



GROUPE CONSULTATIF - 9th COLLOQUIUM

The Society was honoured to host the 9th Colloquium of the Groupe Consultatif in Dublin on 20th September entitled "The Unit Linked Actuary - A Single Market Opportunity?"

Bill Hannan, Chairman of the Colloquium, opened the proceedings noting the interesting coincidence that the Colloquium took place at a time when Ireland holds the Presidency of the European Union. Kevin Bonner, Secretary of the Department of Enterprise and Employment and William Meijer, Chairman of the Groupe Consultatif, welcomed the delegates from every Member State of the European Union.

The Colloquium comprised five sessions on varying aspects of unit-linked business in the EU from historical, regulatory and consumer perspectives. For the first session, Philip Brook from the UK gave an overview of the development of unit-linked business in the EU in terms of market penetration, consumer preferences and product developments. He described the greater penetration of unit-linked products in the UK, Sweden and Ireland as compared with countries such as Germany, France and Spain. He covered the development of the market from the Flexible Whole Life Plan in the late 1970's through to Unitised With Profit in the late 1980's and more recently, derivative based products and long term care.

Albert Nijenhuis of the EU Commission opened the second session by setting out the general background and principles of the Third Life Directive and the internal market for insurance. He noted in particular that those countries who have not yet fully implemented the Directive created legal and practical uncertainty in the market. Further topics covered by Albert in his presentation included interpretative issues in relation to eligible assets which cover technical provisions, the review of solvency requirements, a discussion of the recently published Green Paper on meeting consumer's expectations in financial services and the role of intermediaries in cross-border selling.

Jimmy Joyce concluded session two with a presentation on the actuarial supervision of unit-linked life assurance. Since the essence of unit-linking is the specific link between assets and liabilities, he stated that it was natural for the Regulator to consider whether limitations should be placed on the links which are permitted. Indeed Jimmy noted the fact that until the implementation of the Third Life Directive, Ireland did not have a regime of "permitted" links. Jimmy referred to unit pricing as the central component of unit-linked life assurance both in terms of its fundamental integrity and in terms of equity to policyholders and noted the considerable attention given to this topic by the Society. Other regulatory issues ranged from transparency, unit-linked reserving, the role of the Appointed Actuary and the impact of unfair contract terms legislation.

In session three, presentations were made by Nick Furner (Netherlands), Hubert Muller (Germany) and Flemming Windfeld (Denmark) on different aspects of unit-linked business in their respective countries. The presentations were wide ranging and covered such topics as administration, the regulatory and taxation framework, consumer needs and the development of unit-linked products in each market. Micheal O'Briain, John Caslin and Bruce Maxwell considered various issues surrounding the delivery of Policyholders Reasonable Expectations in unit-linked business in Ireland in session four. An excellent presentation covered premium reviews, the development of tracker bonds and unit pricing.

The many interesting presentations throughout the day provoked much discussion on a wide range of issues during the open forum which concluded the Colloquium. That evening the historic Dining Hall of Trinity College was the venue for the Colloquium Banquet. In the time honoured tradition of the College, grace was said in Latin by Bob Willis, a former Scholar of the College. Bob entertained the gathering with a fascinating insight into the history and tradition of Trinity College before an excellent banquet ended an interesting and rewarding day.

An Alternative to the Net Premium Valuation Method for Statutory Reporting

Phil Scott, Steve Elliott, Leslie Gray and William Hewitson presented their paper on "An Alternative to the Net Premium Valuation Method" to a large group of life actuaries and students at an evening meeting of the Society on 18 September 1996. Following an introduction by Bill Hannan, Phil Scott introduced the paper which has been prepared by a working party consisting of seven members, four of whom were among the speakers for the meeting.

Leslie Gray began by setting out the background to the paper. The working party were requested by the Institute/Faculty Joint Actuarial Working Party to investigate possible alternatives to the net premium method of valuation, suitable for supervision and consistent with the principles of the EU Third Life Directive. Leslie mentioned that the paper was confined to the UK market but that he was aware that many similar issues existed for Irish life offices. The working party's aim was to come up with a method which, while possibly not yet workable, would stimulate an ongoing debate on whether the traditional net premium valuation method should continue to be used. While the working party carried out some calculations, these have not been included in the paper at this stage. The working party looked at the methods used in other countries,

particularly Canada and Australia, and these are set out in detail in the appendices to the paper.

The starting point for the working party was looking at the purpose of the valuation. They identified three main purposes, i.e. (a) solvency demonstration (b) bonus policy and (c) comparisons of financial strength. The working party condensed these into two basic concepts, i.e. that of statutory solvency and that of realistic valuation.

Given the requirements of the Third Life Directive, the working party decided it was impossible to propose a single approach which met the twin objectives of statutory solvency and realistic valuation. Therefore the working party proposed a two-stage approach, particularly for with profits business of :

- (a) *a statutory solvency reserve (SSR) which is a gross premium valuation calculated in accordance with the Third Life Directive*
- (b) *a realistic policy liability (RPL) which is a realistic gross premium valuation of benefits that policyholders could reasonably expect in the future, using best estimates but with some prudent margins.*

The working party would suggest that the results of both methods should be published in the DTI

returns, with assets valued at market value and with full disclosure of the assumptions for the SSR calculation only.

Leslie finished his part of the presentation by saying that their working party would be very interested in the views of Irish actuaries on the proposals outlined in their paper.

Steve Elliott then went on to talk about the technical details of the two proposed calculations. He reiterated that both would be performed on a gross premium method. The valuation rate of interest used for the SSR would be in accordance with the Third Life Directive, with an appropriate allowance for tax. The other assumptions would be based on the office's expected experience plus a Provision for Adverse Deviations (PAD). Professional guidance would be required in respect of minimum PADs.

Phil Scott continued on the theme of the importance of the valuation method and subsequent results, e.g. with regard to life office balance sheets, product design and the overall structure of the market. Some of the pressure to change from the net premium method has arisen due to the structural changes in the marketplace, e.g. the move from level fixed term AP contracts to customer-focused flexible policies and an increase in single premium business.

Phil ended by giving a summary of the feedback in the London and Edinburgh presentations. There was a general consensus among the actuaries for the SSR method and a second working party has been set up to look at the practicality of its implementation, particularly with regard to reserving for future bonuses. The discussions will be published in full in the BAJ. However, there was resistance to showing two sets of results and therefore the consensus was against showing the RPL valuation results. However, Phil stated that in Australia and Canada, the results of both calculations will be advised to regulators.

Phil then invited comments from the audience and many varied observations and questions followed!

Some speakers queried whether the RPL method was any different to a bonus reserve or embedded value calculation or whether there was any real difference between a gross premium valuation incorporating a bonus assumption consistent with the valuation interest rate and a traditional net premium valuation. It was generally agreed that there was not much new in the paper with regard to the valuation of unit-linked business. There was also a general consensus that there would be resistance from life offices to publishing realistic results and assumptions in the light of the higher bonus rates still being paid by most offices.

Bill Hannan closed the meeting by thanking the members of the working party for their presentation.

Stephen Doyle

BOOK REVIEW

A Guide to Personal Financial Planning

Dr. L.W.G. Tutt

Dr. Tutt's recently published Guide is impressive in its scope, spanning all aspects of Personal Financial Planning from the regulatory background, through taxation, social security, general investments, life assurance and pensions. The book is set in a UK context and large sections are specific to that market. It is "intended as a reference source for those involved in providing financial services advice".

While the publication is comprehensive in its scope, the author has set himself a very demanding brief. Financial planning advisors may find that the level of detail on specific topics is not adequate and I feel that Dr. Tutt would have been wise to aim the book at a wider market. The book would be a useful reference source for investors and users of financial services in the UK. Its value to advisors would have been enhanced by additional referencing.

The general investments and life assurance sections of the book should stand the test of time but I am afraid that the taxation and regulatory sections may date rather rapidly. There are extensive references to taxation levels, exemptions, allowances and thresholds in the 1995-96 tax year which may prove frustrating for readers in future years.

Notwithstanding these draw-backs, the book is very clearly laid out and user-friendly and it may be quite useful for Irish users requiring a general level of knowledge of the UK taxation, regulatory and investment framework. A Guide to Personal Financial Planning is published by The Chartered Insurance Institute.

Pat Healy

The Society is hosting a half-day Seminar on "Dublin's iFSC - A Centre for International Life Assurance" on the afternoon of 27th November 1996 at the University Industry Centre, UCD, Belfield, Dublin 4.

Who should attend?

The Seminar will be of interest to anyone who wants to profit from the Single European Market:- companies successful in their home states and who wish to broaden their horizons, specialist American insurers for whom a large EU market, accessible with a single authorisation, is more attractive than a series of fragmented local markets, financial institutions not yet in the life assurance business who see attractive opportunities in a nascent market. The seminar will also be of interest to professionals - lawyers, accountants, actuaries, management consultants, stockbrokers etc. - who advise these institutions.

If you or any of your colleagues or clients are interested in attending, please contact the Society's office.

UCD Bachelor of Actuarial and Financial Studies

Representatives of the Society attended the 4th Annual Sponsored breakfast for First Year Students in the UCD Actuarial Financial Studies Degree on 17th September last.

The third graduating class in this degree programme have been the most successful to date in obtaining jobs as actuarial trainees with seventeen graduates securing such jobs in both Ireland and the UK.

Other areas for graduates of this programme are banking and further education in Economics, Statistics and Finance.

The course includes a language component with a particular emphasis on conversation and vocabulary in the business/insurance area. Eagle Star and New Ireland have agreed to sponsor prizes to the First Year Students who perform best in Advanced German and Advanced French respectively.

On the Move

Gareth Colgan has recently joined the UCD Department of Statistics from Lifetime Assurance.

Cathal Rabbitte has left Irish Life to join Cologne Re in the UK

Aidan O'Donnell has moved to Lifetime Assurance from Irish Life.

Paul Dalton is leaving Scottish Amicable International Assurance to join Midland Life International.

Evening Meetings

Please fax/post your Booking Form IN ADVANCE, if you are attending an evening meeting. This would help greatly in the organisation of evening meetings.

STEPHEN DOYLE
Chairman, Functions Committee