



Society of Actuaries in Ireland

**SPEECH TO THE BIENNIAL DINNER
THE SOCIETY OF ACTUARIES IN IRELAND
THURSDAY 12 FEBRUARY 2015
DERMOT CORRY FSAI**

Guests, colleagues and friends

It is my great pleasure to welcome you to this Biennial Dinner on behalf of the Society of Actuaries in Ireland. I am particularly pleased that you, Minister, were able to be our guest of honour this evening and I look forward to your address.

This dinner comes towards the end of my two year term as President and it is an opportunity for us to thank the many people who have helped out the actuarial profession over the last two years. In particular, I welcome the representatives of the Government, regulators, and the members of industry and other professions who work with us on a daily basis in handling the various issues that concern the actuarial profession.

I would like to welcome Malcolm Campbell, President Elect of the International Actuarial Association. Thank you for travelling here to join us this evening. I would also like to recognise Philip Shier, who of course is a Past President of the Society, but is also here this evening in his role as Vice Chairperson of the Actuarial Association of Europe.

In addition, I would like to thank the many actuaries and non-actuaries here this evening, who have helped the profession during my term as President. Many of you have served on disciplinary bodies, chaired committees or working groups, served on Government/regulatory bodies or contributed to the profession at European and international levels. The Society does appreciate everybody's efforts here. Time does not permit me to welcome other guests individually but I hope you all have an enjoyable evening.

It has been a difficult few years for Ireland and, in particular, for those who have lost their jobs or otherwise face difficult personal circumstances. Thankfully, we now appear to have reached the end of the correction period and we will hopefully see growth continue in coming years. Congratulations to you, Minister, and to your Government colleagues for restoring some stability.

The crisis has had its impact on the areas where actuaries are active. I do not plan to detain you for long but I would like to make a few short comments. I will focus on change.

In the Insurance sector, we will see the introduction of Solvency II at the end of this year. This is a welcome development, since it brings a more risk-based approach to the management of insurance companies. Together with the governance changes that have been implemented by the Central Bank of Ireland in recent years, this will lead to stronger and better run insurers.

The involvement of actuaries in the newly created *Risk Function* strengthens the management of these companies while also expanding the range of roles available to actuaries. Substantial improvements have been made in the skillsets in these functions, with more to do in coming years.

An area of continued uncertainty is actuarial certification of liabilities after the introduction of Solvency II. We expect to engage with the Central Bank shortly on this topic. In light of the difficulties that have been seen in some of the non-life insurers in recent years, it is important that there is a strong actuary certifying liabilities and that there is clear accountability. We will engage positively with the Central Bank to put such an arrangement in place. We would like to have a structure of formal certification with appropriate practising certificates.

Change has also been a feature in the pensions area. Many schemes are still well below the funding standard. However, following the long-awaited changes to the priority order on wind-up, trustees and their actuarial advisers can at least now plan ahead with greater certainty.

The Pensions Authority has consulted on some initiatives to improve the ongoing financial management of defined benefit pension schemes. We responded to this consultation and we believe that it is a very positive initiative.

We welcome the removal of the pensions levy after this year and the establishment of the Pensions Council.

We also welcome the establishment by the Tánaiste of the Universal Retirement Savings Group. As the recovery gathers speed, it will be important to make efforts to improve pensions coverage. The Society believes that some form of mandatory retirement savings structure is most likely to be successful in this regard. This would need to be accompanied by initiatives to simplify the complex pensions legal structures. We submitted copies of our papers on these subjects to the Department of Social Protection and the Pensions Authority and we are happy to work with them as they develop these proposals further.

The State Pension will be the most important source of income for many in their retirement. We are concerned about the results of the most recent Actuarial Review of the State Pension, which shows that current contribution levels will not be

adequate to meet benefits over the long-term. We are currently commissioning research to assess the changes that would be required to different levers such as contributions, benefit levels, eligibility and retirement age to bring contributions and costs back into equilibrium. We believe that it is important that policymakers are aware of the choices that might be needed in this important area. Pensioners and those currently working should be able to plan with some degree of certainty about future State Pension expectations.

Change has also been in the air in health. We are all aware that proposals were made by the previous Minister for Health in the area of Universal Health Insurance. The Society sent a response to the consultation process. We welcome much of what is proposed, while recognising the many complex issues that would need to be resolved, including the need to have properly capitalised and managed insurers capable of taking on the additional insurance roles. We are available to assist the Department of Health and others as consideration of Universal Health Insurance continues.

A knock-on impact of the crisis has been the fall in interest rates. We now have interest rates at levels that have never been seen in Ireland in living memory. While this is welcome news for governments and borrowers, it is not at all welcome for savers or insurers. The extremely low level of long-term interest rates (remember Ireland borrowed 30 year money at 2.1% recently) means that the cost of saving for retirement has increased substantially. This will have implications for a range of stakeholders:

- Defined Benefit pension schemes;
- Members of Defined Contribution schemes, who may be surprised by the low pensions that their funds can purchase;
- The State, in terms of the unfunded liabilities for the State Pension and Public Service pensions. At current interest rates, the State's liabilities have increased substantially from the last published figures.

These low interest rates will also substantially increase the costs of claims under general insurance policies – particularly where catastrophic injuries arise. This will increase premium rates for these policies and indeed life assurance premiums will also increase as a result of low interest rates.

On a wider European stage, the extremely low interest rates could lead to questions about the sustainability of some of the Long Term Guarantee adjustments that were made to Solvency II. While these were well-meaning, there is a danger that the solvency position of insurers will be over-stated. Thankfully, this is not a very significant issue for Irish insurers, but it could become a problem in other countries. We have seen, from banking, the problems that can arise from an under-capitalised financial services industry. We do not need to see this again.

So, unfortunately, the positive of low interest rates for the wider economy will lead to challenges in insurance and pensions. Actuaries and policymakers need to continue to ensure continued solvency of pension funds and insurers.

To finish up, may I thank the Minister and all our guests for taking the time to join us this evening and to my colleagues on Council and other members of the Society for their support this evening and during my term of office. I would like to thank the Royal College of Physicians of Ireland for the use of this wonderful building for what I am sure will be an excellent meal. Finally, may I thank Mary Butler, our Director of Member Services, and her assistant, Catherine McBride, for all the work they have put in to making this evening a success.

Thank you for your attention and may I ask all my fellow actuaries to please stand with me while I propose a toast of welcome to our guests.

Dermot Corry