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CURRENT ISSUES IN LIFE ASSURANCE

SEMINAR, 10 JULY 1990

A one-day seminar, 'Current Issues in Life Assurance', was held on 10 July 1990 at the Albany Hotel, Birmingham. This seminar was aimed primarily at those at or near Appointed Actuary level, and was arranged as an addition to the normal programme at the request of the Life Assurance Joint Committee. The seminar was administered by the Institute's Conference Department on behalf of the Institute and Faculty, and the two Presidents took the chair, Mr J. M. Souness of the Faculty taking Sessions 2 and 3 and Mr H. H. Scurfield of the Institute introducing the seminar and chairing the remaining sessions.

Nearly 180 actuaries attended the seminar, including 153 Institute members and 23 Faculty members, together with actuaries from Belgium and the Netherlands. A full programme of five sessions was organised, and was followed by a seminar dinner. For each of the first four sessions a paper was circulated in advance and introduced by the author. Most of the available time was then taken up in general discussion. The final session was kept free for current issues: no papers were prepared in advance, but five members gave brief presentations and these were also followed by a discussion period.

The format of the meeting, and the level of discussion, were widely welcomed as a valuable addition to the seminar programme.

SIB DISCLOSURE; EXPENSES AND THE WITH-PROFITS GUIDE

The paper, prepared by Mr C. J. Hairs, posed a number of questions for discussion. Almost half of these related to the operation of Temporary Practice Note 3 (TPN3), issued in February 1990, as a working rule for Appointed Actuaries advising their companies on expense disclosure. The remaining questions related to disclosure in general and in particular the 'With-Profits Guide' to be introduced from 31 August 1990.

At the seminar the speaker reported on the results of a questionnaire on these issues which had been completed by 34 of the offices represented. In the discussion it emerged that the working rules in TPN3 appeared to have operated satisfactorily in practice, and a formal, but advisory, Guidance Note along similar lines would be generally supported. So far as the With-Profits Guides were concerned, it appeared that, although not formally required by LAUTRO, there had been considerable involvement of Appointed Actuaries in their preparation. It was felt that the Guide was more suitable for independent financial advisers and financial journalists than for individual policyholders. The content seemed about right as a starting point, although some expansion was likely to occur as it evolved over time.

POLICYHOLDERS' REASONABLE EXPECTATIONS

The second session comprised a discussion of a paper prepared by a Joint Working Party on the topic of Policyholders' Reasonable Expectations. This paper was introduced by Mr B. J. Brindley, chairman of the Working Party. The Working Party had noted that the concept of policyholders' reasonable expectations is enshrined in legislation, but it has not been defined. The issue had recently been especially topical and there was every likelihood of it continuing to be so, particularly in the context of companies that merge, demutualise or make other major constitutional changes. The Working Party concluded that, in the circumstances of a major change, the reasonable expectations were that any proposed new arrangements did not disadvantage the policyholders, particularly when compared with the option, where available, of a closed fund. More generally, it was concluded that gradual change was more acceptable than sudden alterations in benefits, unless these could be justified, e.g. by dramatic stock market changes. In normal day-to-day work the concept of reasonable expectations was regarded as synonymous with equity.

An important point emerging from the Working Party's paper was that the concept applied equally to non-profit business, for example unit-linked business where the office had the discretion to alter charges.

An additional paper by Mr M. Iqbal drew attention to the sharper focus on policyholders' expectations in a proprietary office, especially in the context of the recent changes in life office taxation.

The discussion generally supported the views set out in the Working Party's paper, and concluded that the professional responsibilities were very great, as the powers of intervention available to the Secretary of State could be perceived as limited. There was some support for the view that the position of the Appointed Actuary needed further strengthening. Views were evenly divided on whether additional guidance from the profession was appropriate at the present time, but there was clear enthusiasm for continuing the discussion on future occasions.

BONUS RESERVE VALUATION

The paper for the third session was written and introduced by Mr M. Iqbal. He argued that the current development of asset share analyses had led to a reduced emphasis on bonus reserve valuations, which he believed still had an important role to play. The interaction between the retrospective and prospective results was clearly critical. The paper also presented the results of a survey of some 14 offices that were using a bonus reserve valuation as one tool in determining bonus rates. (Three offices had responded to the effect that a bonus reserve valuation was not used for this purpose.)

The discussion supported the view that bonus reserve valuations were an important aid to bonus policy, although they were more generally seen as a check on the results of the investigations into asset shares. Many speakers, however, felt that the use of model office techniques was more valuable and tended to supersede the traditional bonus reserve valuation.

EMBEDDED VALUES AND PROFIT RECOGNITION

Two papers had been prepared for the session on Embedded Values and Profit Recognition. The first, 'Recognition of Life Assurance Profits—the Embedded Value Approach', was a report by an Institute Working Party, and was introduced by the chairman, Mr J. A. Geddes. This paper, which had been revised following a discussion at a seminar at Staple Inn in November 1988, gave guidance for actuaries involved in reporting profits using embedded value methods, and, in particular, recommended minimum disclosure requirements for published statements. The second paper, 'Profit Recognition' by Mr J. Goford, reported on work currently in hand following an initiative earlier in the year by the Association of British Insurers. In fact, both speakers were now involved in this work and described current thinking in this area as their introduction to the session.

During the discussion, the report of the Embedded Values Working Party with its recommendations on disclosure of bases was generally supported. However, the majority of the discussion related to the proposals being developed by the ABI Steering Group and its Working Party. Some concern was expressed, particularly about the potential tax implications of any new approach, and also about the rapid timescale favoured by some proponents of these ideas.

CURRENT ISSUES

During this session five speakers gave brief accounts of some topical developments. Firstly, Mr J. H. Webb spoke on the proposal from the Department of Trade and Industry that U.K. Appointed Actuaries should be required to hold a practising certificate granted by the Institute or Faculty. The professional bodies would lay down conditions for issue and retention of such certificates, including age, relevant experience and requirements for continuing professional education. The proposal had already been welcomed in principle by the Councils, and the discussion supported this view. There was a consensus that it would be inappropriate for the profession to apply subjective criteria to the issue of certificates, although it was recognised that failure to meet such criteria could become grounds for the withdrawal of a certificate already held. The other main point addressed in the discussion related to the question of timing of issue of certificates, and, in particular, whether they should be granted only to those who held (or had been offered) the post of Appointed Actuary, or whether they could be made available on request to all who met the relevant criteria.

Leading on from this presentation, the second speaker, Mr D. E. Purchase, gave an account of the work of the Continuing Professional Education (CPE) Working Party, of which he was chairman. The DTI proposals were only one of a number of factors likely to lead to formal CPE requirements: others included Consultative Paper No. 40 from SIB on 'Training and Competence in the Financial Services Industry', and the E.C. Directive on Mutual Recognition of Higher Education Diplomas. While the Appointed Actuary role was likely to be the first requiring a practising certificate, other functions undertaken by actuaries seemed likely to follow. For those needing to hold practising certificates, he felt that some form of CPE activity would, perforce, become compulsory; perhaps for other members it could be advisory. He added that the Working Party was anxious that CPE did not force a narrow focus just on directly relevant material, and was investigating the practicality of a requirement whereby part only of CPE undertaken must be on 'core' topics related to the practising certificate held.

The third speaker, Mr D. G. R. Ferguson, gave an update on recent European developments. Firstly he mentioned the Higher Education Diplomas Directive already referred to, indicating that the U.K. professional bodies welcomed this development in principle, but favoured a period of adaptation for an incoming professional from another E.C. country. He then went on to describe the development of the Life Framework Directive, commenting on the hope that the approach would be that of a single licence, with freedom to sell throughout the E.C., with home country control.

The fourth speaker, Mr J. van der Starre from Holland, gave a Dutch perspective on the Life Framework Directive, indicating that in Holland too the single licence system was favoured. He thought that any attempt to impose rules for technical reserves throughout the E.C. would be so complex as to be unworkable.

Finally Mr M. Shelley gave some preliminary results from a recent Institute and Faculty survey of Appointed Actuaries, which had been undertaken following the publication and discussion of Sir Edward Johnston's paper 'The Appointed Actuary' (*J.I.A.* **116,** 27). Mr Shelley concentrated on the extent to which the Appointed Actuaries surveyed appeared able to exercise influence in their organisations. The results seemed to give some cause for concern, in that a substantial minority of Appointed Actuaries appeared to have a rather low degree of influence. In the ensuing discussion there was further support for the proposition, already referred to, that the profession should take additional steps to try to strengthen the position of the Appointed Actuary with respect to the Board of the life assurance company.

D. E. PURCHASE