as the other. And if those actuaries got it wrong and you ran out of money 30 years from now, well that's very sad. But actuaries only need to be right on average – right?

Such a system has been criticized as far back as a Law Reform Commission report in 1996. The injured person really shouldn't be the one with the longevity, inflation and investment risk. The Irish courts might prefer to award a whole-of-life €100,000 annuity with appropriate escalation but they cannot because (amongst other problems) it would be taxed. A judicial working party is currently looking at introducing relevant legislation in Ireland to enable this. Mr Justice Quirke, who has previously described periodical payment orders or "PPOs" as "infinitely better", was charged by the High Court to report this year. In the UK, they've had them for years.

It was against this backdrop that on September 27 Paul Brennan, Richard Ticehurst, Mark Dummer and David Chambers came over from SwissRe in the UK to present a reinsurer's observations based on the UK experience to the members of the Society. There are around 1,000 PPO cases in the UK (but mostly NHS) - 67 of the insurance ones have been ceded to SwissRe. Actuaries will anticipate the longevity risk, escalation and investment risk that is passing from the injured party to the insurer/reinsurer, but Paul and Richard's presentations brought up many more issues won from the UK experience that were very helpful and enlightening.

For example, in the UK, a PPO might be awarded by the court in 2011, against the wishes of both the plaintiff and the defendant, perhaps on an open claim from, say, a 2003 underwriting year. Richard warned that, like the UK, Irish PPOs may well be retrospective.
The implication, perhaps, is that potential issues of increased claim costs, reserve uncertainty, reinsurance and capital requirements, don't only apply to future years; you should spend some time thinking about all your open claims.

Technicalities abound in UK PPOs - one party can go back to court to ask for a PPO to be increased (say if medical need increases) or decreased (if there is medical recovery), but this is only permitted if a variability option was attached initially by the court, and there have not been many of these. Also, whether payments are made quarterly in advance or annually in advance could have a large impact on the present value. Furthermore, payments may be subject to escalation and the ASHE (Annual Survey of Hours and Earnings) is frequently used – which is a UK earnings index and not a price index. Percentiles may be used – for example lost earnings may be assumed to be 90th percentile of ASHE (injured person was a high-earner), and care might be 90th percentile of ASHE 6115 (care assistants and home carers earning's, and the injured person may need sophisticated care). So even if you could hedge UK inflation, how can you hedge the 90th percentile of ASHE 6115?

We may not know how such technicalities will play out in the Irish PPO solution until the working group reports (or perhaps even later) – but these are some of the things to look out for. In an Irish context it was noted we do not have a detailed index to refer to such as the ASHE. A recent paper by Colm McCarthy in UCD highlights how judgments in Ireland have made allowances for medical inflation over and above CPI, but Ireland has never even issued Exchequer index-linked debt. Actuaries may seek to hedge the risk, but there are no easy answers as to what to do in practice.

In the UK, if indexation is ASHE in excess of RPI, a discount rate of 0% might be appropriate. However in SwissRe's experience cedants (who are often self-funding) often set reserves using a discount rate of 2.5%. This might be unrealistically high (the reserve is unrealistically low) and that is going to be problematic in due course - problematic for everybody.

We know of longevity, inflation and investment risk. Paul warned us that the biggest risk is actually incidence – we don't know how many PPOs will be awarded by the courts. The panel refused to be drawn on the proportion of very large claims in the UK that ultimately end up as a PPO – experience is slow to emerge when the average time to settlement is seven years. In any case, UK experience might not be indicative of the treatment in the Irish courts.

Certainly, PPOs will dramatically lengthen a reinsurance relationship. Under an excess of loss treaty with a deductible of £2m reinsurance recoveries might not start until year 12. With a £3m deductible it might be year 20. After that the reinsurance recoveries could continue for another 40 years. Although Paul showed that most of the severity risk could be passed to the reinsurer, he illustrated new long-duration credit risk, and an impact of escalating deductibles over such long periods.

Having reminded many of us in the audience of the intricacies of annuity valuations which we thought we had left behind some years ago in the exams; it was time for the really bad news. Under solvency II, when a non-life policy gives rise to an annuity payment, it must be valued using life insurance techniques.

At this point the pragmatic non-life actuary might admit defeat. Faced with the horror of having to dust off old life insurance notes, he might instead just buy out the liability with an annuity from the market. But which market would that be? In the UK, although you might think a market would develop for impaired life annuities, the panel told us that there is very little activity. Only Alico is active and it is seen as very expensive.

Far more detail, some helpful illustrations and questions from the floor are made available through the presentation and podcast on the Society's website; an earlier Society meeting on 3rd June 2010 (Current Pricing Issues in General Insurance in Ireland) is relevant; Colm McCarthy's paper is available at *http://www.ucd.ie/t4cms/wp10_23.pdf*; and the findings of the working party are due before November 30.

Non-life actuaries will indeed face new challenges when they incur PPO claims, and the presentation gave us a taste of the detail. It's a burden, but aren't actuaries and the insurance industry the proper custodians of such longevity, inflation, and investment risk burdens? The injured parties are certainly not. And, whether you're an insurer or reinsurer, the ability to pool risk means you will only need to be right on average – right? Paul, Richard, Mark and David showed us the devil is in the detail.

Mary McCormick

Solvency II for Non

The move to Solvency II is gathering significant momentum, as many companies are gearing up to the transition through the establishment of dedicated project teams. The proliferation of the Society's yellow pages in recent times has not gone unnoticed, and is largely driven by Solvency II. So, if you have not had occasion to be involved in Solvency II, you may be asking what is it all about and how will it affect me? For those of us who know a little about Solvency II and want to learn more we'll be looking at such questions in a series of newsletter articles.

The European Commission initiated the Solvency II project in 2000 to implement a fundamental change to the current European insurance solvency framework. It is intended that Solvency II, which will be based on the Basel II three pillar approach used in the banking sector, will produce a more consistent solvency standard for insurers and reinsurers across the European region, while also resulting in capital requirements that are a better reflection of the risks being run by insurers and reinsurers.

Solvency II is therefore a fundamental review of the capital adequacy and risk management regime for the European insurance industry. It applies to all insurance and reinsurance firms with gross premium income exceeding €5 million or gross technical provisions in excess of €25 million.

In a nutshell

- The aim of the Solvency II framework is to ensure that insurance and reinsurance undertakings are financially sound and can withstand adverse events in order to protect policyholders and the stability of the financial system as a whole.
- Capital requirements are related to the risk profile of an insurance entity. Higher risks will lead to a higher capital requirement.
- Changes in corporate governance, risk quantification and management, and financial reporting are prescribed.
- Insurers will be required to regularly disclose information to supervisors and to the public.

The 3 Pillars

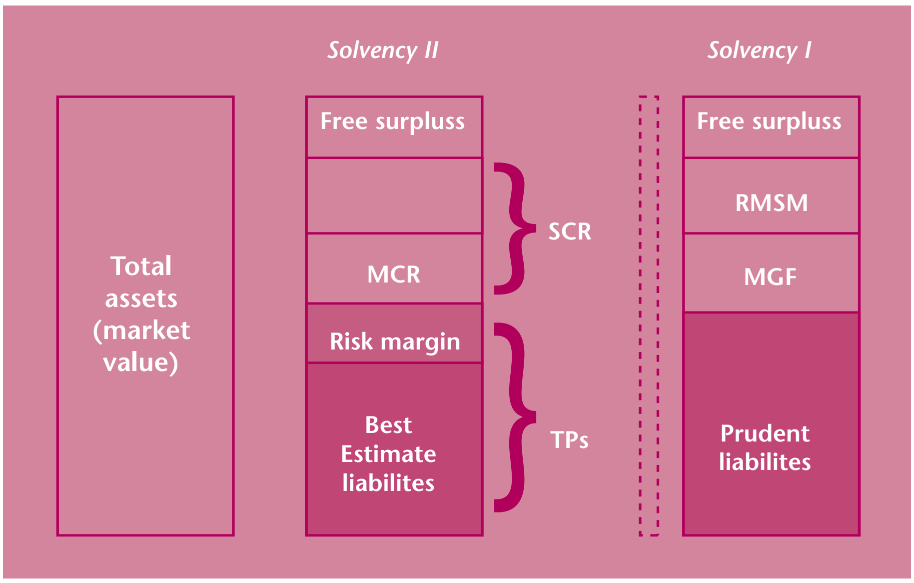
The regulatory Framework for Solvency II is structured under 3 'pillars'

Measuring of assets, liabilities and capital	Supervisory review process	Disclosure requirements
Eligible capital Technical provisions Capital requirements Asset valuation Risks to be included Risk measures and assumptions Risk dependencies Calculating formula Internal model approach	Interal control Risk management Corporate governance Stress testing Continuity testing	Current disclosure requirements: National GAAP National regulatory reporting IFRS 4 IFRS 7 Future disclosyre requirements: IFRS (Phased 2 and IFRS 7) IAIS EU Legislation Great Unifying Theory
PILLAR I	PILLAR II	PILLAR II

Pillar 1 – Quantitative Requirements

This involves insurance companies demonstrating that they have adequate resources to support the business that they are writing. It applies to all firms and considers key quantitative requirements, including own funds, technical provisions and calculating Solvency II capital requirements - the Solvency Capital Requirement - SCR, and Minimum Capital Requirement - MCR.

The solvency II and solvency I balance sheets are shown in the diagram below (please note this is not to scale, eg free surplus levels are not the same under both approaches):



Source: Milliman

Solvency II Actuaries

Technical provisions are calculated on a best estimate basis together with a risk margin, in most circumstances.

The SCR can be calculated either through an approved full or partial internal model, or through the European standard formula approach. The MCR is a lower requirement than the SCR and a breach to MCR may result in rapid termination of an entity's regulatory authorisation.

The SCR is calculated at least annually and is intended to reflect all quantifiable risks that the firm might face, including:

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

Each of these risks is broken down into further sub-risks and, for the standard formula approach, specific tests applied under a number of prescribed scenarios. The most onerous solvency requirement out of these scenarios equates to the contribution to the SCR for the given sub-risk. The scenarios are calibrated according to a 99.5% Value-at-Risk measure over a one-year time horizon. The results of each stress scenario are combined, allowing where relevant for correlations, to arrive at the overall Standard Formula SCR. SCRs are therefore designed to represent the change in net assets for a '1 in 200 year' adverse event.

Pillar 2 – Qualitative Requirements

Pillar 2 has two main aims:

- to ensure that a firm is well run and meets adequate risk management standards;
- to ensure that it is adequately capitalised.

It requires firms to assess and manage the risks to which they are exposed and to assess their own capital needs and maintain that capital. This is achieved through the Own Risk and Solvency Assessment (ORSA). The ORSA is an entity's own assessment of its capital needs by considering its specific risk profile and strategy.

The firm's assessment of its capital needs and of its risks is subject to supervisory review.

Pillar 3 – Disclosure Requirements

Pillar 3 is about disclosure and demonstrating to the regulator that the analysis supporting the other two pillars is dependable. It requires insurers to provide key, verifiable information relevant to their capital adequacy. In broad terms, these would cover:

- measures of financial condition and performance;
- measures of risk profiles and the data and other assumptions upon which they are based;
- measures of uncertainty, including the accuracy or otherwise of previous estimates and the sensitivity of the calculations to market volatility.

Pillar 3 aims to enhance market discipline on the regulated firm.

Adoption Procedure

Solvency II is being created in accordance with the Lamfalussy four-level process: This is an approach used for the development of EU financial service industry regulations, and is named after the chair of the EU advisory committee that created it, Alexandre Lamfalussy. It is composed of four "levels," each focusing on a specific stage of the implementation of legislation. The Directive in respect of the Markets in Financial Instruments Directive, or MiFID was also developed using this approach.

In summary:

- Level 1 is the establishment of the legislative framework for Solvency II. The Level 1 Directive text was adopted by the European Parliament on 22 April 2009 and was endorsed by the Council of Ministers on 5 May 2009.
- Level 2 involves developing more detailed implementing measures required to make Level 1 operational. For this purpose, the European Commission has conducted a number of Quantitative Impact Studies (QIS), supported by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). QIS5 is the latest in these series of studies initiated by the Commission in order to ensure the most accurate formulation of the Solvency II framework.
- Level 3 is concerned with the development of guidance and the assessment of regulatory practice across different regimes, to ensure consistent implementation and application.
- Level 4 concerns enforcement to ensure consistent implementation of EU legislation.

The timeline to implementation on 31 December 2012 involves the completion of each of levels 1-3.

Further Information

For further information on Solvency II, please visit the Professional Interest Area of the Society's website.

Ian McMurtry

The Groupe Consultatif's Role in Solvency II

The Groupe was established in 1978 to represent actuarial associations in Europe and its primary purpose is to provide advice and opinions to various organisations of the European Union the Council, Parliament, Commission and CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors). Since the early 2000s, the Groupe has been a key and very active stakeholder in the development of Solvency II at European level. This has entailed providing views and advice to the Commission and to CEIOPS as well as interacting with other stakeholders in the process, primarily European industry bodies (CEA, CRO Forum, CFO Forum, AMICE etc.).

The Groupe has an established Solvency II project team which relies on volunteer input from members of member associations including the Society. When the Groupe established its project team, it chose to mirror the structure of CEIOPS' Solvency II project team as it felt that this would make for more effective interaction and this has proven to be the case. The project team is chaired by Seamus Creedon, a member of the Society, and it comprises 5 working groups:

1. Life Pillar I Working Group
2. Non-Life Pillar I Working Group
3. Pillars II and III Working Group
4. Groups Working Group
5. Internal Models Working Group

The Society is well represented on the first two of these groups. Michael Culligan has been an active member of the Life Pillar I working group since its establishment several years ago and he has recently been joined by Colin Murray. Similarly, John McCrossan has been actively involved in the Non-Life Pillar I working group since it was established. In total, there are about 50 active volunteers who contribute to the work of these groups.

The range of the Groupe's involvement has been wide ranging as the titles of the working groups would suggest. The Groupe advised the Commission on aspects of the Level 1 Directive text, in particular the wording of the article 48 which deals with the Actuarial Function. This marked a historic achievement for the Groupe as this is the first time that there has been explicit recognition of an actuarial function in a European Directive. The Groupe equally recognises the importance of actuaries not being boxed into a single function and there is a challenge for all of us to make sure that this does not happen and that we demonstrate how much we can contribute more generally to the sound management of insurance companies.

In addition, the Groupe has provided advice to the Commission on draft Level 2 implementing measures and more recently advice to CEIOPS on emerging draft Level 3 guidelines, which have been exposed to selected stakeholders for informal consultation. It has also participated in various task forces on key issues such as the CEIOPS led liquidity premium task force.

Other notable areas of involvement by the Groupe are:

- Responding to CEIOPS extensive consultation papers on Level 2 measures
- Development of QIS technical specifications & spreadsheets plus joint workshops with CEIOPS on QIS 5
- Development of an ORSA framework
- Advice on Groups issues
- Advice on Internal Models issues
- Proposals in relation to development of Actuarial Standards

It is interesting to note that ORSA represented more than 50% of the gaps identified by Irish insurers in response to a survey carried out by the Central Bank of Ireland. The Groupe has been actively engaged with CEIOPS on this topic and recently submitted a final draft of proposals on an ORSA framework. It is expected that CEIOPS will issue draft Level 3 implementing measures on ORSA in Q1 of next year, which Irish insurers will keenly await.

At its recent annual meetings in Brussels, the Groupe's general assembly voted in favour of establishing a new structure to allow the Groupe develop actuarial standards if these are considered necessary. The need for Groupe actuarial standards will depend on what standards CEIOPS or its successor, EIOPA (European Insurance and Occupational Pensions Authority), ultimately issues. It is expected that EIOPA (which comes into force on 1 January 2011) will issue standards or possibly guidelines relating to the actuarial function. In this scenario, the Groupe may conceivably issue supplementary standards relating to the actuarial function plus potentially standards relating to other areas where actuaries may be involved in Solvency II e.g. risk management, ORSA. The new structure established by the Groupe positions it to respond appropriately to whatever ultimately emerges from EIOPA. It is envisaged that any standards issued by the Groupe will be subject to a rigorous due process. When they are issued, member associations will have a choice of adopting the standards directly or issuing their own standards which are congruent with the Groupe standards. The Society will keep this area under review.

The Groupe currently enjoys representation on a CEIOPS consultative panel which comprises industry, consumer, regulatory and other representation. This is another forum through which CEIOPS consults with stakeholders on a range of issues, including Solvency II. When EIOPA comes into existence, it will establish two consultative panels – one covering insurance and one covering pensions. The Groupe expects to be represented on both panels and so will continue to have a voice in the development of European regulatory policy.

Finally, as can be seen, the Groupe has been kept busy with Solvency II for quite a number of years and is very grateful to all of the volunteers who have contributed to its work. The Groupe would very much welcome further support on its Pillar II and III working group, its Groups working group and its Internal Models working group (ideally from a practitioner in this area). If you are interested in getting involved, please contact me at jim.murphy@milliman.com or +353 (0)87 8110400.

Jim Murphy

Solvency II & Internal Models

Ireland's growth as an insurance centre is evidenced by the fact that we believe that we will be the EU regulator with the third highest number of Internal Models to approve. 51 companies have indicated that they wanted to engage with us in the Pre- Application process.

It is surely not necessary to tell readers of this newsletter what internal models are or the important part they play in Solvency II. However, I thought that a brief update on the subject from a Central Bank of Ireland employee might be of interest. What's given here are my views and thoughts which are not necessarily the same as those of the Central Bank (especially as I am going to describe all this by reference to American Football!)

The Pre-Season

It is important to note that this is not a pre-approval process. You might think of this period as a pre-season game. The scores don't count and what matters is your state as you go into the regular season as at 1.1.13. From then on we will be working to strict timetables and this means that you will have to do so too. There are 6 months from the time of application for approval, this will not permit prolonged engagement between regulators and companies and iterative development. So, use the pre-season to straighten out your playbook.

The Draft

We have noticed that many companies have plans that involve taking on more resources as the process progresses. We are thinking that way too. There may not be enough resources to go round. The good news for Players is that there is no Salary Cap (it's gone for NFL too). But you know that you can never get enough good players, so, don't make your plans on assumptions that may prove unfounded unless your team owner has deep pockets. Furthermore, don't base your plans on the basis that the Central Bank will be able to adhere to your timetable. If your first interaction with us is in July 2012, it is highly unlikely that we will be able to clear you through by 31.12.12. We have already held meetings with some of the more advanced companies, the quicker you get into this pre-application process, the greater the chance of approval in early 2013.

D- Fence or Practice Squad

Internal Models are desirable under Solvency II. We want to be able to approve when the Regular Season starts. So please don't think of us as the D-Fence out to stop you making your first down. We are there to challenge you and if a play doesn't look viable to us we will try to break it up. But we are not trying to sack the quarterback. Think of us as the practice squad.

Delay of Game Penalties

Article 119 gives the right to regulators to impose internal models on companies when we don't think the standard calibration for SCR is appropriate. If a company in this position does not have an approved internal model, then it can be exposed to capital add-ons. It must be stressed, that we see add-ons as necessary evils. We would much rather not be in that position and one way of trying to avoid it is to make it clear to companies that if we have to throw the flag we will!

Expansion Draft

Several companies have indicated to us that they are working on Internal Models but are not targeting 1.1.2013. You may have already heard our slogan that "Solvency II is for life, not just for Christmas". This emphasises the fact that it is not 1.1.2013 that matters but what happens after that. We will endeavour to assist and work with such companies so they are not left in a vacuum, though the companies who have already indicated that they will participate in the Pre-Application process will have to get priority.

NFL Europe

Unlike the late lamented NFL Europe, Internal Models is very much a pan-European conference. Virtually none of our 51 cases are unconnected with other European entities. Naturally we are spending copious amounts of time discussing such models with our fellow European regulators. You should expect that we do this.

Commentary

Unfortunately, we cannot guarantee the wonderful wit and wisdom of Gregg Easterbrook, but, we do strongly advise that you keep abreast of content and updates on the Solvency II section of Central Bank of Ireland website. In particular, please read our newsletter, Solvency II Matters – Issue 2, which has much more information on Internal Models (and no NFL references whatsoever).

Thanks and Go Dolphins!

Tony Jeffery

Solvency II SAI Committee Update

The Solvency II Committee aims to ensure that the Society and its members are prepared for Solvency II. It also works pro-actively with other stakeholders in preparation for Solvency II. To this end the Committee has been active in:

- Conducting a series of QIS 5 workshops in association with the Financial Regulator.
- Holding regular meetings with key stakeholders including the Financial Regulator and the Department of Finance for the purposes of highlighting priority areas, as identified by the Committee.
- Representing the Society on the Groupe Consultatif Actuariel Europeen, including the co-ordination of feedback on behalf of the Society to feed into the Groupe's responses to key Solvency II proposals.
- Establishing a working group on actuarial standards, in association with the Professional Affairs Committee.
- Promoting the awareness of Solvency II amongst members through the organisation of specific evening meetings, sessions at practice fora, highlighting news items on significant Solvency II developments on the Society's website and through the publication of newsletter articles.

Further evening meetings have been organised for 2010: in particular, Declan Lavelle's working group on the ORSA (Own Risk and Solvency Assessment) will be presenting on 23rd November. An evening meeting on Internal Models is also planned for 2010.

Investment Management – A View from Off the Beaten Track

On Monday 4th October, Colm Fitzgerald of Dublin City University gave a presentation entitled "Investment & Risk Management – A view from off the beaten track". The talk was very well attended with over 60 people present including guests such as Dr. Dillon Evans of University College Cork as well as members of the Society.

Former SAI President, Philip Shier, opened with an introduction of Colm and his career to date. Colm began by noting that the presentation was originally delivered in Norway some months ago and will also form the basis of a talk to be given to the Institute of Actuaries in early 2011.

Moving on to the slides, Colm opened the talk with some deliberation on why it is important to be able to formulate and communicate a view concerning financial markets. The intention of the talk was to provide his own viewpoint of investment and management risk and to be a thought provoking session for the audience.

The idea of the Importance of the Big Picture was introduced in the format of the opening core reading from the new ST9 course. This highlighted that in order to add value to an organisation the ERM material has to be applied in the appropriate context and with a true appreciation of the bigger picture. The Big Picture in relation to a Capitalist Economy was broken down into a number of factors which could explain why the type of volatility currently being experienced in markets is to be expected. These included: technological improvements allowing traders to take on more risk leading to an increase in the underlying risk present in financial markets over time; a general increase in affluence leading to wider involvement in financial markets from the general public and this in turn leading to a decrease in average acumen; the inherent aim of a capitalist system being to provide freedom, including freedom to panic, to be greedy or to be fearful; contagion risk due to the application en masse of logic of Financial Economics which is only 100 years old. The conclusion was that volatility and manias are to be expected in the markets. The national and political debate in 1920s Russia was suggested as a topic of reading material for anyone wishing to delve deeper into the ideas presented.

Getting involved in Financial Markets formed the topic of the following slides with three ways of making money suggested; luck, working harder and having better judgement than others or knowing things that others don't know. Doubt was cast on the binomial curve myth of 50% winners and losers with both Colm's own view as a trader and relevant academic literature suggesting that about one in seven of those involved in financial markets win and the remainder lose either a little or a lot. The importance of having the right psychological make up to be successful in the area was stressed, but we were also told that this can to some extent be taught. The theatre of Henrik Ibsen, in particular his portrayal of his protagonists learning the true nature of their present circumstances through gradual revelation of the past was drawn as a parallel for the psychological awareness a successful trader must develop. That Ibsen's characters react to their perceived newfound understanding by initiating actions which they believe their discoveries or awareness demand is also relevant. This awareness was referred to as Risk Intelligence or RQ which is a measure of how well a person can assess their self knowledge in order to accurately estimate probabilities. This was presented as an area which offers opportunity for actuaries to move up the value chain, in terms of both RQ testing and improving existing RQ levels. One interesting aspect of RQ is that, unlike IQ or EQ it can increase with training. An example given of how these techniques could be used is in Investment Manager Research, to both pick and monitor Investment Managers. Colm also touched on the use of Behavioural Science to understand Financial Markets in particular the concepts of the Id, Ego and Super Ego.

A number of interesting parallels between the worlds of fashion and finance were drawn reiterating the ideas previously introduced around what it takes to get involved and the need for a competitive edge to succeed. Bringing the material back home Colm looked at the role of the Irish in financial markets. People of Irish descent have been estimated to make up roughly half of the 'risk takers' on Wall Street. It was suggested that this could stem from the same reasons that Irish people have a propensity towards writing and the arts and that it could also be a result of emigration, with those more likely to be entrepreneurs and criminals first in line to leave the country! Risk Astuteness, the psychology of trading on financial markets and different possible mind frames were explored; positive people, negative people or those who weigh up the risks and proceed once they are comfortable with what can go wrong.

Colm gave an example of how he would regard himself as risk averse: if having done sufficient ground work and decided that a certain chance was worth taking, not taking that chance and the possibility of missing the opportunity would be too large a risk to take. With this example, Colm was suggesting a system of rules for use by those trading on financial markets. The rules involved avoiding fear based thinking, minimising regret risk, avoiding overconfidence and avoiding greed.

Having explored the psychology of the individuals, the workings of financial markets as a whole were considered. Colm outlined how he saw a need for new market models to reflect the realities that different investors have access to different information and have different abilities. They also need to allow for the interactions of all these different participants. Again this was proposed as an area with opportunities for actuaries to lead the way.

The presentation was followed with a Q & A session with many interesting comments and responses. Some of the topics explored further were; how the application of a rule based system such as that described in the presentation could allow a trader to proceed without being affected by Ego but conversely how an increase in Ego would not necessarily be detrimental to success as a trader if it were accompanied by an increase in Id and Super Ego; whether increased use of technology and relevant advances could make financial markets less prone to emotional reactions and again conversely how the technology can only go so far when it is based on flawed logic which assumes an efficient market hypothesis; coming back to the theatre of Ibsen, the tragedy that follows when self deceit comes into play and choices are made based on flawed logic was drawn as a parallel to large scale regulatory developments which may fall wide of truly capturing the big picture.

The presentation and Q & A session was greeted with great interest and for those who were unable to attend a copy of the presentation and a podcast are available on the Society's website.

Eavan Clancy

SAI Practice Committee Updates

The Practice Committees have briefly outlined below their main areas of focus at present.

The minutes of each of the Practice Committee meetings are readily available on the website and provide further more in-depth details of discussions and actions arising.

Please note that the following is merely a brief summary of the activities of the committees:

Enterprise Risk Management (ERM)

- The committee is continuing its series of evening meetings based on the ST9 syllabus. Niall Dillon and Niamh Crowley presented "ERM and Credit Risk" on 11th October.
- James Maher presented a session on UL Guarantees on 21st October.
- The committee is contributing to the IAA's 'Enterprise and Financial Risk Committee'. An IAA Task Force has been created to prepare a report on "The Role of Actuaries in Enterprise Risk Management". The IAA have also prepared a report on 'Comprehensive Actuarial Risk Evaluation', which presents a framework that describes a comprehensive evaluation of a risk.
- The Institute and Faculty of Actuaries is funding two research projects on ERM, one examining risk appetite and the other examining the measurement and communication of tail dependency.

General Insurance

- Preparing for GI Forum on 26 November
- Continued monitoring of ASP's in the light of market events
- Monitoring Periodical Payment Orders
- Monitoring Solvency II General Insurance issues
- Contributing to the work of the Practising Certificates Working Party
- Developing a GI Professional Interest Area on the Society's website

Healthcare & Social Policy

Submission on Risk Equalisation: Following on from the Health Insurance Authority's request for consultation, a subcommittee of the Healthcare and Social Policy Committee was formed to address this. There were some lively debates within the sub-committee and two papers (URLs below) were submitted to the HIA from the Society with the consensus view.

https://web.actuaries.ie/sites/default/files/story/2010/08/100827_HIA_Consultation_Risk_Equalisation.pdf
https://web.actuaries.ie/sites/default/files/story/2010/09/100913_Submission_to_HIA_on_Minimum_Benefit_Regulations.pdf

We are currently setting the agenda for the next year. There are still places on the Committee if you have an interest in this area. Please contact david.costello@allianzworldwidecare.com if interested.

International Committee

- **Groupe Consultatif issues:**
  - Further development of strategic plans which include proposals to relocate to Brussels and appoint further administrative staff
  - Solvency II implementation
  - Standard setting- Groupe has appointed a person to work on the standard-setting agenda
  - European Commission Green paper on pensions
  - Spring meetings of Committees
- **International Actuarial Association issues:**
  - Meetings held in Vienna in October
  - Development of CERA global qualification
  - International standards
  - Equivalence of supervisory regimes

"The future for Irish actuaries- the international dimension" was presented by Paul Thornton (President of IAA), Bruce Maxwell (Chairman of Groupe Consultatif) and Philip Shier (Chairman of SAI International Committee and Chairman of Groupe Consultatif Pensions Committee) on 21 September 2010.

Life Committee

Valuation Regulations Working Party: Proposals around changes to ASP LA-3 in respect of expenses and reinsurance have been sent to members for consultation with the aim of implementing with effect 30th December 2010.

IFRS Phase II: The Society is planning to prepare a submission to the IAA and will be looking to the membership to volunteer for a working party.

CP42 Investment Guarantees: The Society formally responded to the Central Bank of Ireland in July. At this stage it appears unlikely that the proposals outlined in the consultation paper will be implemented for YE 2010 reserving purposes.

Pensions Committee

- **Pensions Board meetings:** Members of the Pensions Committee continue to meet with the Pensions Board to discuss key current issues faced by scheme actuaries/trustees. The main item for discussion has been the Funding Standard and the deadline for submission of Funding Proposals.
- **Review of Actuarial Funding Certificate (AFC):** Pensions Committee is working with the Pensions Board on a review of the current AFC. The purpose of the review is to make the AFC more 'user friendly' and also better reflect current legislation.
- **Review of Pensions ASPs:** Revised versions of ASP PEN-3 (Actuarial Funding Certificates and actuarial statements under the Pensions Act 1990) and ASP PEN-4 (Funding Proposals under the Pensions Act) were issued to members for consultation. Pensions Committee is currently finalising further amendments to the ASPs to reflect the comments arising from the consultation process.
- **European Commission Green Paper:** The Society attended and participated in a consultation on the Green Paper towards adequate, sustainable and safe European Pension systems.
- **Funding Standard Working Group:** A Funding Standard Working Group has been established to look at the Funding Standard and how it could be revised. This Working Party which convened in September is currently finalising its conclusions.
- **CPD:** Pension Committee is finalising its CPD agenda for the current session.
- **Sovereign Annuities:** Pensions Committee has provided input to the "Sovereign Annuity" idea suggested to government by the Society and the IAPF. This cross-practice initiative has been led by the vice president, Paul O'Faherty.

Note: Minutes of the Practice Committees are available on the Society's website: https://web.actuaries.ie/committees (member login is required)

SAI Golf

Hi Everyone,

With the days getting shorter and the leaves starting to fall, it is time for my last golfing update of the year. Since my previous newsletter, we have had the Captain's Prize and the annual match against the Faculty. Congratulations also to Bryan O'Connor on winning the Piers Segrave-Daly trophy this year in a tightly contested final with Brian Connaughton. Bryan has provided an update on the matchplay competition.

Captain's Prize – 19th August

37 Golfers attended this years Captain's prize in Carton House. All started out optimistically on what was a bright sunny morning. By the time they reached the 9th the weather had gone downhill faster than a six footer at Augusta. This didn't deter our intrepid golfers who still managed to bring in some remarkable scores off the white tees, while others were happy that their cards were still in one piece. When Declan Keena brought in 37 points I was sure that he would win. However he was pipped at the post by a strong finishing Mossy Lyons with a great score of 38 points.

Results

Captain's Prize Winner	Maurice Lyons (38 Pts)
Second Place	Declan Keena (37 Pts)
Third Place	Steven Hardy (36 Pts)
Back 9	Brian Murphy (19 Pts)
Nearest the Pin	Gareth Colgan
Longest Drive	Richard Walsh

Match against the Faculty – 22nd September

This year the Faculty brought a select team of six golfers to play the Society. Their strategy seemed to be quality rather than quantity this time around. It was another tightly contested match that was fought as ever with a friendly spirit.

There was never a lot between the teams and in the end it was the final hole that decided the outcome of the match. Stephen Hardy and Don Brown got off to a good start to put the Society one up. Philip Shier and myself were behind most of the day. A couple of solid pars from Philip over the closing holes brought us to the last all square. With the match in the balance and me in the bunker, I closed my eyes and took a swipe at the ball. Amazingly it went in the hole for a birdie to win the match. To rub salt in the wounds, Bryan O'Connor repeated the feat a few minutes later to gain a half for himself and Brian Morrissey. The final overall result being a win for the Society and the cup retained.

Finally

I'd like to finish the year by saying a big thank you to everyone for taking part in our events this year. Steven Hardy will be our Captain next year so I'd like to wish him the best of luck in 2011, I know that he'll do a great job. And finally a big thank you to Mary Butler for all of her work during the year as she is the one really who makes these events happen.

All the best

Peter Doyle

Piers Segrave Daly Matchplay Competition

The 2010 competition for the Piers Segrave-Daly Matchplay trophy once again has proven to be a very popular competition, with 22 entrants battling it out since the beginning of May.

For many of us this is an annual venture; a great opportunity to meet some fellow actuaries, play some new courses, getting in a couple of sneaky extra games of golf along the way… all for the benefit of the profession. Rumour has it, someone has put in for 4 hours CPD (professional development only of course!).

Bill Clinton once said "Golf is like life in a lot of ways – all the biggest wounds are self-inflicted". If you enjoy a game of golf, you may be one of many to say that matchplay format is the best way to minimise those wounds. The odd stray shot is merely a lost hole and not an unforgiving blot on the card. Each hole is an individual battle, trying to match your opponent shot for shot, looking for a chip or bunker shot to go close, or the "outside chance" putt to drop, all to gain some psychological edge on your opponent! You don't even have to make those nasty short putts, if your partner is of a generous disposition of course.

I had the honour of winning this year, after many years of falling short! There were some great games along the way and some even better dinners afterwards; meeting Neil Guinan (whom I had fallen foul of previously) and Don Browne (last year's beaten finalist) early on in Dun Laoghaire and Druids Heath, both great sports and great matches! Next up was the semi final against Gareth Colgan, who is never far from the prizes and again someone who had beaten me previously. Gareth and I battled in Druids Heath and were ultimately separated by a couple of putts.

All was then set up for the final… Brian Connaughton, with a neutral venue, Carton House, O'Meara Course. A great battle ensued, on a very wet Monday afternoon, with little going for the day bar the course, the competition and the company… nip and tuck all the way, two up with three to play, dormi two, one up with one to play… it all came down to the last putt on the last green, as it should. It was great to get a little luck and come out on the right side of the result for once!

The Piers Segrave-Daly Competition is a fantastic part of the Society's annual golf diary since 1996, and is a credit to Piers' vision (himself a winner of his own trophy in 2001) that it is such a popular competition every year. It is testament to the challenge that only one person has retained the trophy on more than one occasion, with Maurice Whyms winning in both 1999 and 2000. The role of honour can be seen in the golf section of the Society's website.

I would encourage all golfers, male and female, to give it a go in 2011.

Bryan O'Connor

Society Update

L to R: Peter Doyle, SAI Golf Captain, Bryan O'Connor, 2010 winner of the Matchplay Competition and Piers Segrave-Daly.

Peter Doyle presenting Declan Keena with 2nd Prize, Captain's Day.

Peter Doyle presenting Maurice Lyons with Captain's Prize.

Peter Doyle presenting Brian Connaughton with 2nd Prize in the Piers Segrave Daly Matchplay Competition.

Christmas Drinks & Table Quiz - Monday 6th December

Don't forget to diary Monday 6th December for the Society's Christmas Drinks followed by the traditional annual table quiz. As always, the proceeds from the evening will be donated to a recognised charity, chosen by the winning team. Let's make it a big donation this year.

Due to the popularity of this event, we have decided to hold this year's Quiz in the Alexander Hotel, in order to accommodate the numbers.

You can book online at www.actuaries.ie / Events. Teams of 4, with at least 2 SAI members - €100 per table.

PRACTICE FORA

The General Insurance, Life & Pensions Committees will hold practice fora before Christmas. Please diary these dates:

Life Forum

Tuesday 16th November - 3.30 p.m. for 4.00 p.m. - Alexander Hotel

General Insurance Forum

Friday 26th November - 10.00 a.m. for 10.30 a.m. - Gresham Hotel

Pensions Forum

Monday 13th December - 3.30 p.m. for 4.00 p.m. - Alexander Hotel

SAI Professionalism Course and Event

The next **Professionalism Course** for new qualifiers will take place on 10th & 11th March 2011 in the Druids Glen Hotel, Co. Wicklow.

The next **Professionalism Event** for senior actuaries will take place on Thursday 12th May 2011 in the Conrad Hotel. This is a full day event. Members should refer to ASP PA-1 to check when they are required to attend a Professionalism Event in order to be compliant with the CPD Scheme.

Both events can be booked online at www.actuaries.ie/Events

DID YOU KNOW?

We have now developed Professional Interest Areas for the ERM, Life, Pensions and Solvency II Committees. Logon to: www.actuaries.ie / Professional Interest Areas

DID YOU KNOW?

When you are logged on to www.actuaries.ie/ My Certificates, if you hold a practising certificate, you can view the status of your certificate.

On the Move

Fellows

John Armstrong has joined **Aviva Europe** from VHI Healthcare.

Edward Maguire has moved from Generali to **RGA International Reinsurance Company Ltd.**

Naomi Reville has moved from Towers Watson to **Aviva Europe**.

James Maher has joined **Ernst & Young** from Nexgen Reinsurance Limited.

Paul Connor has joined **Alterra Capital** from London Life.

Conor Crowley has joined **Aegon Ireland** from Irish Life.

Society of Actuaries in Ireland
102 Pembroke Road, Dublin 4. Telephone: +353 1 660 3064 Fax: +353 1 660 3074 E-mail: info@actuaries.ie Web site: www.actuaries.ie