

Annual General Meeting

The Annual General Meeting of the Society was held on Wednesday 24th June. Thirty nine members attended, which is probably a record. This was due to George Maher's paper on Claims Reserving in the Lloyd's market, which was held immediately afterwards, rather than the excitement of the AGM.

After two extraordinarily active years as president, Jim Kehoe handed over the chain of office to Bill Hannan. Bill and other speakers paid tribute to the commitment and energy that Jim brought to the post, and to his many achievements over a period that will be seen as a turning point in the history of the Society. Bill will deliver his own presidential address in September.

At the meeting, Yvonne Lynch finally ended three years of hard work, first as Honorary Secretary, and then for the last year as Secretary. Brendan Johnston also resigned as an elected Council member one year into his two year term, because of IAPF commitments.

The following posts were filled without contest at the meeting:

Vice President: Bruce Maxwell

Honorary Secretary: Des Ryan

Elected to Council: Pat Healy; Marese Hussey; Maurice Whyms

At the meeting, John Lyons presented the annual results of the Society. The deficit that arose during 1993/1994 will result in a review of meeting charges and annual subscriptions by the incoming Council. Jim Kehoe told the meeting that he had opened discussions with the Faculty and Institute regarding possible reductions to the subscription for Irish members, in the light of the many responsibilities which had now been taken over by the Society. Central to these discussions is the desire to preserve the 'home' status of Irish members.

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New Council

At the June 1st Council meeting, Brian Huston, Tony Jeffery, Aisling Kennedy, and Yvonne Lynch were coopted as additional members. John Caslin and John Lyons have a year remaining of their elected term. As immediate Past President, Jim Kehoe is also a member of Council.

Chairmen of the various committees for 1995/1996 are as follows:

Commun.: Marese Hussey
Constitution: Bill Hannan
Education/Students/CPD: John Caslin and Maurice Whyms
Employment: Jim Kehoe
Finance: John Lyons
Functions: Yvonne Lynch
General Ins.: Brian Huston
Investments: Pat Healy
International: Jim Kehoe
Health Ins.: Aisling Kennedy
Life Ins.: Tony Jeffery
Pensions: Des Ryan

Valuation Regulations Correction

There was a slight error in the item on the 1994 Valuations Regulations in the last newsletter. Under the new regulations, the Appointed Actuary will be required to certify the adequacy of premium rates on an ongoing basis, rather than in respect of the business written over the previous year.

Unit Pricing

Members may have heard that the financial advice organisation called TIPS has released a report on Unit Linked Savings Plans. In that report criticism is made of the unit pricing process in Ireland and quotes were made from the Society of Actuaries in Ireland Working Party on Unit Pricing Report.

Members should be aware that quotations drawn from the report are selective and could create an inaccurate picture of the message of the report. Furthermore, the conclusion in the TIPS report that unit pricing is not regulated is incorrect.

Unit Pricing is covered by GN1 (ROI). Actuaries working in this area should ensure that they are familiar with the Guidance on unit pricing. Appointed Actuaries will, of course, have to certify to the DEE that the Guidance Notes have been complied with.

Preferred Lives

Ian Veitch on the presentation by Martin Werth of his recent paper.

Preferred Lives covers a wide range of approaches aimed at dividing applicants into higher and lower risk groups. The lower risk group is the preferred group. The approach can extend from simple methods (smoker/non-smoker rates) to more complex means of differentiating risks. By recognising mortality differences, cross-subsidies can be reduced and greater equity among risk groups can be achieved.

It was emphasised that this was not 'cherry-picking' of the best lives. Lives that did not qualify for the lowest rates would still be covered, but at a price that reflected their risk.

The author then detailed what criteria might be appropriate to a better approach to classifying risks. A minimum requirement would be that any risk factor used would have to be easy to explain, easy to measure, verifiable and should be relatively stable over time. The criteria should also allow for sufficient lives to qualify for the preferred rates. It was felt that at least 25% of applicants should qualify for preferred rates to make the concept viable. At the other extreme, if too many qualified, little would be gained in terms of value. The author suggested a maximum figure of around 50% of lives qualifying for the preferred group.

Consideration was given to some of the possible risk criteria, such as smoker/non-smoker, occupation, marital status, family history, alcohol consumption, blood pressure. A wide body of evidence was given showing how much mortality varied among different risk groups.

The use of some factors might cause potential problems for 'political' reasons. In particular, requiring information on race or social class, or asking applicants to undergo genetic testing might not be acceptable to the public. It was, however, pointed out that attitudes may change: while there was now no problem in asking about blood pressure, it had been considered unacceptable when first introduced.

It was also questioned if the approach was not overly scientific. Different actuaries were using different mortality tables for product pricing. If there was no clear agreement on what the basic mortality should be, then there were questions over how accurate any adjustments would be. The concept is still in its early stages, and it will be some time before sufficient evidence exists on actual experience.

The preferred lives concept is already well established in the USA. It is likely to become more common in Ireland over the next few years. This has implications for all companies, as those not using the approach may find the better lives going elsewhere. The paper is therefore timely, and provided plenty of food for thought.

Derivatives

Pramit Ghose reports on the presentation of the Society Working Party's paper.

Despite the excellent weather, your local golf course was unlikely to be as packed as the meeting in the St. Stephens Green Club for this interesting topic.

Rosalind Briggs, Chairman of the Society's Investment Committee started the evening off by giving a review of the excellent paper produced by the Committee. Her talk covered topics such as examples of use of derivatives in investment management, the usage of derivatives by life offices and a quick discussion of the regulations involved. She then went on to give the results of a survey where the Committee had sought information from both life offices and pension funds. The general response seemed to indicate that the use of derivatives was still at a very early and limited stage. Interestingly, the pension survey indicated that pension consultants were more confident about the future use of derivatives than the investment managers.

Rosalind finished her presentation by discussing is-

sués that are being currently looked at by practitioners and regulators, such as taxation, legal issues, accounting and reporting requirements and credit risk management.

A very lively question and answer session then ensued. Among the many points raised were the following:

- Put options are in general too expensive for ongoing life office protection. Furthermore, there is no control training in place for actuaries, and guidelines should be developed for appointed actuaries.
- The explosion in the use of derivatives was likened to the mushrooming of call margins before the 1929 stock market crash, and the possibility was raised as to whether such a crash could happen again if everyone tried to get out at the same time. The panel responded to this by pointing out that most of the sophisticated derivatives users nowadays have very sophisticated models and keep an eye

on risks to minimise the possibility of such an outcome.

- It was suggested that the low expenses involved in using derivatives make them an ideal means for small funds to invest in overseas markets. In response to the general question of why derivatives were not used more widely was the belief that senior managers and trustees don't trust derivatives as investment instruments especially in the wake of the Barings fiasco.
- One speaker felt that those involved in taking derivatives risks were making money vis-à-vis those investors who trade only in the more widely used investment areas.

Due to time constraints, the meeting had to end before all questions and comments had been raised. The main message that I came away from the meeting with was that derivatives was an investment area that we would be hearing a lot more about in the future.

On the Move



In the last issue, we said that **Catherine Redmond** had moved to IPT. In actual fact, she moved from Irish Life to Canada Life.

Fergal O'Shea left Eagle Star to join Tillinghast in London.

Elaine Fennessy has joined Friends Provident from Irish Life.

Paul McCarron has joined Coopers & Lybrand from the U.K.

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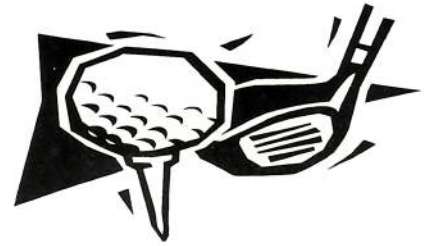
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New Editor

This is my last issue of the Society's newsletter, with which I have been involved with for three years, and almost all of which I enjoyed. My part has been chiefly to persuade others to do the real work, and many thanks to everyone who so willingly helped. Chief among them were Joe Kennedy, Bryan O'Connor and Anthony Brennan. Especial thanks to Margot Lawlor, who designed and set every issue since we began, and who is now also retiring.

Future issues will be the responsibility of Marese Hussey. She can be contacted in Scottish Amicable International, 12 Lower Leeson Street, Dublin 2. Her phone number is 676 0747.

Brendan Kennedy



The Society of Actuaries in Ireland's annual golf tournament will be held on Monday, the 26th of June in Edmondstown Golf Club, Rathfarnham. All are welcome, and even if you don't play golf, come along for the dinner afterwards.

Further details can be obtained from John Devine, telephone 478 2866.

Summer Holidays

The Society offices will be closed from 3rd July to 14th July inclusive. If you need to contact the Society during this time, please call Yvonne Lynch.



The annual update of the Handbook is now being prepared. Almost two hundred members submitted revised membership details, and you are asked to be patient while these are updated. If you have not yet informed Mary Butler of changes to your membership details, do it this morning before you forget.