Newsletter
April 2012
The Society of Actuaries in Ireland

Fellowship Ceremony in the RDS

Seated left to right: *Karen Lynch, Eleaner Ducker, Blathnaid Reynolds, Paul O'Faherty, SAI President; Mary de Burca, Brona Beary, Ann O'Regan, Teresa Bradley and Sheila McMahon.*
Standing left to right: *Declan Boland, Bella Daniels, Barbato Borza, Andrew Clusker, John Ryan, Kevin Humphries, Kevin Lennon, Kieran Drea, Philip Mullen, David Walsh, Geraldine Finucane, James Keough, Paul Torsney, David Robinson and Eamon Power.*

Update from Paul O'Faherty, SAI President

Hello all

In my President's address last September I made the case that the Society had passed the test of relevance through a time of change and turmoil. But as I said then this is something we cannot take for granted.

Our relevance over the past few difficult years has been built on being an active contributor and respondent to major external issues and developments. These ranged from Solvency II to the ECJ's Gender Directive ruling, and from the pensions funding crisis to the threat to pensions tax reliefs and so on. Understandably given the times that have been in it these interventions largely have been reactive and have been pitched at a tactical level.

Another condition for continued relevance though is that we from time to time provide more strategic thought leadership and foster public debate on national issues upon which we are qualified to provide analysis or offer well founded opinions. So at this stage as the nation "surveys the wreckage" of the multiple crises which have befallen us, Council believes that the time is right for us to develop strong positions on a very small number of major issues which we can then take to a wider audience.

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Update from SAI President... *continued*

The obvious questions are – what are these issues and how do we reach a Society position on them? We obviously start with some ideas of our own but we would very much welcome suggestions "from the floor". So could I ask you to give this some thought and either contribute to the Big Ideas thread we have opened up on the Discussion Forum or simply just send me an email (paul@ofaherty.net).

As you know, the Society celebrates its 40th anniversary this year. To mark this milestone we are currently reviewing the brand image of the Society. I would like to thank members for their involvement and input into this project. Design concepts are currently being finalised and I am looking forward to launching our new image by the autumn.

Also we are planning a 40th birthday dinner on Thursday 8th November 2012 (incorporating our traditional biennial dinner). Diary the date and we will have further details later.

The Society would not survive without the generous volunteerism from so many members. As mentioned previously, Council has decided to establish an annual award to formally acknowledge outstanding service. Please nominate a member whom in your opinion has made a significant contribution to the Society. All nominations must be received by latest 30th April 2012. The winner of the inaugural award will be announced at the Society's Convention on Friday 15th June.

All the best, Paul

Professionalism Course

"An actuary who is only an actuary is not an actuary."

These wise and often-quoted words of Frank Redington were used by one of the speakers at the two-day Professionalism Course for New Qualifers on the 8th and 9th of March in the Druid's Glen Hotel. They do, in fact, capture the essence of what the course was all about. The 59 newly-qualified actuaries who attended the event had all demonstrated that we are well-versed in technical actuarial ideas through having passed a rigorous set of examinations. True mastery of the actuarial skill set, however, requires so much more than pure academics.

The course was centred on the characteristics of a professional which, for actuaries practising in Ireland, are enshrined in the Code of Professional Conduct. Those of us who presumed to be natural wizards on this subject were stopped in our tracks when a multiple choice questionnaire on the morning of Day 1 showed up our weaknesses! Throughout the course, we learned about the importance of the five principles of the Code: Integrity, Competence and Care, Impartiality, Compliance and Open Communication. While application of these principles might appear to the casual observer to be nothing more than "common sense", we learned during the two-day event that each word of the Code is imbued with meaning and that we will learn valuable lessons from it throughout our working lives.

Yvonne Lynch then gave us an overview of the structure of the Society of Actuaries in Ireland and of its aims. As it turned out, our group of recent qualifiers had helped to push the number of Fellows residing in Ireland over the 600 mark - which is no mean feat for a Society which celebrates its 40th anniversary this year.

Yvonne also led a very interesting discussion about the Disciplinary Scheme, which provoked much concerned questioning from course participants. The prospect of being hauled before a tribunal seemed like something to be avoided at all costs, and convinced us to do all in our power to ensure that we never end up at that unfortunate juncture! In teams, we then put our enhanced knowledge of the Code of Professional Conduct to the test by considering some case studies in ethical decision-making, under the guidance of Sarah Kearns.

In the afternoon, we were split into three groups according to whether we worked in the fields of Life Assurance, General Insurance or Pensions, with these sessions being led by Fergal O'Shea, Tom Donlon and Martin Haugh respectively. We first had the opportunity to hear each presenter give an overview of his own practice area, current issues affecting it and the key competencies needed to succeed within the field. This was of great benefit to us because, as was pointed out throughout the course, actuaries need to appreciate what is going on in the wider actuarial community rather than closing their eyes to developments outside their core areas.

The practice area case studies that we examined in our three groups were very useful and well-thought out. In the General Insurance section, we grappled with some tricky situations which one would hope to steer well clear of in real life; for instance, pressure from an employer to reserve less prudently or concerns surfacing about data quality less than one week before the signing of an SAO report!

The final session of the day consisted of a presentation from the President of the SAI, Paul O'Faherty, and a Q&A Panel featuring the President and the three presenters of the practice area case studies. Paul showed us a newspaper clipping from 1972 - the year of the SAI's foundation - to highlight how far the Society has come in the 40 years since its birth. For example, there were 10 references to actuaries in the national press in 1972; this figure had increased to 300 by last year! We were strongly urged to help with the strengthening of the SAI's voice by getting involved in working parties and focus groups and by attending evening meetings and seminars.

On the same note, many of the questions posed during the Q&A session were about how the profile of the actuarial profession can be raised in

for New Qualifiers

Ireland, and how actuaries can remain at the forefront of risk management in a post-Solvency II world. We were heartened when all four of the panellists asserted that they would jump at the chance to become actuaries if they were making the choice again - for if we can gain even half as much satisfaction from our careers as they clearly have, we will undoubtedly be very happy professionals! We concluded the evening in style with a lovely meal that was hosted by the President, Paul O'Faherty, and we got to know each other better over drinks that lasted until the small hours.

We found ourselves surprisingly alert and eager to learn on the Friday morning, and were treated to a very interesting talk from Elena McIlroy De La Rosa, Chairperson of the Recent Qualifers' Committee, on how we can go about engaging with the SAI. The level of creative thinking in the room went into overdrive when we had to come up with new ideas for activities which could be held by the Recent Qualifiers' Committee. One of our number suggested "actuarial speed-dating" to facilitate networking with other SAI members - an idea which, needless to say, brought us great merriment!

John Armstrong then gave a very enlightening talk on actuarial involvement within the field of health insurance in Ireland. He emphasised the close ties between health insurance and public policy, which are stronger than ever before given the commitment of the current government to introduce universal health insurance in the medium-term. The key challenge for health insurance actuaries at present is, it would seem, to "move out of the shadows" and play an active role in healthcare reform.

An interesting talk on Enterprise Risk Management (ERM), delivered by Niamh Crowley, then followed. Nothing stirs the imagination of an actuary to quite the same extent as ERM, and we listened keenly to Niamh's discussion of the new Irish risk-based supervision framework (PRISM) and the challenges facing companies in trying to implement ERM effectively. Yvonne Lynch then spoke to us about the Continuous Professional Development (CPD) Scheme, and told us about both our responsibilities under the scheme and the rewards which can be reaped by engaging fully with it.

After lunch, we watched a thought provoking video called *The Auditor In Court*, which showed an embattled auditor in a courtroom situation, trying to defend himself against accusations of negligence from a stern and exacting prosecutor. This then prompted a lively discussion, guided by Sarah Kearns, about the chain of events which led to the auditor finding himself in the dock, and the lessons which we should learn in order to avoid suffering the same fate.

Our final session before the conclusion of the course was led by Mike Claffey, and delved into the complex area of Professional Challenges. A short personality quiz, followed by a group discussion of a managerial dilemma, led us to realise that actuaries often need to ensure that their tendencies towards logic and reason don't over-rule the essential qualities of care and compassion which should be a guiding force in all decisions that we make.

On Mike's request, we then put our enhanced professional skills to good use by coming up with ideas to enable both the SAI and individual actuaries to improve the professional environment in Ireland. One of the more striking suggestions was the design of an SAI float for the St. Patrick's Day Parade, in order to boost public awareness of the actuarial profession. At the time of writing, I can confirm that such a float was not a feature of this year's parade, but there is always the potential that the idea will come to fruition in 2013!

Overall, the Professionalism Course was thoroughly enjoyable as well as being up-to-date, practical and varied.
On behalf of all of the attendees, I would like to thank the organisers and presenters for doing such a fantastic job, and I am certain that we will remain mindful of the lessons that we learned as our careers develop in the years ahead.

Majella McDonnell

Next meeting of particular interest to recent qualifiers and senior students:

Friday 18th May 2012
12.30pm for 1pm
Alexander Hotel

The Fiscal Treaty, the Economic Environment & Solvency II: Possible Implications for Life and General Insurance Companies.

Presented by: Andrew Caslin and Caolan O'Callaghan, both Actuarial Science higher diploma students in UCD.

Solvency II

On the 24th of January 2011, Jim Murphy and Andrew Kay of Milliman gave a presentation on Solvency II 'hot topics' from the latest draft level 2 and level 3 measures.

Jim started by looking at the Pillar 1 implications of the latest level 2 text, in particular on contract boundaries and discount rates. These are two areas where quite a degree of uncertainty still remains, and also have the potential to have significant impact on a company's balance sheet.

Contract boundaries

Under Solvency II, technical provisions, consisting of best estimate liabilities plus a risk margin, will be based on discounted future cashflows, and contract boundaries are a key determinant of those future cashflows. The insurance industry and the Groupe Consultatif favour a different approach - an economic approach - to that currently proposed by EIOPA - a contractual approach. The economic approach is more consistent with the Solvency II Directive and IFRS, and models cashflows for the life of each policy, including the optionality of surrenders, paid-up rates, and other policy options. The contractual approach sets prescriptive rules for the contract boundary. EIOPA feels this is more objective and is easier to harmonise across the various regimes. Jim advised that at this stage, it seems as if EIOPA's contractual approach will win out, although lobbying is still taking place.

The rules for contract boundaries can be distilled down to two key questions:
1) Where does the boundary lie?
2) What does the boundary mean; perimeter for future cashflows, or perimeter for future premiums?

For profitable business, the existence of the perimeter means that VIF is limited due to lower future profits, and technical provisions are greater. Jim presented some charts to illustrate the various scenarios.

The latest level 2 text on contract boundaries states that the boundary lies at the future date at which the company has a unilateral right to terminate the contract, reject premiums payable, or amend premiums or benefits in a way that the premiums <u>fully reflect the risks</u>. This means that any obligations provided after this date are outside the boundary, unless the policyholder can be compelled to pay the premiums. Where a contract contains neither insurance risk nor financial guarantees, future premiums are outside the boundary. An unbundling approach should be taken where there are hybrid benefits to a contract.

The interpretation of the right to amend premiums or benefits to "fully reflect the risks" could end up being very onerous. The test applies at a portfolio level, and only where there is no scenario under which the benefits and expenses payable exceeds the premiums payable.

Jim then presented some examples of how contract boundaries can be interpreted for some product types:

- For guaranteed or convertible term assurance, the boundary is the maturity or conversion date. Cashflows are projected to that date, and future premiums can be allowed for until then.
- For unit-linked contracts with reviewable charges, the boundary is less clear. If premiums and benefits can be amended to fully reflect the risks, then the boundary is immediate, and the technical provision should in theory be nil. The test is a high hurdle however, and if failed, the boundary appears to be the full term, up to whole-of-life. In any case, future premiums are not allowed.
- For a single-premium investment contract, technical provisions are also potentially nil. This is an area that could differ from QIS5.
- For reviewable unit-linked protection, benefits may need to be unbundled, and the boundary may be the next review date. It is unclear what should happen if mortality charges can be reviewed at any time, and the assessment may be at the individual contract level, rather than portfolio level.

Level 3 guidelines for contract boundaries are being developed, and comprehensive examples are expected to be included.

Discount rates

Andrew then took over and gave some background on the European Commission working group on long-term guarantees, which was set up to address companies' concerns that the QIS5 discount rate methodology was inappropriate, leading to balance sheet volatility. The outcome is a review of basic risk-free interest rates, and the withdrawal of the QIS5 'illiquidity premium' adjustment, to be replaced either by a 'counter-cyclical premium' (CCP) or 'matching premium' (MP).

EIOPA will derive and publish the term structure of risk-free interest rates for each relevant currency and publish their methodology. They will be derived from interest rate swaps adjusted for credit and basis risk, and if these are not available for a given currency, they will be derived from government bond rates adjusted for credit risk. Extrapolation to an ultimate forward rate will be based on observable market data, and both the starting point for extrapolation and convergence to ultimate rates will be sooner than previously.

The CCP will only apply in market stressed conditions, to be determined by EIOPA. The aim is to reduce pro-cyclical behaviour. There is not much further detail in the level 2 text to explain how EIOPA will set the level of the CCP. Where a material part of a company's technical provisions uses the CCP, additional disclosure is required to the supervisor, including the impact of reducing the CCP to zero, and a plan to improve solvency if the removal of the CCP would mean non-compliance with the SCR.

Andrew mentioned that there is some debate on the CCP - for example, why not adjust the value of illiquid assets instead, whose value has been temporarily distressed? The lack of clarity makes capital management more difficult, particularly for pricing.

The MP is an addition to interest rates for certain contracts - in particular, annuities. The rationale is that annuity liabilities are closely matched by bonds that are held to maturity, so are not exposed to full spread risk, so the MP reduces capital volatility arising from spread volatility. The MP is company-specific, based on the assets actually

"Hot Topics"

held, and once it has been applied to a portfolio, it may not be removed, so as to avoid cherry-picking the better option between CCP and MP.

Business must have certain features to qualify for MP, including the level of matching, ring-fencing of assets, nature of underwriting risks, and asset credit quality. The MP is the difference between:

- the single interest rate that equates liability cashflows with the de-risked value of the assigned assets, and
- the single interest rate that equates liability cashflows with the value of the best estimate.

The de-risking of the assets is a complex calculation, using probability of default and loss given default to determine expected defaults.

The industry is concerned that the scope of application of the MP is ambiguous, and that the calculation itself is excessively complex.

Jim then briefly covered some more minor pillar 1 changes, including the reduced segmentation of life business, and the current interpretation of expected profits in future premiums (EPIFP).

Jim closed off pillar 1 developments by discussing EIOPA's recently-published actuarial guidelines. These consist of a fairly long, technical document that covers a number of areas. The Groupe Consultatif have provided feedback to EIOPA that while the guidelines are helpful, they are too detailed and prescriptive, and should be more principles-based. Guidance on disclosure of rationale for methodology and assumptions and a recognition of the role of expert judgement would be helpful.

Pillar 2

EIOPA have published guidelines on the Actuarial Function, covering its responsibilities in 7 key areas, including the roles it performs, contribution to risk management, and governance on reporting and fitness & probity. There has been feedback that there is some confusion in relation to the interaction with other functions and how it should fit within the overall governance structure; contradiction between levels 1, 2 and 3; and confusion over co-ordination versus calculation versus giving opinions on technical provisions.

Pillar 3

Andrew covered the revised transitional arrangements. Firstly, for phasing in the Solvency II reporting deadlines, for the SFCR, the RSR and the QRTs, to reflect the 2014 implementation date. There are transitional information requirements in the first year of Solvency II - a 2014 opening balance sheet, an explanation of the differences between the opening balance sheet and Solvency I, and the opening SCR and MCR. These all have a 14 week deadline.

Finally, Andrew covered the recent changes to the number and content of QRTs. Some now require a greater level of detail, including more granularity of technical provisions, a look-through of assets, including investment funds, and more detailed derivative reporting. There are some new QRTs for Financial Stability Purposes. These apply only to large insurance groups or companies, to facilitate an analysis of sector resilience to shocks, and are mostly required quarterly. In general, they include similar information to the other QRTs, but there are some notable extra items. These include a quarterly SCR calculation on a simplified basis, and additional information on liquidity, profitability, losses shared with policyholders, and interest rate sensitivity.

After the presentation, there was a brief question-and-answer session. This included a discussion on the extent to which level 3 developments will eventually lead to clarity on contract boundaries. The Central Bank of Ireland are working on level 3 guidance on contract boundaries, but it is very draft at this stage. Jim advised that the Groupe Consultatif are still lobbying for the economic approach, but might better spend time on pursuing clarity on the contractual approach. The other discussion was on how settled the CCP and MP developments are. Andrew advised that they are not settled yet, and that a European Commission working group have recently resumed work in this area.

The podcast and a copy of the slides are available on the Society's website.

Keith Sutherland

SAI Enterprise Risk Management Seminar
*L to R: **Dermot Cryan**, MetLife Europe Limited*
***Paul Sweeting**, J.P. Morgan Asset Management's Strategy Group.*
***Fiona Muldoon**, Insurance Supervision, Central Bank of Ireland*
***Paul O'Faherty**, President, Society of Actuaries*

Discount Rates

For the first evening meeting of the year, held on 19th January 2012, the Society was delighted to welcome Charles Cowling and Andrew Smith to present on the very topical subject of discount rates. Charles (Managing Director of JLT Pension Capital Strategies Limited) and Andrew (a Partner in Deloitte) have a wealth of actuarial experience and accomplishments to their names. Most recently they have been heavily involved in a two year research and consultation project carried out by the UK Actuarial Profession into the use, construction and communication of discount rates, with the aim of developing a framework that will help actuaries, their clients and all those impacted by actuarial calculations. The project was formed from the recognition that discount rates are a primary area of debate and technical analysis, with widespread application by actuaries and non-actuaries alike.

Charles noted that although the steering group largely focused on the UK, the findings and recommendations are appropriate to the wider actuarial world, with the fundamentals of the research applying universally. Charles began by discussing the relevance of discount rates to all actuarial practice areas and stated that discount rates are at the heart of most actuarial calculations, be it models for pricing, reserving, funding, transactions, long-term financial planning or accounting. Although other modelling methods exist, the majority of actuaries tend to continuously revert back to the tried and trusted discount rate model. Charles pointed out that the timing for this research was particularly appropriate as there is a convergence of interest in discount rates from within and outside of the Profession. In recent times there has also been a significant public interest in the area of discount rates.

Charles explained that when formed initially, the working group found that two big questions exist for the UK Actuarial Profession:
1) Is it appropriate for the Actuarial Profession to have different actuaries in different practice areas producing very different answers to very similar questions?
2) Is it possible to create a common language and transparent framework for describing and determining discount rates and possibly reduce the diversity of current practice?

Again, although the questions were posed in a UK context, the principles certainly spread to the larger actuarial world.

To try and answer these queries a cross-practice team consisting of experts from all practice areas was formed with Charles Cowling appointed as Chairman of the Discount Rate Steering Group. The team's objectives focused on an analysis of current practice on discount rates and how it has been arrived at, a review of how and why risk is included in discount rates, and whether we can apply our knowledge of the past to develop a common language and framework to describe current practice. The team was also to consider options for reducing diversity of practice and instead introduce a transparent framework.

The project was set in motion in March 2010 by holding a discount rate forum with key stakeholders, including non-actuaries. This meeting set a series of tasks and was followed by a publication in May 2010 of "Actuaries and Discount Rates" from Chris Daykin and Chinu Patel. Daykin and Patel were commissioned to undertake a research of the current and historic practice around discount rates, extending back some 400 years. Their studies found that two broad families of calculation exist for the discounting of liabilities. The two main methods of derivation of discount rates can be broken down into 'Matching' and 'Budgeting'. The Matching method seeks to price or value assets that seek to provide as far as possible a cashflow stream that will match the characteristics of the liability cash flows. The Budgeting method approach differs in that it looks at a particular basket of assets and the rate at which these assets must grow to meet the liabilities as they fall due. Their study found that method selection generally appears to be purpose and context driven with both widely used in varying circumstances. Daykin and Patel noted that as there is potentially risk in either approach, it is important to communicate any embedded risk encapsulated within the discount rate derived.

Andrew Smith explained that with the results of this paper in January 2011 the cross-practice working team went on to publish "Developing a framework for the use of discount rates in actuarial work". This paper concentrated on the more technical aspects of developing a framework for communicating discount rates and associated risks and the report is aimed primarily at actuaries. It discussed the two families of discount rate derivation, the application and limitations of the approaches, the attaching terminology and an analysis of the adequacy, perception and transparency of each. The research project hoped to achieve a full and open debate on these significant issues and this paper was the next step in stimulating that debate.

Integrating feedback received from various parties, a revised version of the framework with a clear set of final recommendations was released in September 2011. A full list of the 13 recommendations can be read within the presentation given at the SAI meeting but the recurring theme running throughout all the recommendations is the need for transparency. The main findings of this research project show that while the 'Budgeting' and 'Matching' methods of derivation are largely in use, and appropriately so, there is a lack of transparency and clear communication around the methods and the distinction between them. As such, more common language is required to enable the end-user to be clear on the approach taken, the context and limitations of the method and any risk involved. Actuaries need to be encouraged and equipped (through education and CPD) to help users fully understand the implications of any advice given. In relation to the question around reducing the diversity of answers provided by actuaries, the conclusion of the group was that while it is unlikely that this can be avoided, introducing transparency and a higher level of understanding among users of actuarial results will help to address this issue.

The presentation followed with a lively discussion around the issues brought forward by Charles and Andrew including potential impacts of Solvency II and the EIOPA directives. President Paul O'Faherty concluded the meeting by thanking Charles and Andrew for their comprehensive presentation and called the meeting to a close.

The podcast and a copy of the slides are available on the Society's website.

Sheena Frost

Impact of the Increased State Pension Age

On Tuesday 7th February Aisling Kennedy gave a presentation on the "Impact of the Increased State Pension Age".

Aisling began by summarising the upcoming changes:

- in 2014, the State Pension Age will effectively* increase to 66 for people born between 1949 and 1954;
- in 2021 the State Pension Age will increase to 67 for people born between 1955 and 1960; and
- in 2028 the State Pension Age will increase to 68 for people born in 1961 or later.

* Technically the State Pension Age is currently 66 but a State Transition Pension is paid between age 65 and 66 to those persons not in employment.

She pointed out that the State Pension Age was, in fact, age 70 until 1973 when the new government at the time gradually reduced it to age 65.

Context

To put the new change in context, Aisling showed how Irish life expectancy (by cohort) compares for males and females aged 65 in 2007, 66 in 2014, 67 in 2021 and 68 in 2028. Given expected longevity improvements, this results in a steady state in terms of life expectancy (the female life expectancy was 23 years in all 4 cases).

She then went on to discuss the work of the Society's Population Studies Working Group in 2003 and, in particular, the public backlash from the results which stated that an older retirement age would be the most effective way to reduce the cost of State Pensions.

She also pointed out that many other countries have seen public protests against increases to the State Pension Age and that it is somewhat strange that the announcement went relatively smoothly in Ireland. However, we are in good company as a large number of other countries are going down the same path of increasing the State Pension Age.

Aisling then went on to discuss the already substantial labour force participation of people aged over 65. In Ireland, this has been in and around 15% for males for the last 10 years, well above our European counterparts. Even looking at males over 75, the participation has been over 5% in Ireland for the last 10 years, which is a substantial proportion at such an age. Also, Aisling provided an astonishing statistic that nearly half of the increase in total employment in Britain last year went to the over-65s.

Aisling then considered how any change in retirement age will interact with employment law. The Irish Employment Equality Act allows employers to set a compulsory retirement age of their choosing and there has been no discussion to date on whether this will change given the change in State Pension Age. Internationally this is a live issue, especially in the UK where the default retirement age was abolished in 2011.

Older Workers

This led on nicely to a discussion on the (perceived negative) correlation between age and productivity, which is one of the main issues that employers highlight when discussing later retirement ages. In fact, the majority of studies have shown that, overall, productivity does not diminish with age as experience and teamwork in tense situations make up for any loss, even in work environments requiring physical strength. The correlation between age and sickness however is much more of a mixed bag, where older workers may experience higher levels of occupational injury. Also, while older employees may not necessarily have a higher incidence of absence due to sickness, the length of any absence is likely to be longer.

From an employee point of view, an Irish survey in 2010 implied that only a small percentage of respondents expected to retire after age 65, but also that younger people want to retire at earlier ages than those closer to retirement. From an employer point of view, 40% worry that an ageing workforce will have a negative impact on their business and only 14% think their workplace is prepared to cope with an ageing workforce.

Aisling then went through a few case studies which showed that there has generally been very positive experience where an older workforce has been embraced. However, in order for older workforces to be embraced, the current negative employer perception needs to be dispelled.

Occupational Pension Schemes

Finally, Aisling discussed the impact of the change on occupational pension schemes. Given that most defined benefit schemes are likely to be integrated with the State Pension, employers may come under pressure to provide a "bridging pension" between retirement and the time the State Pension begins. While there has been little pressure to date, this is likely to increase once the gap begins to materialise. Also, all Trust Deeds and Rules and other scheme literature should be reviewed for references to State Pension Age, especially in cases where bridging pension arrangements are already in place. Defined contribution schemes are inherently more flexible but research suggests that compulsory annuity purchase should be deferred until late life.

A number of interesting comments arose after Aisling's presentation and a lively and lengthy discussion ensued before the meeting was closed and members left with plenty of food for thought.

The podcast and a copy of the slides are available on the Society's website.

Barry O'Mahony

SAI Practice

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:

Demography

The Demography Committee has been concentrating over the past few months on preparing for the launch of the Society's SIDE (Studies in Irish Demographic Experience) project. A project of this size requires a lot of planning and several different workstreams, and particular attention has been paid recently to the following areas:

- We have made some changes to the specifications of the data requirements to be sent out to participating companies. The aim of these changes has been to simplify the process for life offices of submitting experience data to be analysed;
- We have considered the necessary operating structures for the governance and management of SIDE once it is functioning. This has included an assessment of the various responsibilities that need to be performed as well as alignment with the structures of the Society;
- There has been a lot of work on the preparation and re-drafting of the various legal and commercial agreements to which SIDE will be a party; and
- Further work has been undertaken on the financial aspects of the SIDE project, including updates of budgets."

Enterprise Risk Management (ERM)

- The committee organised an ERM seminar on 28 February. Over 200 people attended the seminar and enjoyed an interesting half-day of presentations from Bill Hannan, Clive Kelly, Paul Sweeting, Dermot Cryan and Fiona Muldoon. This event demonstrates the level of interest in ERM and the committee hopes to capitalise upon this interest and energy. The feedback on the event was very positive and also contained some useful suggestions regarding future events.
- The committee is investigating the possibility of developing a risk management course and has analysed the results of a survey of SAI members. There are two distinct groups that the committee is trying to address; those that want support in sitting ST9 and those that want to invest in some ERM training but don't have sufficient time to sit ST9.
- Graham Crowley presented "ST9 - Exploding the Myths" on 15 March. Graham recently sat and passed the ST9 exam post qualification and presented a meeting to outline what is required to pass the exam and to debunk some of the myths surrounding the exam.
- Naren Persad and Colm Guiry presented "ORSA – engaging the business in Solvency II" on 20 February.

Finance and Investment

On February 22nd a meeting titled "Trends in Asset Allocation" was presented by Dan Varley (State Street Global Advisors).

Other evening meetings in the pipeline include a session on:

- Update on the Irish commercial property market;
- Liability Hedging and "Risk Free" rates; and
- Debt markets - Going beyond government bonds.

Communicating Investment risk: following on from the working party on communicating investment risk, a group has been set up to bring this to the next stage and make specific recommendations to Council.

Financial and Economic database: working party has been set up to review the database and make suggestions as to how it should be rolled out.

General Insurance

Working Party on Communicating Uncertainty:

As reported previously, the working party completed its work in this area, and delivered its paper to the General Insurance Forum on 25th November. The presentation is available on the SAI website in the events section. This presentation is in response to a number of observations from the Central Bank of Ireland that general insurance actuaries need to raise the bar when calculating and communicating uncertainty in their year-end actuarial reports. The Central Bank also wrote to Chief Executive Officers at the start of 2011 requesting senior management and boards to consider reserve adequacy and uncertainty going forward throughout 2011 and beyond.

Healthcare

The focus of the health care committee for the rest of the year is to deliver on the strategic priorities of the Society that relate to health care, as set out in the Strategic Plan. A priority set by the Society is to provide input and informed comment on government proposals regarding universal health insurance. The committee will draw out aspects of universal health insurance that would benefit from actuarial input and look for opportunities to make a contribution and raise our profile in this area.

The committee also plans to host an autumn seminar on controlling the rising cost of health care. We would hope this topical subject will attract a wide audience from within and outside the profession.

Life

- The Groupe Consutlatif have set up a task force working on a position paper on "The actuary's technical and communication expertise - a critical success factor for Solvency II". The SAI also has a working party considering the Role of the Actuary under Solvency II.
- On April 24th, the ORSA working party will present their finding on how to go about the Life ORSA, outlining some practical considerations on the technical aspects of completing the first ORSA for a Life Company.

Committee Updates

- The Groupe Consutlatif is currently drafting a paper investigating the impact of sovereign risk on insurance companies (focusing primarily on the life insurance sector). This research is intended to focus on the potential implications on the valuations and risk assessments that actuaries perform for insurers. A number of Irish actuaries are contributing to the topic.

International

The International Committee meets every 2 months and the main items of business are issues arising from the Society's membership of the Groupe Consultatif Actuariel Européen (GCAE) and the International Actuarial Association (IAA). The Committee considers the agendas for the meetings of the GCAE Committees and IAA Council, makes recommendations to Council of the Society in relation to voting on significant agenda items and receives reports from the delegates who attend the meetings.

The Spring Meetings of the GCAE are as follows:

March 22/23:
Standards, Freedoms and Professionalism Committee, Insurance Committee (Utrecht)

April 20:
Education, Pensions and Investment and Financial Risk Committees (Ljubljana).

The main item on the Standards, Freedoms and Professionalism Committee agenda is a report from the Standards Project Team, which notes that a drafting team has been set up (including Francis Coll representing the Society) to prepare a standard on general actuarial practice. The Insurance Committee agenda is dominated by Solvency II issues, and the Society's Solvency II Committee has submitted a report on the status of the project in Ireland. The meeting considered an interim report from the sovereign debt risk working group, and there was a discussion on market consistency issues in the context of long term guarantees. The Pensions Committee meeting will focus on the review of the IORP Directive, particularly on the QIS exercise currently being specified by EIOPA. The Society has established a working party to work with the Pensions Board in compiling Ireland's input to this exercise – to date 8 member states have indicated that they will be participating.

The GCAE's first Congress is taking place in Brussels on 7/8 June and the Society encourages members, in particular younger members, to attend.

The next IAA meetings will be held in Los Angeles in May. Among the issues to be considered will be the permanent structure for the development of standards and the role of the Secretary General.

A Monograph on Discount Rates (commissioned by the IAA and prepared by Milliman) will be issued for public exposure within member associations shortly.

Pensions Committee

Members of the Pensions Committee continue to meet to discuss current pension issues. The main recent items for discussion have been:

The Funding Standard:

The Minister for Social Protection and the Pensions Board have announced changes to the Funding Standard regime which may involve the following:

- The introduction of sovereign annuities
- The introduction of a requirement to hold risk reserves
- A change to the statutory wind-up priority
- A change to statutory revaluation

However, detailed guidelines on the new funding regime and the funding proposal are still awaited.

Review of Pensions ASPs:

- Revisions to ASP Pen-12 (Statement of Reasonable Projection) have been implemented with effect from 1 March 2012. The revised ASP makes allowance for the Pension Levy and now includes a single allowance for mortality improvements.
- The Society has asked the Minister for Social Protection to approve a change to ASP Pen-2, namely that the assumed pre-retirement discount rate be reduced from 7.25% to 7% per annum. If approved, the likely implementation date is 1st May 2012
- Issues in relation to ASP PEN-13 (Conflicts of Interest) continue to be discussed, with the possibility of some changes being made to the approach adopted.

SIDE Initiative:

Work continues to be carried out in relation to the SIDE Initiative. There are two phases to this initiative. The first relates to the mortality experience of annuitants, with involvement from the insurance industry. The second relates to the mortality experience of self-administered pensions schemes.

CPD:

The Pensions Forum took place on 30 November, with breakout groups considering key areas in relation to the proposed changes to the funding regime, namely risk reserves, sovereign annuities, funding proposal process and the priority order. An evening meeting on accounting issues took place on 8 December, focussing on aspects such as the changes to IAS19 and accounting for the pension levy. An evening meeting on “Regulations in Pensions” was held on 14 December.
On 7 February, a meeting on the “Impact of the Increased State Pension Age” was held.

Note:

Minutes of the Practice Committees are available on the Society’s website: https://web.actuaries.ie/professional-interest
(member login is required)

ORSA - Engaging the

On Monday 20th February 2012, Colm Guiry and Naren Persad, both of Towers Watson, gave a presentation entitled "ORSA - engaging the business in Solvency II".

The purpose of the presentation was to provide an overview of the ORSA (Own Risk and Solvency Assessment), its background and key requirements, and to highlight the challenges faced in its implementation. The speakers also discussed the general progress of companies across Europe in their ORSA development and the steps companies should be taking currently.

Background and Guidance

Colm began the presentation by summarising the ORSA, highlighting how it should not be considered as just a regulatory requirement or modelling exercise. He stressed that the ORSA should form a key link between a company's risk management framework and its management decision-making process and business strategy.

Colm discussed the details of the latest guidance notes (November 2011) and described how it is outcome based regulation, focusing on what is to be achieved by the ORSA as opposed to how it is to be achieved. He commented that no further guidance is expected at this time. Colm spoke in detail on the reporting and documentation strand of the ORSA, explaining how the ORSA policy is a key document for the board linking capital and risks. He noted that it should contain challenges to the results made by the board and the justification offered following these challenges.

Colm finished this section by providing details on the growing body of casework that exists elsewhere in the world on regulatory requirements for capital that can be used as further reference points in developing the ORSA process.

Benefits of an ORSA

Following the introduction to the ORSA, Colm discussed its main benefits and what it will deliver, all of which increase a company's ability to withstand risk exposures. Some of the benefits highlighted included:

- A clear understanding of the risk appetite of a company
- Wider thinking about risk exposures and key risk drivers
- Identification of future capital needs and contingency planning
- Increased alignment of risk appetite and business strategy
- Linking risks with a strategy to monitor and mitigate them
- Forward looking risk management and ensuring risks not considered in the standard formula are not ignored (liquidity and credit risks).

Challenges and how to deal with these

Naren followed this by describing the key challenges faced by companies in preparing an ORSA and gave advice on how to deal with these challenges. The issues included:

Getting started with the ORSA

Naren advised companies to focus on the key deliverables – the ORSA policy and report. He spoke about the ideal length and content of the report and suggested companies should also consider how the report is to be populated in order to maximise progress and enable early engagement with management.

Naren pointed out that risk management is not new. The current processes in place should be the starting point for the ORSA and these should be leveraged where possible. He advised companies to document processes and models once, to cross reference and to leverage existing documents. He also mentioned the importance of having the right people involved and ensuring regular checkpoints are in place to assess whether deliverables are on time and consistent with best practice.

Naren advised that companies should consider the ORSA as an iterative process that will evolve over time. Companies should have several pilots with incremental advances and follow both a top-down and bottom-up approach.

Making risk appetite operational

Naren explained that for this challenge to be tackled effectively it needs to be driven by the board at a strategic level. Defining risk/return preferences clearly and ensuring business strategy is consistent with risk appetite are the key targets. He also spoke about the need for operational policies around areas such as risk mitigation and defining limits and trigger levels. Continuous monitoring was highlighted as being of huge importance as was the decision-making framework for taking decisions based on the information fed back.

Modelling

Naren discussed several modelling challenges facing companies developing their ORSA. He advised that the key to effective modelling is to focus on the output from the beginning. It is important to consider the end point of the report and what questions are likely to be asked. These should focus on capital needs, understanding our balance sheets and the combined impact of the risks faced.

Naren also spoke on the challenges of:

- creating a positive risk culture within the organisation
- actuarial functions, risk managers and the business units working together
- achieving the correct balance of management information

A final challenge for companies that Naren discussed was forward looking risk management. He stressed the importance of considering all risks and their impacts on a company's objectives and not just those assessed in the standard formula.

Progress and Next Steps

Colm stated that the progress on the ORSA across Europe varied widely. He went on to provide details on what stages of the ORSA development large and medium sized companies typically are at.

Colm also discussed what companies could be working on now. Starting the ORSA policy early will ensure the project moves in the right direction and involve all key stakeholders. He also said that companies could begin expanding existing Solvency II models for use in the ORSA.

He then spoke about the questions we need to ask to see if the organisation is ready to embed the ORSA in the business. Such questions include:

Business in Solvency II

- Is there a clear vision of the target end state
- Is there a common understanding of the risk culture of our business
- Is there a communication strategy for the wider business
- What are the short/medium/long term objectives for the model

Colm described the creation of a typical prioritisation matrix which is useful in identifying how the ORSA can be used in our business.

He finished up by discussing the typical findings from companies creating their ORSA. These include gaps in updating risk appetites, problems with keeping the ORSA report light and challenges with small firms when using the standard formula.

Finally, Colm recapped the benefits of the ORSA and Naren expressed his view that this was a great opportunity for actuaries to move into the risk management space and think on a broader scale.

Q&A

Questions focussed on whether there are currently enough risk management resources to facilitate production of ORSAs. Naren commented that outside of the UK and Ireland, there is a shortage of actuaries working in this area.

Considerations were also given to the knock-on effects of delays to the implementation dates of Solvency II on the production of the ORSA. Would the regulator still move ahead with Pillar II? A formal ORSA is due in 2015 and Colm expected a first draft would be required well in advance of this. It was felt that non executive directors would stress the importance of timely completion of the ORSA.

There was also some discussion around how the ORSA would work for subsidiaries and how it would interact with the group.

Paul O'Faherty, SAI President, thanked the speakers and closed the meeting. A copy of the slides and a podcast of this presentation are available on the society's website.

Wendyl O'Dwyer McNamara

Diary Date Reminders
(all referenced in Paul O'Faherty's article on pages 1 & 2)

Monday 30th April

Deadline for nominating a member who has made a significant contribution to the Society. The inaugural award will be presented at the Society's Convention on 15th June.

Wednesday 30th May – Society's AGM

Friday 15th June – Society's Annual Convention

Thursday 8th November – Society's 40th anniversary dinner

2012 SAI Golf Calendar

- **Piers Segrave-Daly Matchplay Competition commences on 1st May. Entries close on 20th April.**

Now in its 17th year, this annual knockout competition has become a very popular event and this year's captain, Brian Connaughton, is well aware that many will be vying to take the title away from him! The trophy has only been retained on one previous occasion so Brian is hoping to put on a good show in his efforts to retain it!

- **Champagne Scramble Event - Castleknock Golf Club - Friday 6th July. Entries close on 22nd June.**

On the afternoon of Friday 6th July there will be a champagne scramble event at Castleknock Golf Club. This is a great opportunity for golfers of all abilities to play together and contribute to the team score. As always members without GUI handicaps are more than welcome to play in this event.

- **Captain's Day - Hollywood Lakes Golf Club - Thursday 23rd August.**

The day will include halftime refreshments and a 3-course dinner and with fingers crossed some fine weather and golf too.

- **Last, but by no means least....**

Brian will be putting a team together in September to play in the annual Faculty vs Society match.
The Society lost this annual match for the first time in 2011 and so we will be eager to return to winning ways. As is customary, places on the Society team will be offered to those who perform well in the Society outings during the year.

Best of luck to all from the Captain, Brian Connaughton.

Full details including online entry forms are available at: https://web.actuaries.ie/events

Annual Student Society Table Quiz

The Student Society held their annual table quiz in Diceys of Harcourt Street on Thursday the 9th February. This was a very well attended event with 12 teams competing for the top prize. The quiz master was the effervescent Ian O'Donnell, helped by his lovely assistants Eamon Comerford, Carol Gibbons and Rachel Gow.

Questions were varied, with rounds of 'ding-bats', baby pictures and guess the celebrity as well as a range of general knowledge questions. Questions which none of the 12 teams were able to answer correctly included 'What is the collective term for a group of eagles?' and 'In Autumn 2011, which 3 hour written actuarial exam had the least number of people sitting it?' Answers on a post card please, no googling…

A number of spot prizes were given out, to the team who could solve a puzzle of five simultaneous equations most quickly (proof Junior Cert maths can be useful!) and also for best team name.

Scores were very close throughout the 8 rounds with a number of teams in contention, but the winners, John Joyce, Sean Begley, Shane Prendergast, Gavin Coen and Simon McLoughlin, from Irish Life, edged into the lead with a final score of 64 points out of 80. There was, however, a tie for second place with 2 teams scoring 61 points. This was resolved with a tie breaker question on the number of steps in the Eiffel Tower. Second prize went to a team from Travelers and third prize to a mixed team from Milliman/Allianz

A great time was had by all and a big thank you to the members for coming and making it such an enjoyable night.

Rachel Gow

On the Move

Fellows:	**Michael Sharpe** has moved from Aviva to **R+V International**
	Angela McNally has moved from Aviva to **Deloitte**
	Ian Geary has moved from Willis Risk Services to **Quinn Healthcare**
	Paul Dillon has moved from Mercer to **Open Financial Services Ltd.**
Student:	**Anthony Lardner** has moved from Aviva **to MetLife**