

An Actuary in Government

Having been attached to the Department of Enterprise and Employment (formerly Department of Industry and Commerce) now for about two years, the Newsletter felt that I might be in a position to say something useful (and brief) about actuarial work in a Government Department context. Although a professional 'grade' of Actuary has not existed in the Civil Service (in contrast to the Accountant 'grades' which have been in existence for some time), it is interesting to recall that one of the first actuaries to qualify in Ireland was a Civil Servant, the late Liam Honohan, then in the Department of Finance and later Secretary of the Department of Social Welfare. Liam gave actuarial advice to Government Departments over a long period on a sporadic basis - I remember that he did the first actuarial valuation of Post Office pension liabilities - and he was kind enough to sponsor my own application as an actuarial student (and to arrange for an equally eminent colleague, Bob Willis, to join him in doing so).

I am attached to the Insurance Division of the Department which deals with the general supervision of the insurance industry. While I have had some involvement with the non-life side, my work so far has been mainly on life assurance. The annual returns submitted in accordance with the Insurance Acts and Regulations form the main basis for the prudential supervision of life companies. These returns are reviewed in the Division for conformity with regulations and are also considered dynamically, i.e. for what they reveal about business and financial trends in a company and about its developing financial profile. In my own input, I would, of course, pay special attention to actuarial aspects and, in particular, to the Appointed Actuary's report. Arising from these reviews, there are invariably requests for clarification and/or further information to be directed to companies which, in turn, can lead to face-to-face discussions with company managements. An innovation which we are planning at present is a system of in-house visits to two or three companies each year for the purpose of a more in-depth review of operations and plans with senior management - one can expect that the Appointed Actuary will figure very largely in these reviews.

Fin Re

Life & General Seminars

Bancassurance

Year Book

New Council

Another category of work is that arising from applications for authorisation of new life companies. As part of the process of ensuring the integrity of our insurance market, these applications are examined quite exhaustively and, again, I would pay particular attention to the technical aspects. The development of the International Financial Services Centre has led to a substantial increase in this category of work in recent times.

Apart from these recurring elements of life assurance work, I would be consulted by the Division on particular actuarial matters as they arise, e.g. in relation to new products, transfers of business, reserving and solvency issues, etc. A major preoccupation in recent times has been the implementation of the third generation EU Life Directive. The provisions of the Directive have required quite a major revision of our own regulations and I have had a large input to this, especially as to technical aspects.

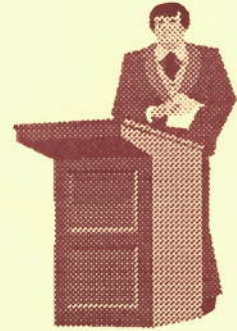
On the non-life side, my main involvements so far have been in relation to financial reinsurance issues and on the implementation of the Third Non-Life Directive. I am also sitting on a Department of Health steering group which is engaged, with consultancy assistance, on preparing regulations to implement a new regime of health insurance consequent on the EU Insurance Directives.

As part of my work, I think it important to maintain continuing contact with the Society, primarily through its Life Committee, and also with Appointed Actuaries individually. Indeed, I am particularly appreciative of the support which has been so readily forthcoming from the profession and from professional colleagues. The profile of the profession in the public service has been greatly enhanced in recent years by its involvement in the development of the new regulatory regime for pensions and, specifically, with the National Pensions Board. The new insurance regulations will place additional responsibilities on actuaries and give legislative recognition to the Society of Actuaries as the actuarial professional body in Ireland. So, it is quite an interesting and rewarding time to be an actuary in Government.

J. Joyce

Life Assurance Seminar

Capital in Life Assurance Companies



On Thursday 28 April, the Life Committee organised a very successful half-day seminar on Capital in Life Assurance Companies in University Industry Centre, Belfield.

Jointly chaired by **Jim Kehoe** and **Bruce Maxwell**, it was opened by Seamus Brennan TD, Minister for Commerce and Technology, and attended by over one hundred people from various professions connected with the insurance industry.

Seamus Brennan TD spoke of the major contribution to employment and taxation that the insurance industry makes; something that is often ignored, he admitted. His aim was to keep the industry as self-regulated as possible, and thus promote further growth. He also mentioned the success of the IFSC and its importance to the economy since it was opened.

Bill Hannan opened with an 'Overview of the capital needs of life assurance companies',

'Profitability and Solvency' was the theme of the seminar held at the Conrad Hotel on Friday 25 March. This was the Society's first Non-Life seminar since 1990 and was opened by Ms. Eithne Fitzgerald, Minister of State at the Department of Finance. The General Insurance committee deserves special praise for attracting speakers from both home and abroad to develop the theme.

Mr. Nigel Gillott, Watsons, Chairman of the Institute of Actuaries General Insurance Study Group predicted that Irish consumers are set to benefit from lower motor insurance premiums as a result of the emergence of Direct Writers in the Irish insurance market.

'Direct Writers in the UK have obtained a phenomenal increase in their share of the Private Motor Market. It now stands at 20 per cent and some expect it to rise to nearly 40 per cent over the next year', Mr. Gillott said.

'By cutting out intermediaries and middlemen, Direct Writers are able to charge lower premiums. Advanced statistical and computer technology that can price motor risks accurately and the higher retention rates of Direct Writers compared to traditional insurers have been the primary reasons to explain the success of Direct Writers', Mr. Gillott added.

touching on the probability of ruin, and the concept of prudence, as well as touching on Regulation, Expenses and Taxation.

Chand Kohli of Price Waterhouse then gave us another view of capital when he compared the regulatory capital requirements of life assurance companies with other financial institutions.

Next **Desmond Le Gry**s of Munich Re walked us through the effects of recent tax changes on capital requirements, using some profit testing output, and went on to question how shareholders' capital should be used, comparing the insurance industry to other businesses where working capital would be financed by borrowings rather than by the shareholders.

After coffee, **Jim Joyce**, Government Actuary, gave us a regulatory perspective on capital adequacy in life assurance. Jim went through the objectives of regulation as well as looking

at the effect of the EC and international developments like Dynamic Solvency testing, alternatives to Net Premium Valuations etc.

The final speaker was **Shyam Mehta** of Tillinghast, who looked at 3 aspects: business and regulatory influences on the required levels of solvency capital, how to calculate capital requirements in practice, and examining the need for capital from the viewpoint of the value that it generates.

A panel discussion followed with some interesting points from the floor, after which Bruce Maxwell summarised what was a very interesting afternoon.

All papers from the Seminar are available from the Society office.

General Insurance Seminar

Mr. Gillott argued that while all is not doom and gloom for traditional motor insurers and brokers, Direct Writers are here to stay and prosper.

Looking at the area of solvency and capital requirements, **Ms. Irene Bass**, President of the Casualty Actuarial Society of the U.S.A. said recent U.S. experience would suggest that regulators in Ireland are using out-dated methods and tools in assessing the solvency of insurance companies.

The corner stone of regulatory solvency supervision in Europe over the past 30 years has been the relationship of Net Assets to Premium Income - the Solvency Margin. This was developed when Non-Life Insurance was a much simpler business than it is today', Ms. Bass said.

Risk Based Capital (RBC) has developed as a regulatory solvency supervision method in the U.S. as a result of the failure of the Solvency Margin approach to prevent a number of large insurance insolvencies in the 1980's. U.S. regulators see this as a more sophisticated tool to identify problem companies. The

strength of RBC is that it relates a company's capital requirements to the riskiness of the company's business', she added.

Ms. Bass said that U.S. insurance regulators are convinced that RBC is a major advance in the task of identifying and preventing insurance insolvencies and failures.

Mr. David O'Connor, Group Actuary of AGF Irish Life Holdings detailed the performance of the Non-Life market in Ireland over the past 13 years, showing, in particular, that liability business has been consistently unprofitable for the market as a whole.

Mr. Edward Shaw, Managing Director of Hibernian Insurance, gave a paper on the future direction of the Non-Life industry in Ireland. In it he stressed the role of Irish society as a whole in controlling and moderating the incidence and quantum of claim costs, which is a necessary prerequisite to reducing insurance premiums.

This concluded what was a very interesting day for all those who attended.

Bancassurance

Colm Fagan's paper on bancassurance was formally presented to the Society on the evening of 13 April 1994. It was a measure both of the topical nature of the paper and of Colm's own reputation that the room was full to overflowing and that the audience included quite a number of non-actuaries.

The paper itself is readable, informative and thought-provoking. It explains bancassurance in the Irish context by dealing with its genealogy, the strategies followed, sales and profit performance, issues arising and the future.

As the paper had been circulated to members beforehand, Colm chose not to read it out verbatim but to selectively comment on areas where he thought some clarification was helpful. Having done this, he looked for comments from the floor and a lively discussion followed. The areas covered included the following:

- The future of the Irish market as we know it. It was recognised that bancassurers will in future provide an even stronger challenge to the longer established players. It is up to them to respond by becoming more customer orientated.
- Bancassurers have not undercut the market to any significant degree despite claims that they get much higher productivity per sales person. It was pointed out that there has been a significant investment in training the sales staff so that they sell products to meet customer needs. While not squeezing margins, this may bring rewards in years to come.

- The possibility of cultural differences between banking and insurance personnel. It was generally felt that bankers are more devoted to establishing long term customer relationships. Insurance people have mixed feelings in this regard, most profits arising in the early years of a policy and more persistent business usually qualifying for greater bonuses.
- The difficulty of allocating expense margins between the life operation and

other activities and the resultant difficulty in establishing life profits. The strain that this can put on relations between the different operations within the group.

In summary, there was a feeling that while the performance so far of bancassurers in Ireland has been very good, future success will depend on the successful resolution of many complex issues. Further debate was adjourned to the dinner table.

Fin Re

A well attended meeting on Financial Reinsurance followed the Society AGM on 25th May 1994. Jim Kehoe introduced two of the three co-authors of the paper on Financial Reinsurance, Norman Peard and Alex Cowley, and passed on the apologies of the third co-author Paul Brett.

Norman Peard gave a short introduction and defined Financial reinsurance as reinsurance that is motivated by financial as well as risk transfer goals. He also defined the concepts of Original Terms and Deficit Financing reinsurance and described Modified Co-Insurance as Original Terms with the statutory reserves being deposited back with the direct writer. Original Terms was seen as most suitable for traditional Non-Profit business and the more flexible Deficit Finance was considered better for With-profit or Unit-Linked business.

Alex Cowley then summarised Surplus Relief Risk Transfer and Underwriting of deals. Surplus Relief allows the direct writer to accelerate the recognition of future profits on a block of in-force business. The direct writer reinsures the block of business for a consideration less than the equivalent statutory reserve and the reinsurer is entitled to a charge against any future profits that emerge on the reinsured business. Alex explained that any valid financial reinsurance must involve genuine risk transfer from the direct writer to the reinsurer, as otherwise the deal would be simply a loan. The financial status of the direct writer is

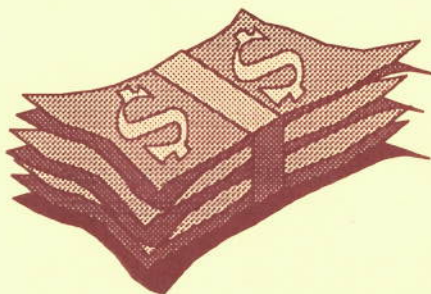
essential when considering the underwriting of Financial Reinsurance deals and the robustness of the business being reinsured under different scenarios must also be considered. Reinsurers are normally happy to take mortality and lapsation risks but are not usually keen on investment or expense risks.

Norman Peard concluded the presentation with the following points:

The paper was intended as a basic introduction to a very broad area. Financial Reinsurance offers increased financial flexibility, dealing with people who understand the underlying business. Financial Reinsurance is a powerful tool that needs to be used carefully.

The presentation was then followed by a lively discussion. Among the points made were:

- Recent tax changes and the possible implications of the 3rd Life Directive may increase the need for Financial Reinsurance.
- The need for full disclosure of all reinsurance deals in the 4th Schedule of the DEE Returns.
- Reinsurer normally has a limited 'upside' on the deal.
- Different tax regimes offer the possibility of arbitrage.
- Reinsurers are not providing equity type capital, they are providing capital at a low charge for a low risk.
- Professional discussion and increased openness in deals will be required to improve the image of Financial Reinsurance.



Council for 1994/95

The Society's AGM was held on Wednesday 25th May 1994 prior to the paper on Fin Re. Three members were elected to Council, four were co-opted at the first meeting and the secretary appointed. Allowing for those whose terms had not expired, the membership of Council is now as follows:

President:	Jim Kehoe
Vice-President:	Bill Hannan
Secretary:	Yvonne Lynch
Council:	John Caslin
	Frank Downey
	Jimmy Doyle
	Marese Hussey
	Brendan Johnston
	Brendan Kennedy
	John Lyons
	Bruce Maxwell
	Des Ryan

The Chairpersons of the various committees are as follows:

Communications:	Brendan Kennedy	0044 71 4861165
Constitution:	Bill Hannan	661 1922
CPD:	Paul Kelly	661 6448
Education:	Frank Downey	280 0257
Employment:	Jim Kehoe	478 2866
Finance:	John Lyons	283 2377
Functions:	Yvonne Lynch	668 1199
General Insurance:	Jimmy Doyle	667 0288
International:	Bruce Maxwell	704 2606
	& Jim Kehoe	478 2866
Life Assurance:	Bruce Maxwell	704 2606
Pensions:	Des Ryan	478 2866
Student Liaison:	Brendan Johnston	283 1301

Why are Irish Life 'over the moon'?

Irish Life recently regained the title of actuarial indoor-soccer champions after a gap of two years. The tournament itself drew six teams to TCD on 13 March and matches were played on a round-robin basis. As usual, the matches were keenly contested but referee Ronnie O'Toole was required to flash his red card only once. The last match was between the two leading teams, Irish Life and Hibernian B. Irish Life proved to be stronger, emerging victorious by a score of 2-1.

Congratulations to David Harney, Ray Leonard, Liam Davis, Derek Ryan and Michael Frazer.

Computer Problems

The Society's database on member data recently became corrupt and some data was lost. If you or your colleagues are experiencing any difficulty with receipt of communications then please contact Camilla McAleese at the Society.

3 May 1994

To: Pension Scheme Actuaries

Concern has been expressed both by the Pensions Board and the Society of Actuaries with regard to the delay in the completion of Actuarial Funding Certificates.

The Pensions Board is currently writing to Consultants/Insurance Companies with regard to those cases where certificates have not yet been supplied.

The Pensions Committee of the Society of Actuaries asks Pensions Actuaries to co-operate with the Pensions Board and do their utmost to ascertain if certificates are outstanding and to have these finalised as soon as possible.

Brendan Johnston
Pensions Committee

Year Book

Production of the Year Book has proved to be a more time-consuming exercise than originally expected. It is now at the stage of final typesetting and will shortly be sent to the printers. All going well, it is hoped to send it to members over the Summer.

Continuing Professional Development

The committee set up under Paul Kelly to consider this important topic has presented a report and recommendations to Council. The incoming Council will examine and act on the report as soon as possible.