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CURRENT ISSUES IN LIFE ASSURANCE

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ONE hundred and thirty-four actuaries attended this seminar, organised jointly by the Institute and the Faculty of Actuaries at the London Press Centre. The seminar was intended to be of particular relevance to Appointed Actuaries. Mr H. H. Scurfield (President, Institute of Actuaries), Mr A. Neill (President, Faculty of Actuaries) and Mr I. C. Lumsden were joint Chairmen.

LIFE ASSURANCE PROFIT RECOGNITION

Mr D. E. Purchase introduced this session. He reminded Fellows that the Institute and the Faculty had declined to endorse the ABI proposals on accruals basis valuations, and added that both the Chartered Accountant bodies had also rejected it. Mr Lumsden updated those present with the latest position. The ABI are likely to recirculate the proposals, with only minor modifications, and invite companies to include a value based on the accruals method in the notes to their accounts. Finally, he said that our current position remained that we did not endorse the proposal, and added that we would decline to join any working party that looked at the policyholders' interests without considering those of the shareholders, and would no longer attend ABI committees as observers only. He invited the meeting to endorse the position.

The discussion was inconclusive. Although there was general acceptance that the accruals method should continue not to be endorsed, some speakers were concerned that we should adopt a more active role in promoting alternative approaches; others wanted a more prominent role for the Appointed Actuary.

DISCLOSURE

Mr C. J. Hairs introduced this session. He then invited comments on the more important aspects of the SIB and LAUTRO proposals.

There was agreement in principle with the three-tier approach, but a majority against expense disclosure in tier one, on the grounds that this aspect of product design was being unduly emphasised. The majority also felt that if disclosure were to be included, offices should be able to place it in context, and that the reduction in yield basis was the least bad method of disclosure.

Strong views were expressed both for and against the use of own basis costs for illustrations. On the one hand, the use of own basis costs for unit-linked business was seen to be more logical, as these costs are usually accurately known; on the other hand, the advantage of a common approach to unit-linked and with-profits illustrations was recognised.

There was a strong feeling that the wording of tier one information should not be prescriptive, and that the wording should give a more positive approach to the product being described.

The meeting was lukewarm in its view on With Profit Guides. The majority opposed the inclusion of past performance investment returns as being at best meaningless and more probably misleading.

The meeting was concerned that where we opposed the proposals, we should avoid appearing unreasonably negative.

REVISED GN1/GN8

Mr D. A. Kerr introduced this session. He explained that the amendments were designed to reinforce the Appointed Actuary system. It had been decided to preserve the difference between GN1, which deals with matters of principle, and GN8, which deals with detail, although TPN2 would be merged with GN8. He further informed the meeting that, after the amendments have been agreed, the Department of Trade and Industry would introduce regulations requiring Appointed Actuaries to certify that they had taken account of the Guidance Notes in the valuation and that there had been no breaches. If there had been breaches, these would have to be listed. He hoped that the eventual regulations would refer to 'material' breaches. He then took the meeting through the proposed changes.

GN1 had a number of references to 'policyholders' reasonable expectations'. This caused much discussion, as there was no definition of the phrase, and the existing guidance notes only referred to the Actuary's interpretation of the concept. There was also much concern that the Notes put the Actuary's responsibility for this concept virtually on a par with his responsibility for statutory reserves. There was general agreement that the concept was properly in the Guidance Notes, but that further revision was required.

GN1 had expanded the section requiring the Actuary to have access to the Board of Directors. However, the meeting felt that the paragraph should define more clearly to which Board the Actuary should have access in group structures, and this paragraph will also be further revised.

The changes to GN8 were essentially tidying up, apart from the inclusion of TPN2, which referred to the resilience test for mismatching reserves. Some speakers were concerned that the Appointed Actuary should retain the discretion to apply different tests if he felt them appropriate, without being involved in the serious matter of a breach of a mandatory guidance note.

PRACTISING CERTIFICATES

Mr M. Shelley then updated the meeting on the progress of Practising Certificates. He emphasised that the proposed system was one of selfcertification, and all existing Appointed Actuaries would automatically receive a Certificate. There was general approval of the concept.

The meeting was informed that Certificates would probably be required from mid-1992.

SURRENDER VALUES

Mr Neill, chairing this session, opened by repeating his concern about surrender values, and in particular, transfer values of pension policies which are often compulsory. Mr S. L. Smaller then introduced his paper. The meeting generally accepted that the situation was not satisfactory. There was concern that surrenders were being used to subsidise maturities, that terminal bonuses were often treated harshly, and that there was a danger that statutory minimum surrender values were a possibility.

There was also concern that some offices were operating what appeared to be unfair practices, but no-one was prepared to defend them. Those present felt that the paper added to the current debate on the subject, but there were no proposals to solve the problem.

J. B. DUFFIELD