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# Society of Actuaries in Ireland NEWSLETTER

September 1995

I am delighted to take over responsibility for the newsletter at a time of much activity on the actuarial front both here in Ireland and internationally. Firstly, I would like to thank Brendan Kennedy and his team for their hard work establishing the newsletter.

At home we have completed a very active twelve months with both a Pensions and Life Seminar and eight evening meetings. Three of the meetings involved the presentation of papers produced by Working Parties of the Society. The large attendances at these meetings paid tribute to the authors of the papers. One such paper, 'Derivatives - Principles and Practices', has been awarded a prize by the Council of the Institute of Actuaries. On behalf of the Society, I extend congratulations to Rosalind Briggs, John Caslin, Patrick Healy, Colm O'Neill and Shane Whelan.

The programme of events for the coming year is currently being organised. A preliminary programme is included in this newsletter. Further details will be announced in future newsletters. Please note that the majority of evening meetings in 1996 will take place on Tuesdays rather than Wednesdays as was the case last year.

The most significant development of interest to Society members on the international front is the formation of the International Federation of Actuarial Associations. The IFAA will operate under the umbrella of the International Actuarial Association. Membership of the IAA is on an individual basis whereas actuarial associations form the membership of the IFAA. The principal objective of the IFAA will be the promotion across international boundaries of professional standards and education requirements for individual member associations. Jim Kehoe has played a prominent role in the foundation of the IFAA and has been nominated the Society's representative on the IFAA Committee by Council. A more detailed report on the IFAA will be included in the next newsletter.

Items for inclusion in the newsletter are always welcome. If you have anything which you think might be of interest to the Society, please contact me at Scottish Amicable International, 12 Lower Leeson Street, Dublin 2. Telephone 676 0747 Facsimile 676 0829.

**Marese Hussey**

## Newly Qualified

Congratulations to the seven new actuaries who qualified in Dublin last July.

Karl Alexander, Guardian Life

Joyce Brennan, Mercer Ltd.

David Coughlan, New Ireland

Anne Gaffey, Ark Life

Phelim O'Reilly, IPT

Michelle Roche, Lifetime

Mark Wharton, Friends Provident

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## Inside This Issue

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Loss Reserves

Derivatives - Legal Issues

Private Health Insurance

Calendar of Events

Golf Results

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## Loss Reserves in the London Market

Paul Duffy reports on the presentation by George Maher of his recent paper.

**T**his paper was first presented by George Maher to a sessional meeting of the Institute of Actuaries in March 1995, a great honour for George and the Society of Actuaries in Ireland.

Although the title of the paper referred to the London Market, the ensuing discussion, at a well attended meeting in the St. Stephen's Green Club, broadened out to embrace a very lively discussion on Loss Reserving in general. This was helped in no small way by Bill Hannan who was chairing his first meeting as the incoming President of the Society of Actuaries in Ireland.

(At the sumptuous repast [well done St. Stephen's Green Club !!] which followed the meeting, Bill once again disinterred the bones and revisited the triangular entrails of his ICI Reserving Tests, as part of the initiation rites for the General Insurance neophytes).

To return to the meeting proper, George began his presentation with an overview of how the London Market works, which was both educational and an eye-opener, if only for the considerable uncertainties that exist in this market when we are dealing with quality of data, payment patterns and even date of event. Claims can be notified 50 or 60 years after occurrence !

George then turned to the section titled Analysing Claims and gave a very lucid account of the typical reserving process, while emphasizing the need to understand what was going on and to test assumptions, rather than just rattle off some chain ladder calculations on auto-pilot. (This applies to all types of Loss

Reserving exercises, not merely the London Market).

The importance of using a number of different projection methods was stressed (Stochastic methods are not the bee-all and end-all), so that results can be compared and actuarial judgement honed and fine tuned prior to its exercise. The topics of adjustments for latent claims and calculation of tail factors were also covered in some depth. Throughout his presentation, the author showed some very interesting slides of data triangles and graphs, and more importantly, demonstrated how to interpret and use them correctly.

The meeting finally closed with a discussion of the links between Loss Reserving and Premium Rating and the consequent effects on the Balance Sheet. This was followed by a warm and generous vote of thanks to the author for a most enlightening paper and presentation.

### Postscript to the meeting and dinner:

Following the dinner and initiation rites, the author was escorted to the Dawson Lounge by David O'Connor (the former Artiste-in-Residence) and the usual General Insurance suspects, for the mandatory offering of libations to the gods.

## Derivatives: Legal issues for appointed actuaries

Section six of the paper "Derivatives: Principles and Practices" which was presented to the Society on 24th April 1995 discussed five main enforceability risks that appointed actuaries need to consider in relation to derivative contracts namely:

- \* contract formation (the statute of frauds)
- \* capacity
- \* netting of termination payments
- \* multibranch netting and
- \* legal enforceability of derivatives transactions

The paper drew the attention of appointed actuaries to doubts about the legal enforceability of netting in an examinership situation; the implications of the Statute of Frauds for derivative contracts negotiated over the phone but which have to be performed beyond one year and the danger that derivatives contracts could be deemed gambling contracts.

The Dail recently passed legislation which addresses some of the major legal issues discussed in the paper.

In the Netting of Financial Contracts Bill\*, 1995 *Subsection 4(1)(a)* provides certainty (by dis-applying any prohibitions which may exist in case law in bankruptcy, liquidation, examinership or receivership, or in the Companies Acts or the Bankruptcy Act, 1988) that netting is legally enforceable where a netting agreement exists.

Identical provisions are included in *Subsection 4(1)(b)* in relation to the enforceability of master netting agreements.

*Subsection 4(3)* dis-applies the provision in the Statute of Frauds, 1695, which obliges contracts with a duration of greater than one year to be committed to writing before being enforceable. This recognises the industry practice of screen-to-screen or telephone based trading and that such trading is often in relation to two and three year contracts. Such contracts will now be immediately enforceable.

*Subsection 4(4)* clarifies, for the avoidance of doubt, that financial contracts are excluded from the scope of the Gaming and Lotteries Acts, 1956 to 1986 and that they always were excluded.

If you would like more information on this topic contact John Caslin 283 1301.

\*As passed by the Dail.



## Private Health Insurance in Ireland

*Patrick Cosgrave reports on the presentation of the Healthcare Working Party's Paper.*

A full house was in attendance, including overseas members, VHI staff and representatives from the Department of Health to hear Aisling Kennedy give an excellent overview of the paper produced by the Healthcare Working Party on the new regulated market for private health insurance in Ireland.

The presentation started off by looking at healthcare financing and delivery systems in a number of countries and went on to consider the economics of healthcare and health insurance. Topics such as supplier induced demand and moral hazard were covered as was the background to moves towards managed care.

From an actuarial point of view health insurance is very distinctive, particularly in so far as it is one of the most short-tailed forms of non-life insurance. While many issues which are of a major concern to non-life companies are much less of a problem for health insurance, health insurers themselves face some particular problems of their own. The regulatory environment within which health insurers operate was explored including the differences between risk rating and community rating and the need to deal with adverse selection.

The implementation of the EU third directive on non-life insur-

ance from 1st July 1994 requires that the Irish Health Insurance market be opened to competition. However, the third directive allows a member state to protect the "general good" in health insurance by making special legal provisions which may include a requirement for open enrolment, rating on a uniform basis according to the type of contract and life time cover, along with the requirement for undertakings to offer standard contracts and to participate in loss compensation schemes. The Irish Government has made use of these powers under the Health Insurance Act 1994 in order to protect the community rating environment.

Much of the detail under the Health Insurance Act 1994 is in fact set out in five sets of regulations which are currently in draft form. Aisling briefly covered each of the regulations with the main one of interest from an actuarial point of view being the Risk Equalisation Regulations. The merits of retrospective and prospective risk equalisation systems were considered. The proposed system for Ireland which is retrospective was explained in detail.

The presentation concluded with an overview of developments in other markets for Health Insurance and some crystal ball gazing into the future for the Irish market in particular whether or not

competition will develop, whether community rating is sustainable or necessary and what will happen medical inflation in the future.

A lively debate followed the presentation which explored some of the topics in more detail including the interaction between public and private systems. It was noted that in excess of 60% of the private bed stock of the country is actually run by the public system. The debate was somewhat enlightened by numerous stories of nasty experiences on foreign trips abroad illustrating the need for health insurance.

Some speakers made reference to the need to develop long term care products and contrasted medical indemnity insurance with major medical and hospital cash plans.

Clearly this is an area where many developments can be expected in the near future, not least from competition arising from both new entrants to the market and product developments in related areas. The meeting overshot its closing time and had to end well before debate on the paper was exhausted.



### Calendar of Events

Full details of each meeting will be circulated to members beforehand.

Tuesday 26th September 1995	Evening Meeting: Address by the President of the Society of Actuaries in Ireland, William M. Hannan
Wednesday 4th October 1995	Pensions Workshop: Review of the Funding Standard
Wednesday 25th October 1995	Evening Meeting: "Fund Management Risk Control" Daniel Gardner & Peter Rains
Thursday 9th November 1995	Evening Meeting: "Life Assurance Financial Reporting"
Thursday 23rd November 1995	Pensions Seminar: "The Ageing Population - An Actuarial Perspective"
Wednesday 29th November 1995	Life Seminar (provisional)
Tuesday 16th January 1996	Address by the President of the Institute of Actuaries, Chris Daykin
Tuesday 20th February 1996	Pension Fund Investment - Pat Healy



### SAI Golf Society

The Golf Society's Annual Outing was held on 26th June in Edmondstown G.C. The weather was beautiful - this was early in the Summer and we did not realise it would stay that way for months - and contributed towards a very enjoyable event.

While the scoring was not spectacular (in the time-honoured tradition of the Society) there was a closely-bunched group in contention. The worthy winner, with 36 points off a 17 handicap, emerged in the form of Pat McGorrian who was enjoying the benefit of home advantage. Runner up on 35 points was Donal Casey playing off a 5 handicap.

The intricate democratic procedures of the Golf Society (i.e. the noble call) resulted in John McCarthy's selection as captain for 1996.

A significant legacy of the day was an offer from Piers Segrave-Daly to provide a trophy for an annual matchplay competition. Piers' generous suggestion (which it should be recorded, was made before a cork was drawn) was met with general acclamation, and the idea is to run the matchplay over the Autumn/Spring so that the winner can be announced at the 1996 outing.

- *John Devine, 1995 Captain*

### Handbook Update

The first update to the Member's Handbook will be circulated to all members shortly.



Mary Cahill has left Irish Life to join Alexander Clay & Partners



*Would any member interested in forming a tennis society please contact Mary Butler at the Society's office.*