Society of Actuaries in Ireland **NEWSLETTER**

December 1993

"Alternative Careers for Actuaries"

The Student Society - Annual General Meeting was held in Buswells Hotel on Tuesday 23rd November 1993. An invited panel of speakers talked about possible Alternative Careers for Actuaries to a packed audience.

Jim Kehoe, President of the Society, made the introductory speech. He emphasised the positive potential of all the student actuaries present, as they were all young, intelligent and highly skilled. He suggested that trainee actuaries may have to be prepared to accept wider salary bands than at present, but that they could all aspire to higher salaries as they made their mark. He stressed that it is up to current qualified actuaries to open new doors, and that he was personally suggesting to General Insurance Companies that they should take in student actuaries so that they can grow their own future skilled actuaries.

Pat Healy of Riada Stockbrokers outlined the career path that led him into stockbroking. He explained that his actuarial training gave him credibility within his Company and with clients. He agreed with Jim Kehoe that actuarial students must be prepared to go in at lower salaries and develop their own potential.

Pramit Ghose of Friends Provident also outlined his career parth, from Trinity Maths graduate to Investment Manager. He felt that numerical ability was essential and that the actuarial training was very useful when dealing with the Company Actuary, or a Pension Actuary on investment strategy. Pramit felt that actuaries were particularly well qualified to deal with Financial Futures and Options and models for Investment Strategy.

Pat Ryan, in Treasury Management with the AIB Group, explained how he became a 'late vocation' to the actuarial profession. He felt that in the actuary's case, dealing with the time value of money was a unique skill and was of great help in setting investment strategy and matching it to the investment requirements. He also stated that actuarial training can be a tremendous passport to involvement in other areas, such as Capital Project Evaluation and Risk Evaluation. Pat explained that the Banks will probably not advertise for actuaries and that the students may have to apply through other channels (e.g. as economists).

Donna O'Connnor of High Skills Pool (who places graduates overseas) outlined the importance of the CV especially when applying for jobs outside traditional areas. She stressed that many potential employers will not know what an actuary is and the CV must outline the skills that apply to that employer.

The final act of the evening was the election of the new student committee.

Congratulations to:

Imelda Finn, Gwen Hollingsworth, Sinead Lane, Jim Murphy, Ronnie O'Toole

Subscriptions - Retired Members

Council has decided to allow a reduced rate of subscription, upon application, for retired members, i.e. members aged 55 or over who have permanently retired from regular employment or practice. Council may at its discretion extend this concession to other members where special circumstances arise and, in particular, to members who retire before age 55 on grounds of ill-health, and the concession may be extended to members aged 70 or over whether or not they have retired from regular employment or practice. Members who wish to avail of these concessions should apply in writing to the Secretary of the Society. The rate applicable for the subscription year 1993/94 will be £15 (plus £10 should the member wish to receive the Society's Handbook and a further £11.50 should the member wish to continue membership of the IAA).

Unit Pricing and Equity in the Management of Life Assurance Unit Funds

Proposed change to GN1

GN1 is at present identical to that of the Faculty/Institute. The Working Party recommended that GN1 be modified by the inclusion of the following at the end of 3.3:

'For with-profits business the bonus rates declared by the company are fundamental to policyholders' reasonable expectations and the issues that the Appointed Actuary must take account of in this regard are set out in 8.3. For unit-linked business the prices used to allocate units to policies and to cancel units from policies and the processes by which, and the prices at which new units are created and existing units are cancelled in unit funds are fundamental to policyholders' reasonable expectations. Accordingly, the Appointed Actuary must satisfy himself that:

(i) the prices at which units are allocated to policies and at which units are cancelled from policies are determined in a manner that is equitable to the policyholders involved; and

(ii) (a) where units are being created in a unit fund, the prices at which such units are created are equitable to the continuing policyholders linked to that fund; and

(b) where units are being cancelled in a unit fund, the prices at which such units are cancelled are equitable to the continuing policyholders linked to that fund.

For these purposes, the Appointed Actuary will have regard to the value of the assets of the unit fund, the tax position of the unit fund and any matters he considers relevant.'

Brendan Kennedy reports on the Unit Pricing Working Party's paper presented on 18th November.

Bill Hannan, as Chairman of the Life Committee, summarised the main points of the paper. He highlighted the central propositions of the paper as follows:

* the management and pricing of unit funds, and the unit creation and cancellation processes are fundamental to the realisation of Policyholders' Reasonable Expectations.

* it is the responsibility of the Appointed Actuary to take all reasonable steps to ensure that the management of the funds will be done in a manner which meets these expectations.

The committee proposes a change to GN1 to cover these responsibilities. This is felt to be necessary, as an estimated 75%/80% of Irish annual premium life office business is unit linked. The absence to date of specific regulation of unit funds in comparison to unit trusts is because of the existence of the Appinted Actuary.

The primary challenge is to maintain equity among entering, exiting and continuing unitholders. This could be achieved by what was called 'Continuous Equity', which would involve pricing on unit trust principles. The alternative, called 'Smoothed Equity' involves smoothing out the effects of short term variations in fund flows to avoid volatility in prices. As this latter approach is more difficult most of the paper was concerned with the problems involved.

If Smoothed Equity pricing is used, it is necessary to prevent selection by groups of policyholders. The paper suggested that maturities, deaths and surrenders would not involve selection, but fund switching, especially 'wholesale' or bulk switching would, and therefore should not benefit from smoothed pricing.

On investment issues, the paper said that the company should never benefit from inter-fund asset sales: the price paid by the purchasing fund should never be more than the price received by the selling fund. Illiquid funds should always finance fund cancellations from asset sales and not from borrowings. The restriction on immediate encashment in some illiquid funds may not therefore be enough. Managed or holding funds should never be used to support the liquidity of specialist funds by buying up excess units.

Bill's presentation was followed by a lengthy discussion. However there was little disagreement with the thrust of the paper and the principles set out. Among the points made were:

* Part of the difficulty with unit pricing and changing bases results from the belief by policyholders that the difference between the published offer and bid prices on a given basis represents the difference between creation and cancellation price. Some speakers believed that the problems of Smoothed Equity pricing resulted from the effort to avoid this issue. Others maintained that the problems would exist in any case.

* Unit cancellations can be funded from fund liquidity and from investment income. However, with a fund's normal turnover of assets, it can be difficult to get a handle on the liquidity level.

* Illiquid assets are unsuitable for unit funds, as the policyholder expects to be able to realise unit values immediately. Maintaining liquidity within such a fund to meet outflows may not meet the expectations of continuing unitholders.

* The use of smoothed prices avoids the problems of dealing with the windfall difference between creation and cancellation price that arises with Continuous Equity pricing.

Copies of the paper are available from the Society.

Update

IIF Life Remuneration Agreement

The Irish Insurance Federation and the Irish Brokers Association have negotiated a new Remuneration Agreement which comes into effect on 1st January 1994. Many life offices will change their contracts/premium rates from this date. Policies taken out prior to 1st January 1994 will continue to follow the rules of the previous agreement (i.e. no change in renewal commission or initial commission on increments). The position in relation to pension schemes is to be clarified.

* The agreement now distinguishes between savings and protection policies. The purpose must be specified on the proposal form. In addition there will be a requirement for a question/statement on the proposal form to establish the specified savings term for a savings policy.
* The maximum initial commission accrual rate is to be set at 3% for whole-of-life, endowment, self employed and pensions policies.
* The maximum renewal commission rate is increasing to 3% for all policies.
* On pension policies the premium payment term taken into account in the initial commission formula is being limited to 66 (age next birthday) unless the policyholder chooses a retirement age greater than 65.
* The commission rate for pension business lump sums excluding annuities is increased to 3.5% and the rate for annuities is to be set at 1.5%.
* New Annual Premium Commission rules are as follows:

AP Plans	Initial Commission	Renewal Commission	Comments
Savings Policies	3%*n, max 60%	3%	n is specified
Protection Policies	3%*n, max 90%	3%	n is premium payment term
Term Assurances	10%*n, max 90%	3%	
Individual PHI	10%*n, max 90%	3%	
Self-Employed	3%*n, max 60%	3%	n is premium payment term but may be limited
Pensions Business	3%*n, max 60%	3%	n is premium payment term but may be limited

Please refer to the agreement itself for detailed definitions and provisions; the above is only a summary of the major changes.

Cooling Off Notices

The code of practice on Cooling Off Notices has been extended to cover all policies except pension policies and Industrial Branch policies. The Code specifies the minimum information that must be in the notice for savings, protection and term policies. In particular, it highlights the specified savings term.

Society of Actuaries Investment Committee

Members: **John Feely (Chairman), Ros Briggs, Pramit Ghose, Pat Healy, Brendan Johnston, Margaret Keane, Michael Marsh, Sean O'Donovan, Colm O'Neill**

The Society of Actuaries Investment Committee was convened during the summer months. The main aims of the Committee are to consider investment issues of particular relevance to the profession and to develop the role of actuaries in the investment area.

In view of the wide range of investment topics which were put forward for consideration by the Committee, it was decided to organise the Committee into three working groups. The topics which are being examined by the three groups are:

* The use of the Wilkie model in an Irish context

* Asset liability management/Asset valuation

* Statistical analysis of market information

The Committee intends to report on these topics during 1994.

Win for Watsons!

The second Woodchester Corporate Challenge (in aid of the Barnardos National Childrens Resource Centre in Dublin), was opened by the Minister for Finance, Mr. Bertie Ahern T.D., in the Shelbourne Hotel, Dublin on Wednesday 10th November.

Thirty top Irish companies entered teams of four in this unique audio-visual quiz, with each team also having a celebrity player drawn from politics, radio, television, and fashion.

After no less than three tie-breaks, Watsons (Dublin) emerged as very popular winners, and Barnardos received £30,000 to go towards funding the Centre's running costs.

The Watsons Team was:

Joseph O'Dea (Captain)
Derek Hunter
Keith Burns
Noel Collins
Martin Fitzpatrick (Business Editor of the Sunday Independent)

Congratulations!

Maura Keaveney
Maura has left Irish Life to become Pensions Consultant with SKC

Ann O'Gorman
Ann is currently planning a Round-the-World tour, taking a career break from Lifetime.

Calendar

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

12th January 1994	Maurice Whyms: 'Practical Applications of FAS87'
February 1994	Life Assurance Seminar
8th March 1994	Address by John Martin
25th March 1994	General Insurance Seminar
13th April 1994	Colm Fagan: 'Bancassurance'
6th May 1994	Annual Dinner
25th May 1994	AGM, followed by a meeting on Financial Reinsurance
30th May 1994	Golf Outing

Further meetings may yet be added to this list.

The Members of the Communications Committee are:
Anthony Brennan Grainne Kane Brendan Kennedy Joe Kennedy Bryan O'Connor
Please contact any of these if you have anything you would like included in the Newsletter.