SOCIETY OF ACTUARIES IN IRELAND
NEWSLETTER
MAY 1996

Investment Seminar

The Society held a very successful investment seminar on May 2nd. This was an ambitious project in that it attempted to push the actuarial frontiers a little further into the investment and banking areas. The seminar focused on the application of actuarial techniques in investment, treasury and risk management.

Pat Ryan, who has consistently advocated the value of actuarial expertise in wider fields, opened the seminar. He made the point that one of the obstacles faced by the actuarial profession in expanding its sphere of influence was the passive attitude of actuaries themselves.

Ronan O'Connor presented a paper on the capital adequacy requirements of banks and illustrated how dynamic risk models could reduce capital requirements. Angus McDonald of Heriot Watt University discussed life office solvency models, a topic of growing importance under the new capital adequacy environment.

John Caslin gave a fascinating insight into the credit risk issues associated with derivatives and Lindsay Tomlinson of BZW considered the past and likely future development of quantitative investment techniques.

The papers were very well received and each of the speakers is to be congratulated for their extremely clear and thought-provoking presentations.

Post-graduate degree in Financial Mathematics

The Society was very pleased to announce at the investment seminar the establishment of two post-graduate courses in financial mathematics at Dublin City University. Details of these courses have been circulated to members. The Society is delighted to have been the driving force in setting up these courses and has secured the patronage of AIB and Irish Life. The courses will enable actuaries to further develop the skills required in relation to the wider fields considered at the seminar.

Pat Healy

Insurance Accounts Directive

The Insurance Accounts Directive was adopted by the EC in December 1991 and the first application was to the 1995 Year End Accounts. The intention of the Directive was to make the financial information published by insurance companies throughout the EC equivalent and comparable. However, the Directive allowed member states to select options on various items to be included in the insurance accounts. Ireland followed the UK in allowing use of the Fund for Future Appropriations and requiring that acquisition costs be deferred.

The Society of Actuaries put together a Working Party to examine the detailed implications for Life Insurance companies in Ireland. The Working Party faced a lot of difficulty in assessing the effects of the Directive, they were working on draft Irish regulations and various different drafts of the UK SORP. The UK SORP left a lot of unanswered questions and scope for different interpretations and it was written with the draft UK regulations in mind and not the Irish regulations.

This led the Working Party to produce a Discussion Paper rather than a final report. The main points covered in the paper include:

- *Directive brings in a EC standard accounts format*
- *Principal valuation assumptions to be disclosed in the notes to the accounts*
- *Long Term Business Fund replaced by Technical Provisions, not necessarily the same!*
- *Deferred Acquisition Costs included on the Balance Sheet*
- *Investment Reserve no longer permitted*
- *Life Fund Surplus now called Technical Account balance and any increase potentially recognised as company profit*
- *Fund for Future Appropriations introduced, partly a replacement for Investment Reserve but also a potential home for Life Fund Surplus*
- *Actuary given formal statutory role in accounts for the first time*
- *Modified Statutory Solvency Basis is the name suggested by the SORP for the new accounts basis*

The paper was presented to a closed meeting of the Society on 9 November 1995 by Adrian Cooper and Peter Caslin on behalf of the Working Party. The same team also presented the paper at the Society Seminar on 'Financial Reporting' on 29 November 1995.

The discussion at both meetings centred on similar topics. There was considerable discussion on the degree of prudence required in calculating the Technical Provisions and whether they could be the same as the statutory solvency basis valuation reserves. There was also serious debate on whether the Life Fund Surplus could be held in the Fund for Future Appropriations as it represented undistributed profits, there was concern that this undistributed profit might be viewed as taxable in Ireland. The question of whether the Fund for Future Appropriations should be restricted to with-profit business was debated at some length, with several offices suggesting that they intended to use it for non-profit business also. The discussion on Deferred Acquisition Costs concentrated on the practical methods of calculation, including whether the asset should be interest bearing, how best to allow for policy lapses and which pattern of margins should be used to defer the costs. There was general agreement that the standard accounting format and greater disclosure was a useful step forward but several contributors expected most companies to continue to use other methods as their realistic profit reporting mechanisms.

The paper was well received and news of it spread quickly to the UK, leading to an urgent request for a presentation from the organisers of the 1995 Actuarial Life Convention in Glasgow on 5th December. A car full of papers was duly despatched and the Society President, Mr Bill Hannan presented the paper to a large group of UK Actuaries in Glasgow. It is worth reporting that every copy of the paper was snapped up!

The Irish auditors had a meeting in late 1995 and agreed that non-profit business could use the Fund for Future Appropriations in the 1995 accounts as the UK SORP would not be finalised before the year end.

At the time of writing, the final Irish Regulations have been published and are broadly as expected. We are still awaiting the final UK SORP and it is intended that the Working Party will issue a final report when the final UK SORP is published.

Anthony Brennan

Pension Fund Investment

A Liability-based approach
Presented to the Society of Actuaries in Ireland

Pat Healy presented his paper to a well attended Society meeting on Tuesday 20th February. In an overview of the paper, Pat noted that his objective was to explore the issues of pension fund investment in the context of the underlying liabilities.

A review of the performance of the different asset classes confirmed the superior returns achieved on equity investments but with high performance volatility. Particular investment issues for Irish pension funds were the very narrow base of the Irish equity market and the short maturity profile of the Irish bond market. The suitability of index linked bonds was considered from the perspective of both the investor and issuer and the lack of development of the Irish index linked market was contrasted to the degree to which the UK market had developed. A strong case was made for the promotion of this market in Ireland.

The area of performance measurement was also considered and the difficulty of differentiating between good and bad investment managers was noted.

In the discussion which followed, a number of speakers commented on the timely nature of the paper with the Irish authorities currently focussing on ways of increasing the domestic content of Irish pension fund investment. It was suggested that the development of an index linked bond market was one way of meeting the needs of both government and scheme Trustees. While the recent priority of the National Treasury Management Agency has been to change the structure of the gilt market with the introduction of market making, they were now in a position to consider the funding instruments used.

Another speaker noted that funding debt by issuing index linked bonds removed the ability to reduce the effective cost of debt repayments through inflationary policies. In this regard it was noted that this option had already been partially removed by the fact that much of the debt was already denominated in foreign currency.

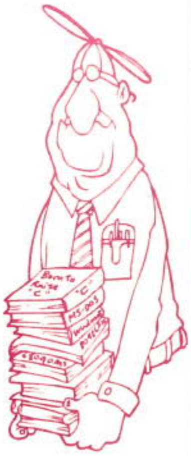
While welcoming the availability of index linked bonds as a suitable asset to match index linked annuities and preserved benefits in a wind-up situation, one contributor reminded the meeting of the duty of trustees to maximise return subject to an acceptable level of risk - index linked bonds should not be viewed as an easy way out in considering investment strategy. He also wondered whether the longer mean term and repayment pattern could tempt government to overborrow.

A note of caution was sounded with regard to the benefit improvements and contribution holidays which were being funded from the very high recent investment returns. One speaker compared these returns to the period from 1973-83 which saw negative real returns and a requirement for extra funding for pension schemes. The speaker questioned whether there was a need for a mechanism to smooth these very volatile investment returns.

The President, in closing the discussion, thanked Pat for his presentation and for his paper which represented a valuable contribution to the subject of pension fund investment.

Sean Casey

On The Move



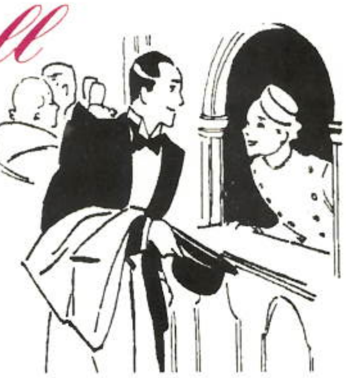
Stephen Devine has joined **Eagle Star** from Lifetime Assurance.

Jimmy Doyle has joined **Centre Re.** from Hibernian Insurance

Pat Healy has joined **The Guardian Group** from Riada Stockbrokers

Michael Moloney has joined **Howard Johnson & Co. (Europe) Ltd.** from Mercers Ltd.

Annual Ball



Saturday 25th May 1996
Conrad Hotel,
Dublin.

Enquiries: Mary Butler

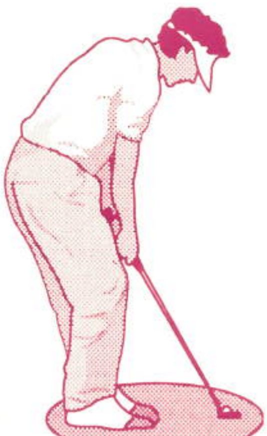
Society AGM

Tuesday 28th May 1996, Stephen's Green Club

Followed by:
"The Application of Statistical Techniques to Credit Portfolio Analysis"

Speaker: Ronan O'Connor

Golf Outing



We hope our golfers enjoy the Annual Golf Outing on Monday 20th May. Golf will be followed by dinner and prize giving, including the presentation of the Match Play Perpetual Trophy.

Full report and results in the next issue of the Newsletter.

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