

THE DISTRIBUTION AND SALE OF UK PERSONAL LINES

GENERAL INSURANCE PRODUCTS

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The opinions and observations expressed in this paper reflect the views of the authors, but not necessarily those of the authors' employers or others with whom they are associated.

1. INTRODUCTION

- 1.1 The distribution and sale of personal lines general insurance products within the UK is in the midst of a revolution brought about by a combination of:-
 - ◆ increasing customer perception that financial services are commodities;
 - ◆ customer dissatisfaction with past price and service practices;
 - ◆ excess supply of underwriting and distribution capacity;
 - ◆ poor claims experience and high expenses;
 - ◆ reaction to the propensity of distributors forcing an excessive return for their role as intermediaries;
 - ◆ new entrants to the market, and with regulatory change the threat of more, from within the UK and from overseas; and
 - ◆ new management, often from outside the insurance industry, with vision and a will to bring about effective change.
- 1.2 A financial services organisation which intends to be successful in the marketplace of the future will need to offer customers the right product, in a convenient place, priced appropriately and delivered with high quality and consistency of service. This will all have to be done at low cost. The retribution which an organisation will pay for failure will be harsh - the customers are becoming kings and their needs will be met!
- 1.3 A significant change to distribution and organisation is well underway with the inexorable rise in recent years of the direct writers and the strong involvement of banks and building societies in insurance. This is all serving to "concentrate the minds" of the broker community who are deploying encouraging signs of being willing to fight back. Their "0800 - I for Insurance" initiative uses communication technology to route customer responses to advertising to the most local of the potential 1400 brokers participating. The combination of national coverage and personalised local service may prove powerful.
- 1.4 Across consumer products generally, retailers are changing consumers buying patterns with conflict being worked through between the power of brands and the power of availability. Why should financial services be exempt when their activities increasingly dominate the high-streets of most towns?

- 1.5 Many organisations are responding to the changes by endeavouring to secure the best of all worlds. It remains to be seen whether their absence of focus on one approach will lead to a permanent cost disadvantage. Those adopting a multi-distribution strategy also face the danger of confusing their customers and jeopardising their relationship with traditional suppliers. Clarity, both to customers and employees, regarding the markets served has many attractions.

The enormous success of USAA in North America, in exclusively meeting the needs of military officers, is an example of a company dominating a market niche to the exclusion of all distractions. It is more difficult in the UK to identify similar market niches which provide sufficient potential policyholders. Perhaps access to the larger European market will provide the answer.

- 1.6 With the diverse choices available to customers as they endeavour to satisfy their insurance needs, the quality of the relationship with the supplier will be very important. It may be that the delivery mechanism will become as important in satisfying their needs as are the product design and price currently.
- 1.7 Consumers are changing their buying patterns, making the nineties potentially one of the most exciting times to be involved in UK personal lines business.

2. REGULATORY ISSUES

2.1 The ABI General Business Code of Practice, 1989

Concern over the distribution of investment products led to the 1986 Financial Services Act and one of the "safeguards" introduced was the requirement for distributors of life products to choose between "tied agent" or "independent adviser" status. A tied agent may only distribute the products of the life company to which it is tied and the customer has to be clear of that circumstance. The legislation led to polarisation in the marketplace with most leaders choosing tied agent status so that the life company concerned would meet the training costs of the salesforce. The enhanced commission rates secured were a bonus!

Attention then turned to the general insurance market with the large insurance companies seeking to apply the same principles of independence or agency to distributors. The Code (see Appendix 1) was produced by the ABI as an alternative to legislation, the industry having learnt again the benefits of self-regulation over the statutory approach. The distributors of general insurance products can only deal with a maximum of six companies if they wished to be tied; to be involved with more implies independence and, in effect, registration as an insurance broker. The DTI support the Code by ensuring that the few insurance companies who are not members of the ABI nevertheless comply. For those distributors who chose the tied agent route, a much closer dependence upon the chosen underwriters was inevitable as the underwriter is accountable for compliance.

Compliance is the responsibility of the intermediary for:-

- ◆ brokers, registered with the IBRC; and
- ◆ others selling policies freely from across the market.

Brokers registered with the IBRC (Insurance Brokers Registration Council) must show evidence of qualification, experience, Professional Indemnity insurance, contributions to a compensation fund, solvency and maintenance of separate accounts for insurance monies and ordinary funds.

Members of the British Insurance and Investment Brokers' Association (BIIBA) must be registered with the IBRC and in addition the

principal occupation of the firm must be insurance broking to the general public from clearly marked premises. The ABI maintains a separate register of non-brokers with PI insurance.

2.2 ABI Statement of General Insurance Practice

The desire to avoid insurance products coming within the Unfair Contract Terms Act led to the introduction by the ABI of the Statement of General Insurance Practice (see Appendix 2) which governs the acceptance of business and the conduct of claims. The clear objective of the Code is to create balance between the obligations of the insured to disclose, and the right of the insurer to decline claims based upon "the small print". The Insurance Ombudsman is guided by both this Statement and the General Business Code in determining good practice in his arbitration decisions.

2.3 The EC Insurance Intermediaries Recommendation, 1992

It is thought that by complying with the ABI Codes, the requirements of the Recommendation will be met by UK operations.

2.4 Draft EC Distance Selling Directive, 1992

The Directive has been drafted with the sale of goods, rather than services, in mind. Insurance is not currently explicitly excluded but the Government, with the support of the ABI, is seeking this change. If applied to the sale of general insurance products many concerns would arise, not least the right to a seven day "cooling off" period during which the policy may be cancelled without penalty.

The ABI view is that as insurance was excluded from the 1985 Directive on Contracts Negotiated away from Business Premises (the "Doorstep Selling Directive"), no attempt should now be made to regulate another sales method when existing EC legislation, and extensive national requirements, regulate the sale of all insurance contracts, irrespective of how they are sold.

3. THE BROKER MARKET

3.1 Overview

The last five to eight years have seen a fundamental change in attitudes towards both the distribution of, and the consumption of, personal lines insurance. The direct sellers share of the market continues to increase, and their success has made the rest of the market reconsider their strategies and objectives. This is probably more true of the broker market than for the other distribution channels, which appear to have more control over their customer bases. Should the brokers throw in the towel? Should they join the bandwagon by going semi-direct? Or should they stick to their guns and fight back? It is likely that all three of these options will be taken with different brokers reacting in different ways. However, it should not be forgotten why the direct revolution started in the first place. Technology holds the key. By utilising modern technology the brokers can fight back. The next five to eight years will see substantial changes to the broker market, and the relationships between brokers and their insurers. If they work as a team, they will survive as more than just niche players.

3.2 Characteristics

The characteristics of the broker market can be described by just one word. Diverse. The nature of the brokers themselves, the attitudes of their insurers, the type of business written, and the concept of independence varies enormously.

3.2.1 The Different Types of Brokers

The broker market consists of the national chains, the provincial chains, and small local "one man bands". Many of these brokers will transact business with Lloyd's as well as the company market. Some will specialise in particular lines such as non-standard and commercial motor as well as offering personal lines business. There can also be an added layer of complexity involving underwriting agencies that sit between the broker and the insurer. Very often these underwriting agencies will have delegated underwriting and claims handling authorities. Broker facilities can be provided by various

affinity group organisations such as Saga, the RAC, and car owners clubs amongst others.

3.2.2 Independence

It might be thought that the main weapon which a broker can deploy is its independence. A broker can advise on the policy best suited to a customer's need, taking into account both cover and price. Perceived security of the insurer, and claims handling standards may also be considered. In practice, price is the main discriminator being dictated by the dependence on quotation systems and the attitudes of the consumer as the cost of both motor and household insurance spirals.

The provision of this "added value" service by brokers, whilst attractive, is not easy to achieve since it requires a more thorough knowledge and understanding of the various products offered. Much depends upon the quality of staff and the training programmes in place, which can vary enormously between brokers. This tends to be where the small brokers have an advantage over the large chain brokers. The maintenance of consistent service standards is particularly difficult for broker groups who operate franchise brokerages within their network of branches. For example, a large part of the expansion of Swintons has been due to an increased proportion of franchise offices.

It is questionable whether some of the larger broker chains can be considered truly independent, since they are often partly owned by the major insurers. Eagle Star has a substantial stake in the AA Insurance Services, Sun Alliance in Swintons and Norwich Union in Hill House Hammond. However, in practice it would appear that the insurer currently has little influence on the day to day running of the broker activities. This may be because the insurers find their broker operations hard to control. Brokers, by their nature, tend to be much more commercially aware than the insurers and have strong business and negotiating skills.

It is quite clear that the attitudes of insurers to their brokers differs widely across the market. Relationships vary from very friendly to luke-warm. Certainly, the initial friction between some of the composites and their brokers as a result of the composites' move towards direct selling has subsided. It would appear that some brokers have accepted the inevitable and have learned to live with it. The composite move into direct (TIS apart), however, is still gathering momentum and they do not appear to be achieving the in-roads of the tailor made direct selling companies. In addition it seems that the composites are beginning to realise that brokers are friend, not foe, and that they will be around for a while yet. After all, the policyholders are the brokers' customers and not the insurers'. Some insurers have always recognised this and have declared their allegiance to the broker market. Companies such as NIG, Skandia, Independent and East West have a reputation for building excellent relationships with their brokers and this is beginning to pay off as the market gets tough.

Some brokers have taken a more pro-active stance in their fight against the direct sellers by going semi-direct themselves. TV campaigns and newspaper advertisements for brokers such as AA, Hill House Hammond and CGA Direct are becoming more commonplace as they strive for brand awareness ("see it on TV - it must be good"!) However, only the wealthier brokers can do this and it does not appear to be playing to a broker's strength. A machine in a supermarket is likely to be just as effective (in fact, this has already been tried). The way forward is through technology and building closer links with insurers.

The brokers have for many years benefited from the quotation systems and this has worked against the insurer, since their retention rates have continued to fall over time. Consequently inefficient administrative systems and procedures have been concealed and have only now been exposed by the direct sellers. With current networking technology (and even EDI is out of date), it is within the grasp of the broker market to cut the expense ratio in half. It is surprising that the insurance market has been so slow to develop proper networking

facilities. The problem appears to be the software support rather than the networking technology itself. This is where the quotation and administration systems have worked against the broker, not being designed for the EDI and subsequent networking technology now available. All it needs is a clean sheet of paper and some heavy capital investment, and the broker market can fight back. There is one proviso: the brokers and insurers should work closely together to reach common standards. Commission rates will be reduced and service standards will be greatly improved.

As an example of the potential that can be achieved by insurer-broker liaison, Royal Insurance has recently developed a new core motor product with differential pricing to encourage intermediaries to use networks for placing high volume business. The network version of the product will offer lower premiums than the standard version, to reflect expected time savings on transactions and lower costs to the insurer. The co-operation of the major software houses will allow a wide field of brokers access to the system. If successful, Royal is planning to introduce electronic processing of endorsements and renewals.

3.2.4 Type of Business Written

As previously mentioned, the broker market can cover a wide variety of products including non-standard motor as well as standard motor and household business. Within these classes of business, the range of products on offer can vary enormously. Some brokers have a large number of insurers on their quotation systems, whilst others have a more select group. Hence a customer can never be sure of getting the cheapest quote and needs to shop around even amongst brokers. It is often the case that the range in quotes for any one risk will vary by a factor of at least three. However, there are cases where only one product is on offer being underwritten on a coinsurance or consortium basis.

3.3 Pricing & Product Design

Traditionally the pricing and product design of broker based products has been restricted by the rate book. It has been argued that rating

structures need to be relatively simple in order to reduce complexity. This aids the broker by reducing the number of pages in the rate book.

Rate books will contain complete details of the underwriting conditions, as well as rates, and can easily become cumbersome and difficult to interpret. Clever design and the use of points systems can overcome some of these difficulties. The software houses have not helped: they appear to have difficulty incorporating more complicated rating structures into their quotation systems.

It has not been easy for insurers to promote particular customer groups within the broker market. Some insurers achieve this by providing specialised rate books and policies for particular niches outlining any differences in cover or price. Commission rates may also be adjusted as an incentive to the broker. This lack of flexibility seems to be a major disadvantage compared to the direct sellers.

Innovation in product design and pricing has been discouraged by the broker selecting against the insurer. This effect can be illustrated by the performance of underwriting household business by number of bedrooms. Many insurers found that homes with low rebuilding costs were being directed to conventional policies whilst expensive homes with a small number of bedrooms went to the new schemes. A direct writer or an insurer operating through a bank or a tied agency force does not face this selection constraint.

Probably the greatest problem which has been faced by the broker market is the timescales involved in implementing rating action. Lead times of three months or more are still commonplace. Again the software houses have not helped, finding it difficult to cope with the pace of rating action in the market over the last couple of years. This has put the broker based insurers at a significant disadvantage to the direct sellers who can implement rate changes daily.

All these problems should be cosmetic, since the right networking technology combined with tailor made software should put the brokers and their insurers where the direct sellers are today. The rating structures do not need to be simple and it should be possible to implement rating action immediately. This will open up a whole new philosophy in product design, and will enable price to be tailored more closely to customer attributes. Concepts of life cycle pricing have not been fully explored, nor has there been a serious attempt to

design products aimed at improving retention. Retention rates in the broker motor market have historically been between 60% and 70% with some insurers recently experiencing retention rates as low as 50%. This is at a time when the direct sellers are achieving 80% plus.

Some insurers are now providing rates on a net of commission basis allowing the broker to decide on the commission levels. This provides the broker with greater control in the quest to maximise commission income and to provide his customers with value for money products. It also means, however, that the insurer has lost control of ultimate product price. Brokers generally are taking a keener interest in the underwriting action taken by the insurer. Now that the retention rates to the brokers themselves are under threat it is increasingly common for the broker to challenge the insurer on perceived harsh rating action. The large chain brokers command significant leverage power and can always threaten to take an insurer off their panel if necessary. The use of flat administration charges by the broker is also becoming increasingly common practice.

3.4 Sales Motivation & Management Techniques

The sales meeting is initiated by the customer and the choice of broker may be based on convenience or broker advertising. A broker is seen as offering impartial, competitive advice. More sophisticated brokers are becoming more active and developing direct mail contact, database sales, telephone broking, newspaper advertisements and quotation gifts to increase volumes of business. Brokers are insurance specialists and are commission driven. The size of the commission payment, which varies between classes of business, may affect the effort put into the sale. The salesforce is not employed by the insurer so the potential for motivating sales is limited and can only be influenced through advice and discussion.

For the large broker chains, sales training is in-house and may be discussed between the insurance and broker head offices or dedicated branches. The smaller brokers tend not to receive any sales training or advice from insurers. Company agents are better supported due to the stronger link with the insurer and will generally discuss sales techniques with consultants from the closest branch.

The insurer is concerned with gaining "good" risks and retaining them. The broker is keen to place business and will rebroke at renewal if he feels likely to lose the customer due to a large rate change or at the request of the insured. Renewal commissions are high to encourage retention by the insurer. However, in spite of this, insurer retention rates are low compared with the direct response market. Much business is lost through perceived poor claims service which may be complicated by the existence of an intermediary.

3.5 Quality Issues

The quality of service given by brokers has many strengths including:-

- ◆ use of a specialist;
- ◆ access to broker in High Street shops;
- ◆ face to face contact;
- ◆ chance to explain policy details and assist with claims; and
- ◆ access to affinity groups and market segments.

There will always be people who prefer to deal with an intermediary or require specialist or independent advice.

The main areas of weakness include:-

- ◆ insurer has no control over quality of intermediary recruitment, training etc;
- ◆ high commissions may conflict with the role of adding value to the products;
- ◆ time delays in communications and manual entry systems need checking;
- ◆ duplication of effort and cost;
- ◆ insurance monies may be retained by broker for up to 3 months from policy inception; and
- ◆ risk selection limited to simple underwriting criteria.

3.6 Cross Selling

Ideally product cross selling would be encouraged but contact between intermediaries and insurers is orientated around covers granted and claims. The intermediary is ideally placed to ascertain the insured's lifestyle and potential insurance requirements but this angle is not currently pursued in great depth. The insured is generally in a rush to

purchase insurance and is not enthusiastic about filling in unnecessary forms or parting with sensitive financial information in a shop. The large chains are developing cross-selling based on computerised databases but the manual records held by many single outlets do not lend themselves to cross-selling. Continued broker contact with the insured during the policy year is usually only initiated by the client and is only related to insurance matters. Customer ownership by the broker prohibits insurer advances directly to the insured.

3.7 Data Currently Available to the Underwriter

Information on quotations not converted to policies is not stored so the individual insurer does not gain information on uncompetitive sectors or selection. This is a major disadvantage compared to the direct sellers.

Whilst there is the possibility of gaining much relevant risk/financial data during the face to face meeting there is a natural resistance to parting with sensitive information in a busy shop front and there is usually time pressure exerted by both parties. Moreover, when it comes to the potential insured filling out a proposal form, the flow of information becomes more restricted than in a conversation and supplementary details may be considered an intrusion of privacy.

Policy and claims data is delayed in reaching the insurer so the insurer cannot give a direct underwriting response, even if this could be incorporated in quotation systems and manuals quickly. Data is eventually obtained by the insurer at an individual policy level but it is restricted to that data relevant to underwriting the particular risk on current rating factors. Direct insurers inputting risk factor data directly into a terminal can be more extensive in their questioning and start monitoring new data implications without the need to reprint and distribute proposal documentation.

3.8 Costs

Broker sales require commission payments to remunerate their (non employee) specialist sales service and expertise. Branch contacts must be maintained and there is duplication of effort, particularly in policy detail and claims administration. Removal of this overlap would bring considerable benefit to the broker based distribution approach.

3.9 Claims Performance

As the insured often perceives the intermediary to be the insurer, claims tend to be first notified to the broker who will then forward a claim form and offer to contact the insurer on the customer's behalf. The broker's strength is in helping those intimidated by forms, explaining the likelihood of claim acceptance and dealing with insurance companies. There is a significant delay before the insurer is notified of a claim and the process is impeded by the postal service and requirements to check manually cover and agree estimates.

The broker is not remunerated on efficient claims handling and probably sees this as a secondary service role, thus direct claims handling with the insured is less likely to result in dissatisfaction. Moreover direct handling reduces the delay to claims data and service by the insurer. A high proportion of broker business claims are inspected by engineers and relationships with approved garages are not as well developed as in the direct sales sector where telephone advice and authorisation of repairs are much more readily available.

4. DIRECT RESPONSE MARKETING

4.1 Overview

Any discussion of direct response marketing within the UK will necessarily focus upon the strategies adopted by the major players in this market, namely Direct Line, Churchill and TIS, since it is the activities of these companies that is forcing the personal lines insurance industry to reassess future distribution strategies.

The major direct operators are following broadly similar strategies based on focused cost leadership. They are all, to greater or lesser extents, focused exclusively on personal lines, predominately motor insurance, and within motor insurance the safe driver segment. The cost leadership strategy is based upon:-

- ◆ the selection of "good" risks in order to control claims costs; and
- ◆ low administration costs through heavy investment in technology and communication.

The focus on a particular market segment and a single distribution technique streamlines the company's organisation to serve the needs of these customers, whilst providing a further expense advantage.

The direct players have been able to achieve their initial sales objectives because of the weaknesses of the traditional market, in particular:-

- ◆ low investment in new technology, and especially in communication between intermediary and insurer;
- ◆ duplication of effort and reward between intermediary and insurer (which adds to costs);
- ◆ a fragmented industry (particularly for brokers, but to a lesser extent insurers); and
- ◆ the bureaucratic administration of the major insurers which has contributed to a loss of focus on customer service (whether the customer be the insured or the intermediary).

Companies will increasingly use direct marketing arrangements to get closer to customers and to penetrate markets in which they do not currently operate. Done well, the method can be relatively low cost whilst supporting superior service standards.

4.2 Characteristics

Direct response marketing may simply be defined as the use of mass media advertising to generate enquiries direct to insurers by telephone or post. To date, direct response insurers have largely followed an approach based upon achieving sufficient cost advantage to be able to offer cheaper insurance than traditional insurers, whilst still producing a profit.

Cost advantage is achieved through several related aspects of their operation:-

- ◆ obtaining a large volume of business in order to achieve economies of scale;
- ◆ careful segmentation;
- ◆ reducing the number of layers of management and functional support staff;
- ◆ maintaining efficient customer service staffing levels and shift patterns to cover the opening hours, and levels of experience and expertise;
- ◆ making effective use of IT and telecommunications;
- ◆ retaining a higher percentage of business at renewal than the traditional market;
- ◆ having effective advertising strategies; and
- ◆ not having to pay commissions, particularly renewal commissions.

Partly, these cost advantages may be attributed to the fact that direct response insurers are all newcomers. They have therefore been able to take advantage of developments in technology, communications and modern management methods. Many competitors, being established companies, are faced with the task of upgrading ageing IT systems and of adapting old organisational structures to the demands of the current market.

4.3 Product Design

To date, the strategies used by the Direct Response Insurer have focused upon cost advantage rather than product differentiation. Direct response insurers tend, therefore, to sell standard products. This has been influenced by the difficulty of explaining complicated products in either mass media advertising or telephone conversations.

Direct response insurers need large markets to justify the substantial initial investments in technology and to cover the costs associated with advertising campaigns. This has forced them to focus initial attention on the major mass markets of private motor and household insurance.

Complex underwriting and pricing systems are possible since direct response insurers rely heavily on IT to support the business. There is also no need to distribute rating and underwriting guides to agents or brokers, which means rates can be modified quickly. Furthermore, despite the complexity of the pricing, relatively junior staff can be employed to handle sales, since the supporting IT systems can implement the underwriting rules.

Direct writers have the advantage of not publishing their premium rates and hence they do not need to worry about anomalies between customers or changes over time.

The operation of direct response insurance is such that the measure of profitability has many similarities to life assurance, ie:-

- ◆ most of the expenses are associated with the acquisition of the business; and
- ◆ renewal and policy servicing costs are minimal.

So, the concept of an embedded value of a policy has an important role to play in measurement of performance and in the pricing of products. Thus, maintaining high retention rates is critical to the success of direct response insurers.

4.4 Sales Motivation Techniques

The sales performance of direct sales can be divided into three parts:-

- ◆ cost effectively generating enquiries;
- ◆ converting a high proportion of enquiries into policies; and
- ◆ retaining policies at renewal.

The first step requires effective marketing campaigns. This means that direct response insurers need to research the most effective media and message for generating enquiries. For example, which national papers and which styles of advertisement are most successful?

Converting enquiries to policies is partly about the pricing policy but also depends upon the skill and motivation of the customer service staff. Thus, direct response insurers need to pay great attention to the training of staff and the financial performance incentives they offer.

Retaining policies is again related to price, but also to the quality of service provided, including claims handling, alterations and policy maintenance. All the major direct response insurers are seeking to achieve this quality service image. Significantly, two of the major players, Direct Line and TIS, have scored well for claims handling in recent "Which" magazine surveys.

As brand awareness increases, new business will accrue from personal referrals and unprompted enquiries further reducing distribution costs.

4.5 Quality Issues

Direct insurers have endeavoured to provide a quality service in order to maintain their high retention rate manifest in several ways, including:-

4.5.1 Most direct response insurers have their telephone lines open for business from 0800 to 2000 or later during the week, and on Saturday mornings. This makes them readily accessible to their customers or potential customers.

4.5.2 The use of IT enables direct response insurers to provide fast service in terms of:-

- ◆ providing quotations;
- ◆ confirming acceptance;
- ◆ printing and issuing documents;
- ◆ handling mid-term alterations; and
- ◆ avoiding the need for cover notes, etc.

4.5.3 The automation of these processes means virtually all correspondence can be computer generated, which is believed to project a better image with the public than pre-printed forms or hand-written documents. It is, however, necessary to rely upon the postal system which introduces some delay when compared with a "face to face" distribution technique.

4.5.4 All sales staff are company employees which gives the company greater control over:-

- ◆ recruitment standards;
- ◆ training; and
- ◆ supervision.

4.5.5 The automation of underwriting and rating gives direct response insurers greater scope to ensure standards are consistently applied.

4.5.6 The interactive first-hand conversation with the customer enhances the opportunity for the insurer to fully understand the risk being proposed and avoids the customer's need to complete proposal forms or claim forms. The conversation provides the opportunity to identify fraud at the underwriting and claims handling stages.

4.5.7 There are customers, however, who prefer to have the opportunity to study documentation before commitment and perhaps they are less well served.

4.6 Cross Selling

To date, direct response insurers have tended to focus almost exclusively upon Motor insurance and they have not had to face the conflicts associated with cross-selling a wide range of products. This has enabled them to clearly define the segments of the motor market they wish to focus upon and be single minded in meeting customer need.

The creation of a customer base which is comfortable dealing with financial products by telephone provides the potential for meeting a much broader range of customer needs. This in turn can enhance opportunities for selling banking and other insurance products.

4.7 Claims Handling

The direct relationship between the insured and the insurer, and the now widespread use of telephones, gives direct response insurers the following advantages in claims administration:-

- ◆ quicker notification of accidents;
- ◆ instantaneous check on cover;
- ◆ direct repairs contracted to a small dedicated repairer network;
- ◆ no conflicts of interest from intermediaries (agents and brokers) in the claims process; and
- ◆ each claim can be assessed on its merits, without regard to the significance of the intermediaries' account with the insurer.

Apart from these differences, direct insurers' claims handling is very similar to traditional insurers.

4.8 Data

4.8.1 Direct response insurers' methods of operation allow them to capture information efficiently and quickly. For example:-

- ◆ details of quotations are recorded as they are given;
- ◆ policy acceptance is known immediately;
- ◆ claims are notified and recorded very quickly; and
- ◆ all information is recorded at an individual policy level.

4.8.2 As proposal forms (and to a lesser extent claim forms) are not widely used, the data captured can be much more extensive, modified or extended quickly, and adapted to the particular circumstances of the risk.

4.8.3 The speed and depth to which data are available enables direct response insurers to develop management information systems which enable them to closely monitor marketing and underwriting performance.

4.8.4 The resource of an extensive database gives such insurers the potential to become more selective in underwriting and pricing, and more sophisticated in marketing. In addition the speed with which data becomes available creates the opportunity to identify and react to trends more quickly than conventional insurers. Using price to manage accumulations actively becomes a realistic opportunity.

A challenge for actuaries and statisticians in the future will be to develop methods which help direct response insurers exploit the potential that their expanding databases provide.

The current position of direct response insurers can be summarised as:

- ◆ making significant inroads into the motor insurance market; and
- ◆ to date, not making significant progress into other product lines (although they are beginning to enter the household market).

Looking to the future, the leading direct response insurers appear to have achieved their critical mass and so established the economies of scale and efficiency needed to maintain their cost advantage.

The smaller companies, for example, Top UK, and some of the newer entrants (such as Admiral or Touchstone) face the difficult task of quickly acquiring sufficient market share to realise the potential cost advantages, if they are to effectively compete with the established players.

Direct insurers are perceived by motor insurance buyers as providing a quality of service at least equal to, if not better than, that available through brokers. Thus, given both a cost and a service advantage there appears no reason why direct response insurers should not continue to expand their market share.

This expansion, however, is likely to be concentrated upon the main market leaders, since the need for large volumes means the direct response market cannot support the number of small insurers currently operating through the fragmented broker market.

The above arguments do not apply to household insurance, the direct response insurers' only other market at present. Here their major competitors, the building societies and banks, are able to offset the direct response insurers' price advantage because the key quality criteria for customers appear to be convenience and simplicity. Customers currently appear to be willing to trade-off price advantage for the ease of having the insurance arranged by the lender as part of the mortgage (for example).

The existing direct response insurers will come under increasing pressure from other financial services organisations as the telephone becomes an accepted distribution device for brokers and other financial intermediaries.

5. DIRECT RESPONSE MARKETING - "LUXURY PRODUCTS"

5.1 Characteristics

Products such as personal accident, hospital cash and medical expenses can be sold through direct response means. This marketing arm, frequently an addition to other (broker, direct sales) marketing channels, relies on high retention ratios for the business and low claim ratios to counteract the low penetration and the high expenses involved.

5.2 Product Design

Little or no underwriting takes place and all pre-existing conditions are excluded, or some kind of moratorium applied. There is an overwhelming need for clear policy descriptions and attractive benefits.

5.3 Selling Approaches

- (i) Directly through mailing lists or to existing customers by inserts in papers, magazines etc. There is a tendency to generate enquiries that can be fulfilled later.
- (ii) Through "affinity" groups, banks, building societies - typically generating a high response by targeting the product much more closely at the mailing list than (i) above. Commission and profit share to affinity groups can be extremely successful if the right affinity group is used.

5.4 Product Design & Pricing

All these methods involve new business strain and it is essential to use five to ten year profit tests with realistic lapse assumptions in product pricing.

5.5 Cross Selling

Significant opportunities exist for upgrading products and selling other health related products.

6. DIRECT MAIL MARKETING

6.1 Overview

There are two key ways of writing business through direct mail methods, as follows:-

- One Stage: full policy details are embodied in the package mailed and policies are effected without quotation; or
- Two Stage: the package is designed to secure a quotation request. These quotation requests are expected to lead to a high conversion rate to in force policies.

This chapter will concentrate on the former because once enquiries are secured through the two-stage method, processing is identical to that described for "Direct Response Marketing".

6.2 Characteristics

This form of marketing has two essential components, as follows:-

- Mailing List: A list bought nationally, or representing the insurer's clients or those of another organisation, or derived in some other way, is essential. The list has to be closely 'targeted' depending upon the product. Testing of the list is essential so that major expenditure is only undertaken when a degree of confidence has been secured; and
- A Simple Product: The product has to be designed to be easily understood, to secure attractive benefits and to involve a minimum of underwriting.

6.3 Product Design & Pricing

The product as mentioned above has to have "special marketing appeal" which can be secured in a variety of ways:-

- ◆ price;
- ◆ unusually large or unlimited benefits;
- ◆ free gifts, offers and inducements; or
- ◆ guaranteed underwriting acceptance.

The costs of a single campaign can easily run into hundreds of thousands of pounds. It is therefore essential that all expenses, claim costs, lapse rates etc, are identified at the outset. These assumptions can be fed into a simulation model to ensure that the response levels expected generate the required profit. Performance against assumptions can be subsequently monitored.

Particular parameters that need consideration and then accurate reflection in the model are:-

- ◆ the size and affinity of the list to be mailed;
- ◆ the cost of the package to be mailed and the expected response rate from the mailing;
- ◆ the average premium to be secured by the mailing;
- ◆ the 'cooling off' lapse rate. The ABI Code of Practice for general insurance and European standards suggest that a 14 day cooling off period should be allowed. This is good practice anyway;
- ◆ the lapse rate. Although high at first renewal, this should level off at a very low rate thereafter. Publicity could of course lead to a further reduced lapse rate (traditionally, directly mailed buildings and contents insurance policies have had a very low lapse rate but a much higher level of mid-term enquiries is now being experienced);
- ◆ the expected claim cost/loss ratio. This varies with the type of product but certainly high costs in year one, with a subsequent levelling off, have been experienced on household policies sold through this channel;
- ◆ initial and renewal expenses;
- ◆ cost of the list and commission to any third party; and
- ◆ profit share to any third party.

It is crucial to establish the organisation's profit objectives, demonstrate that the venture fulfils the objectives and, *a priori*, identify when the profit will emerge. Management accounting practices may well have to be changed if strain is to be avoided and parallels with life office accounting and profit testing considered.

6.4 Sales Motivation

A very high level of sales per head can be generated by a very small team who will identify closely with, and presumably be rewarded depending upon the success of, the operations undertaken.

6.5 Quality Issues

The key to maintaining a profitable account lies in the quality of policy issue and help lines available.

Policy Issue:	A large number of policies need to be issued in a very short space of time. Experience shows that the 'cooling off' lapses increase rapidly as the fulfilment time is extended. Equally, despite the simplicity of the product, some rejections or amendments may be necessary and these must be identified immediately and processed.
Help Line:	There will always be problems in understanding cover, procedures and appropriateness of policy. Help lines need to be available and problems must be resolved on-line.

Whilst many of the practical problems can be solved using automation, an irregular processing force is needed unless the organisation is constantly mailing. Economies of scale in large mailings need to be balanced against these staffing requirements.

6.6 Cross Selling

Two points emerge here:-

- ♦ this method is used to cross sell when the client has demonstrated some complementary interest; and
- ♦ additional sales, and sales to those who did not proceed with a two stage mailing, can be extremely profitable.

6.7 Claims Handling

Some problems can arise as no "face to face" explanations of cover will have ever been given and the product could well have been an impulse buy without full understanding.

6.8 Data

The simplicity of the forms necessary means that only minimal data can be collected. Allied with the claims handling explanations there may also be an element of underwriting at the point of claim rather than at the proposal stage!

7. HOME SERVICE DISTRIBUTION CHANNEL

7.1 Overview

The home service method of selling business has been in operation for many years with some large insurance companies relying heavily on this technique to sell their insurance products. Some such insurance companies have seen their share of the market reduce as a consequence of the recent advancement of the direct response writers. This is particularly true in the case of motor insurance, although at least one company using the home service method has experienced significant growth in the number of household insurance policies sold through this distribution channel. The direct writers have managed to make such large increases in their share of the market largely as a result of cost effective use of investment in modern technology. There is no reason why existing insurance companies using the home service distribution channel cannot make investments and update their information technology to compete effectively.

7.2 Characteristics

An alternative name for the home service method of selling insurance is the agency system. An agent is a type of insurance intermediary selling insurance products for one or more insurance companies. The agents should adhere to the ABI Code of Practice for the selling of general insurance products.

In the case of the larger home service offices the agent sells business from only that insurer and is employed to act as a company representative: he or she would often be prohibited from having any other form of employment. The agent is remunerated solely by a premium related commission which, in the case of general insurance business, is usually the same for new business and renewals.

For some companies the agent, on appointment, actually "buys" an existing book of business from the insurer, to match the "sale" of the book when another agent leaves. The value of the book depends upon the type and volume of existing business to be serviced and future new business adds to its value.

The nature of the relationship between the agent and insurer places the agent in a strong negotiating position and the threat of withdrawal of support acts as a significant constraint on change.

In order for the agent to become aware of all the insurance products available and to gain an understanding of the financial market as a whole he or she may undergo an initial training period spread over several months. The training will usually include visits to existing and prospective customers. The focus on insurance results in the agent having a higher insurance knowledge base than the typical sales person in a bank or building society.

Business is usually secured by the agent visiting the home and meeting fact to face with the existing or prospective customer. The main source of new business is from existing customers holding other life or general insurance products and building from leads established when servicing these other products in the home. The agent will already have considerable financial background knowledge about the household and can therefore assess which types of insurance product are likely to be required without having to ask unnecessary questions. For example, the agent will typically know when a customer's son is considering buying his first car. Other methods of attracting new business include unsolicited cold calling (by telephone or knocking on house doors) and general enquiries from the public as a response to a recommendation, advertisement or mail shot.

The agent is available to answer the prospective customer's questions (for example about the different types of cover available) and to make sure that all relevant information is truthfully supplied on the application form (immediately seeing, for example, proof of any existing no claims discount). This enables the processing of the insurance cover with the minimum of delay

If standard underwriting criteria are met then the agent can provide a cover note on the spot (cases for which cover notes are not issued immediately generally include large sums insured for household insurance and expensive motor vehicles, and most types of commercial business). The policy documents are then issued by the head office of the insurer and despatched to the customer via the district office from which the agent operates.

In time, and with investment, this process could be improved, creating real customer advantage out of the "face to face" transaction in the home. All of the customer's subsequent dealings will be with the one agent creating a personal rapport instead of with a different, faceless telephone contact each time an approach is made, as is the case with some other distribution means.

An example of such a home services operation could be as follows:-

- ◆ around 5,000 agents each with their specified "sales area";
- ◆ operations from around 200 district offices;
- ◆ each district office has a District Manager (DM) and Assistant District Manager (ADM);
- ◆ around ten Divisional Superintendents who are effectively managers of a sales division and responsible for around 20 district offices. They may be responsible for recruiting, auditing, motivating sales staff and achieving targets, probably reporting to the Agency Manager at head office.

Promotion of agent to ADM or DM, etc, is usually from within the workforce to maintain the friendly face to face contact with the customer. This also makes use of the accumulated experience gained during previous contacts.

The face to face contact with the customer in their own home is of vital importance throughout, since many customers feel more comfortable this way than on a telephone or in an insurance broker's shop. The method has proved to be a particularly effective way of distributing insurance products to the lower socio-economic groups in society.

7.3 Pricing & Product Design

There is a need to distribute rating and underwriting guides to all agents. However, to keep the amount of paperwork to a minimum, and to reduce complexity, the rating design of insurance products has been kept relatively simple. This enables the agent to explain the product to the prospective customer in terms that they can understand. By selling standard products, the costs of underwriting are reduced as has been shown by the direct writers. However, the pricing of the product can be pitched so that more complex products are made

available and will usually involve an agent referring such cases to the insurer for specific underwriting.

One problem that is encountered by insurers using the home service system is the time that it takes from considering a pricing or product design change to the implementation date. This is a reflection of current administrative practice and the difficulty of communication to many thousands of agents.

The products have to be priced to allow for the negotiated rate of commission to the agent. The additional expenses incurred by the insurer in writing the business can be controlled to keep the overall expense and commission ratio in line with that of its competitors. For example, the face to face contact of agents with existing customers to sell further business cuts down the need for expensive mass media advertising.

7.4 Claims Handling

Whatever the type or size of claim, the customer has a personal point of contact with the agent rather than speaking to a broker, or more particularly, to someone over the telephone who may have little knowledge about the claimant's circumstances. The agent is available to help those who may be intimidated by claims forms, or not sure how to complete them, and give advice on what can and cannot be claimed, thus reducing the administrative costs of the insurer. The agent will want to maintain a good relationship with his or her customers throughout the claim process for the benefit of future business and this creates a potential conflict of interest between the agent and insurer. The opportunity for the customer to submit fraudulent smaller claims is reduced as the agent visits the home to deal with the claims and will be in a better position to notice fraud.

The agent has the authority to settle small claims directly while larger claims will be referred for settlement. Claims inspectors operating out of claims offices can examine claims above a certain level and thereby act as a form of claims control for the insurer. A list of approved repairers, as recommended by the insurer using the local knowledge supplied by the claims offices, may be formed and made use of so that any work required to be carried out for the claimant can be done with the minimum of delay.

7.5 Sales Motivation Techniques

The agency salesforce is controlled directly by the insurer and so there is great potential for motivating sales. The obvious motivation is commission, which may vary from one class of business to another. The insurer can pitch the commission rate bearing in mind the commission payable to agents from competitors and the ease with which the agent can sell business (so that the agent does not ignore any particular class of business on commission terms). The agent undergoes continuous training with respect to all insurance products in addition to initial training and therefore gains a thorough knowledge of the wide range of financial products provided by the insurer.

It is up to the agent to take advantage of the face to face contact in order to gain business and retain it. The claim service provided by the agent may be beneficial in this regard.

In addition to the commission motivation to sell business there may be, from time to time, certain marketing campaigns by the insurer involving awards for those agents performing the best - for example a car or holiday. Alternatively, or as well, the insurer may grant discounts, for example to customers who have been loyal and stayed with the insurer for a number of years or grant a discount if customers transfer their buildings insurance from a building society. Again it is up to the agent to focus upon such points during their personal meeting with the customer.

7.6 Sales Quality & Retention

The main advantage of the home service office is the face to face contact the agent has with the customer in the customer's home (where they are likely to be more relaxed and receptive). This applies to the selling of new business, retention of business, after sales service and in particular, the claims service. The agent is able to arrange with the customer the most convenient time to visit him or her at home. This means there is no need for a customer to make contact during office hours, as is the case when dealing with a broker, for example.

The agent can point out the quality of the insurance product to the customer by running through the proposal form and an example of a

policy document. Under or over insurance may also be avoided when the agent has an idea of the items to be insured (and their condition).

Another option which some customers appreciate is that of being able to choose their method of payment for the insurance cover. The home service system may permit several forms of payment method: credit card, direct debit or cheque, with the further option of paying the agent in cash and receiving a receipt immediately - especially handy for those without a bank account. In addition there can be the facility to pay by instalments so that the customer may spread payments over the policy period. The cost to the agent of having to visit a particular customer several times during a year to collect instalment premiums is often not material as the customer may, for example, already have industrial life policies.

On renewal, the agent will usually deliver the renewal notice to the customer, thus enhancing the opportunity to re-sell. The agent is then available to discuss any changes to the cover that the customer may require, for example, increasing the buildings sum insured if an extension to the property has been built, or advising on a new type of cover that has recently been introduced.

7.7 Cross Selling

The agent is ideally placed to ascertain the customers lifestyle and the potential insurance requirements of the family. For example, if the customer has life assurance the agent will be aware that there is a need for contents insurance, probably buildings insurance and possibly also motor insurance. The agent can build up a comprehensive database of each customer and their family by taking advantage of the personal face to face meetings. This is probably the main advantage of the home service office over other distribution techniques.

A customer database can be utilised to gain further business by granting discounts to existing customers who take out insurance cover for other forms of risk to those already held. The agent is well placed to explain such benefits to customers as full knowledge of their insurance requirements will be available, avoiding the need to ask unnecessary questions.

7.8 Data Availability

The importance of using a customer database for the cross-selling of business has already been discussed. In addition to knowing the business in force it is also useful to keep data regarding policies not taken up (including the reason if possible) and lapse or cancellation information for example in targeting future possible sales.

As a result of the personal contact with the customer, the agent can expect to obtain more relevant information about the needs of the customer and the family (and other relevant data) than probably any other seller of insurance. Some of this data will be forwarded to head office and stored on computer file whilst other information may be retained by the agent for future reference.

Obtaining business through agents enables the insurer to obtain policy information and any claims information at an individual policy level. This is important in matching the claims experience to the correct cohort of exposure, and for showing trends in business in force and claims experience.

The data that is usually supplied to the insurer is that contained on the standard proposal and claims forms and is therefore in a prescribed format. The agent can easily check that the forms have been fully completed. Where necessary the insurer should inform the agents if additional information were required to be supplied in advance of the relevant forms being amended. Therefore there is no reason why insurers using the agency system cannot produce as extensive a database as any other insurer.

7.9 Trends

There is no reason why the home service insurer cannot advance its technology, particularly at the point of sale (eg, through lap-top computers), so as to compete with the direct writers. The advantages of the distribution channel could then be realised to reverse the current market trends. For example the advantage of the personal, friendly, face to face contact of the agent with the customer at home should be made use of to its full potential. Hence, providing that such insurers can control their expenses, there is no reason why the direct writers' share of the motor market should grow further.

To some extent the direct writers are turning their attention to the ever increasing and competitive household market which, compared with motor business, has generally seen much higher retention rates for insurers. One of the largest insurers, by number of policies, in this market uses the home service method and has indeed attracted significant buildings business away from the banks and building societies. How successful the direct writers will be in gaining and retaining such business remains to be seen.

8.1 Overview

The distribution of personal lines insurance products has become big business for banks and building societies and now represents a significant component of their income. This growth has occurred at a time when banks' traditional profit streams have come under great pressure and insurance is still seen widely by banks and building societies as a major, unexploited opportunity for the future. As banks and building societies strive to meet all the financial needs of their substantial customer bases, the range of general insurance products offered is beginning to extend from the traditional property protection products which have so far supported core banking activities. Credit insurance products, travel, personal accident, motor and health insurance are now available.

Traditionally, banks and building societies have undertaken the distribution of the general insurance products, and left insurance companies to provide the administrative and underwriting capacity. Over time there has been more delegation of responsibility to the distributor with policy maintenance and even some claims handling undertaken. Publicly, most banks profess not to want to get involved in the risk taking (banking being so safe and predictable) but one bank has for some years very successfully accepted the underwriting risk for much of its product range. Regulation restricts building societies to a 15% stake in an underwriting company, but recently captives have been allowed to help deal with the mortgage indemnity problem.

Virtually all large banks and building societies now insist that their general insurance products carry their brand. Even if administration and claims handling is undertaken by the insurer, there will be a dedicated unit with the distributors brand used when answering customers' enquiries. Some distributors are now becoming concerned about the damage which can be done to their brand if, for example, the claims service is found wanting.

8.2 Characteristics

The banks and building societies have been very successful in high volume, mass market, low complexity and low margin products.

They have strategic advantage which builds upon their strength as distributors:-

- ◆ access to a large, stable client base;
- ◆ wide geographic and demographic coverage;
- ◆ strong brands;
- ◆ client trust and loyalty;
- ◆ close affinity between traditional bank products and insurance;
- ◆ low incremental marketing and distribution costs;
- ◆ control of salesforce;
- ◆ control of customer contact strategy and close proximity to the customer;
- ◆ large economy of scale and purchaser power in dealing with suppliers;
- ◆ access to information; and
- ◆ available capital to exploit the opportunity.

The incentive to capitalise upon these strategic advantages derives from problems of performance of core banking products. They also have difficulties to overcome, of course, which centre upon their declining reputation, the extent to which a customer has relationships with other banks and building societies and the difficulty in creating focus with so many conflicting demands for resources. Competition and steep price rises are changing the traditional inertia which many bank and building society customers have shown when preferring the convenience of branded products from trusted names rather than more specialist advice. Certain major banks and building societies have made it clear that they will resist the onslaught from the direct writers with every means at their disposal, realising that it is their brand, rather than that of the insurers, which is being devalued by the recent price changes. The customer should be the beneficiary as the balance between customer value and shareholder value changes.

The sellers of general insurance products in the branches will typically have little specific insurance experience and, indeed, insurance will be a small part of their workload. The branch may be distributing up to a hundred financial services products and this places particular demands upon insurance product design to compensate for the sellers' inexperience. The very diversity and complexity of the bank support systems may make product changes difficult and slow to achieve in practice.

8.3 Buildings & Contents Insurance Block Policies

8.3.1 Product Design

Block policies tend to be simple products, usually issued as a standard package with little or no underwriting undertaken. The insurer has the advantage, however, of seeing the result of any action taken by the lender as a result of the property survey.

Notional sums assured are calculated for buildings by using estimated rebuilding costs based on area, type of house, number of bedrooms and year of construction.

For contents, the notional sum insured may be based on the number of bedrooms and a standard amount of all-risks cover is automatically included.

The majority of the block policies (more than 90%) will have accidental damage cover.

Most policies (again more than 90%) will have no excess on buildings (except for a compulsory £1,000 excess on subsidence).

The overall requirement is to insure as many properties as possible as protection for the mortgage assets.

8.3.2 Sales Techniques

These policies are generally sold through the branch networks by the mortgage advisers. The sale will be an integral but minor part of the mortgage interview, and will be sold alongside the mortgage itself together with life assurance cover and creditor insurance. It is often a simple sale, with little explanation of the product itself.

The salespeople will normally be salaried with little or no commission element. Commission is normally credited to the branch as part of the overall commission and profit targets.

8.3.3 Quality Issues

Most people buying the product do not realise that it is actually underwritten by a company other than the lender. This will be mainly due to the heavy branding of the product but also because little notice is taken of the policy until a claim occurs.

Partly because of this, but mainly because of the lender's desire for high quality customer service, policy administration may be carried out by the lender, whereby it can exercise its own controls on administration processes. Alternatively, there may be by dedicated units within the insurance companies.

Lenders will sometimes have claims units which will help customers with the claims process and deal with the insurers on their behalf. This is an attempt to ensure that the customers receive the best possible service from the insurers at the time it is needed most.

The lenders can use their purchasing power to secure better services for their customers from the insurance supplier than is generally available.

8.3.4 Cross Selling

As this insurance is normally arranged during the mortgage interview, it is often one of a number of insurances arranged at the same time.

The main area of cross selling once policies have been taken out is to attempt to arrange contents insurance for those customers who have only taken buildings cover, or to improve cover to include accidental damage. This would usually take place at the renewal date of the buildings cover.

8.3.5 Data

The policy files are often held by the lenders, with insurers having access to individual files but not receiving any overall exposure data or analysis. They will be aware of the total premium income and the claims incurred, but without the underlying exposure, little meaningful analysis can be carried

out. Lenders will be concerned to ensure that access to the data is as limited as possible to offset the danger of the insurer using the information for marketing other products.

8.3.6 Costs

At point of sale, additional costs will be minimal as the sales process is normally part of the mortgage interview.

Administration costs to the lender will be considerable if policy administration, premium collection, etc, is done in-house. The cost of this will be taken into account in commission negotiations as the insurer's costs will be correspondingly lower.

8.3.7 Branding

Major lenders will often heavily brand products to the extent that the insurer's name will only appear in the small print of the marketing literature, policy documents and claim forms.

Most people will not realise that the policy is underwritten by a company other than the lender. If asked who they have arranged their insurance with they will often quote the lender's name rather than the insurance company.

8.3.8 Trends

Until 1992, block policies were seen as a stable market by the lenders and they perceived the introduction of geographic rating mainly as a method of upsetting the market. Lenders were forced to follow this route, causing problems at renewal with increases of up to 80% in premium rates for certain customers. The resultant general market disarray, with insurers unable to produce any sort of consistency in premium rating, means that most people will be able to find a cheaper rate from at least one company. This position is made worse by lenders' panel companies selling products at cheaper rates through other distribution channels.

It is expected that further refinement of rating will take place with the move to selected post sector rating in some areas.

Any move to full post code rating is expected to be resisted by lenders who do not wish to see areas 'red-lined' by insurers. This is seen as going against the basic principle of insurance and the major consequence of uninsurable areas will be the lack of protection for the mortgage asset. Indeed an inability to insure, for flood or subsidence reasons, would depress house prices and expose the lender to bad debts.

There is a growing trend for underwriters to quote net rates to the lender reflecting the risk and degree of administration undertaken by the underwriter. The ultimate product price is then left to the discretion of the lender and, if there is a high mark up, the lender must add value in the distribution of the product so as not to be uncompetitive.

8.4 Other Policies

8.4.1 Creditor Insurance

Creditor insurance policies are designed to cover mortgage payments (including any life cover and endowment premiums) in the case of involuntary unemployment, accident or sickness. Cover may also be available to meet other outgoings for example council tax, electricity bills, etc, up to a maximum of 10 to 20% of the monthly mortgage payments.

In recent years, these policies have caused considerable losses to insurers, with claims ratios well in excess of 100% being commonplace. This has resulted, not surprisingly, in the insurers taking action to make these products profitable. This has included:-

- ◆ a reduction in cover from two years to one year for unemployment and three years to two years for accident and sickness;
- ◆ large increases - up to 100% - in the premium rate; and
- ◆ changes in selling practices. Whereas previously creditor insurance could be bought at any time, it is now available during the mortgage interview or through direct mailings at irregular intervals only. This is intended to reduce any

amounts of antiselection which may have occurred when the product was more freely available.

Creditor insurance take-up rates are often 50% or more, depending on the lender. It is often given away as part of a promotional package - for example free unemployment cover on first time buyer packages.

8.4.2 Others

Other general insurance products sold by lenders tend to be relatively small in volume and commission income terms. They include motor, travel, personal accident and private medical insurance.

These are often sold by direct mail to mortgage or savings customers. Some lenders are currently trying to increase the public's awareness that these policies are available in their branches.

9. FINANCIAL COMPARISON OF DIFFERING DISTRIBUTION TECHNIQUES - PROFIT TESTING

9.1 Introduction

9.1.1 Profit testing techniques have been commonplace in the life insurance industry for a number of years, but have not, to the knowledge of the Working Party, been used in the general insurance industry. Possible reasons for this include:-

- ◆ General insurance products are in the main short-term (one year renewable) contracts. As such, there is little contractual commitment between the policyholder and the company regarding ongoing renewals (save "no claims discounts"). Therefore, bringing in profit from future renewals may be considered dubious.
- ◆ The fear of high lapse rates (not uncommon in the life industry) may have deterred many companies from investigating product profitability using such techniques.
- ◆ The presence of actuaries, and hence their techniques in general insurance, whilst now growing substantially, has not been as significant and perhaps not as well accepted as it has been in the life industry.

9.1.2 The advent of direct writing insurers, relying on low lapse and high retention rates to finance their high start-up costs, has meant that profit testing techniques have become both helpful and not unreasonable in justifying their viability, at least in the early stages of their operation.

9.1.3 The mechanics of a profit test for a home insurance policy (including the assumptions set) are described in Appendix 3.

9.1.4 By putting such profit tests onto a computer, be it via a program or spreadsheet, it is possible to arrive at the premium which satisfies a given profit criterion very quickly. It is also possible to obtain valuable information on the shape and incidence of profit and the major constituents of the profit.

9.2 Comparative Results for Different Distribution Approaches

Continuing with the property risk example in Appendix 3, the characteristics of the various distribution channels can be reflected by varying the model input parameters. In each case the target net present value of profits (the pricing strategy) on the contract was to be 40% of the initial premium (the notional solvency margin). Thus invested capital earns 15% pa, and there are additional profits which when discounted at 15%, have a present value at outset equal to the notional solvency margin. This target may be expressed in another way, namely that the present value of the profits less an initial loss (including the notional solvency margin established), all discounted at 15% are equal to the notional solvency margin established at outset. This approach to the setting of a profit target was to allow pricing to reflect expense and capital requirements. The target provides a basis for comparing distribution channels rather than being suggested as an absolute measure of profitability.

The assumptions were intended to be a broadly realistic reflection of reality, for the underwriter (but do not represent any one particular underwriter) as follows:-

		DIRECT	HOME SERVICE	DIRECT MAIL	BROKER	BANK/ BUILDING SOCIETY
Commission	Initial	0	15%	85%	18%	30%
	Renewal	0	15%	0%	18%	30%
Expenses	Year 1	£65	£13.5 + 6%	25%	£40 + 10%	7.5%
	Thereafter	£25	£9 + 6%	10%	£10 + 10%	7.5%
Lapses	Mid Term	1%	0%	2%	5%	2.5%
	Ren'l Yr 1	15%	10%	8%	30%	7.5%
	Ren'l Yr 2	10%	10%	8%	20%	7.5%
	Ren'l Yr 3+	10%	10%	8%	10%	7.5%
Required Gross Initial Premium		£160	£169	£204	£221	£201

The full spreadsheet outputs from each of these profit tests are also shown in Appendix 3.

The range of gross premium, from £160 to £221 to create the same financial performance is a measure of the relative advantage which the various distribution techniques carry.

9.3 Sensitivity Tests

There are recognised opportunities for each of the distribution methods to improve performance and the benefits measured by product price are geared. By way of example, the sensitivity in premium rate within distribution channel was assessed by varying the renewal lapse rate by $\pm 5\%$, eg, an original renewal lapse rate assumption of 10% pa is adjusted to 15% or 5% (negative lapse rates are eliminated) respectively. The table below illustrates the results of this analysis, which indicates an appropriate premium rate increase/decrease with a $\pm 5\%$ deterioration/improvement in the retention rate on renewal. The most sensitive premium rate arises in the Direct Mail distribution channel, because the profit profile of the contract involves the largest strain in year one and bigger surpluses thereafter relative to the other distribution channels.

Results of Sensitivity Test for Premium Rate by Renewal Lapse Rate Within Distribution Channel

CHANGE IN BASIS	ANNUAL PREMIUM £	PREMIUM RATE CHANGE
Broker:		
Standard Lapses (see Table above)	220.88	-
Lapses +5%	228.96	+3.7%
Lapses -5%	213.67	-3.3%
Home Service:		
Standard Lapses (see Table above)	168.71	-
Lapses +5%	172.15	+2.0%
Lapses -5%	165.61	-1.8%
Direct Sale:		
Standard Lapses (see Table above)	160.00	-
Lapses +5%	162.92	+1.0%
Lapses -5%	156.62	-2.1%
Direct Mail:		
Standard Lapses (see Table above)	204.02	-
Lapses +5%	220.30	+8.0%
Lapses -5%	190.87	-6.4%
Bancassurance:		
Standard Lapses (see Table above)	220.55	-
Lapses +5%	205.33	+2.4%
Lapses -5%	196.29	-2.1%

9.4 In summary the profit-test provides:

- ◆ proof that the profit criterion is satisfied (or not) on the assumptions made;
- ◆ information about the shape of the earnings that might be expected from the product;
- ◆ information on the major sources of profit contained in the product and the sensitivity of the overall profit to changes in the assumptions; and
- ◆ an indication of the level of initial strain (capital employed) for each policy sold.

9.5 Model Office

By layering profit tests of each future year of new business a projection of future business results can be produced. Similarly, existing business may also be modelled. A combined projection of existing and future new business across product lines will provide a forecast of future earnings on a company wide basis. Such projections can be used for business planning purposes, monitoring, analysis of profit and embedded/appraisal valuations.

Appendix 4 provides recent data on the relative performance of the various distribution channels.

It is clear to the Working Party that the distribution of UK personal lines general insurance products is indeed undergoing structural change. Recognition of the forces driving the change should allow general insurance actuaries to make a significant contribution to the outcome via the application of analytical techniques and influencing skills!

We look forward to the debate and gaining further insights into the emerging trends.

GENERAL INSURANCE BUSINESS - CODE OF PRACTICE FOR ALL INTERMEDIARIES (INCLUDING EMPLOYEES OF INSURANCE COMPANIES) OTHER THAN REGISTERED INSURANCE BROKERS (INTRODUCED JANUARY 1989)

This Code applies to general business as defined in the Insurance Companies Act 1982, but does not apply to reinsurance business. As a condition of membership of the Association of British Insurers, members undertake to enforce this Code and to use their best endeavours to ensure that all those involved in selling their policies observe its provisions.

It shall be an overriding obligation of an intermediary at all times to conduct business with the utmost good faith and integrity.

In the case of complaints from policyholders (either direct or indirect, for example through a trading standards officer or citizens advice bureau), the insurance company concerned shall require an intermediary to co-operate so that the facts can be established. An intermediary shall inform the policyholder complaining that he can take his problem direct to the insurance company concerned.

A. GENERAL SALES PRINCIPLES

1. The intermediary shall:-

- (i) where appropriate, make a prior appointment to call. Unsolicited or unarranged calls shall be made at an hour likely to be suitable to the prospective policyholder;
- (ii) when he makes contact with the prospective policyholder, identify himself and explain as soon as possible that the arrangements he wishes to discuss could include insurance. He shall make it known that he is:-
 - (a) an employee of an insurance company, for whose conduct the company accepts responsibility; or
 - (b) an agent of one company, for whose conduct the company accepts responsibility; or
 - (c) an agent of two or up to six companies, for whose conduct the companies accept responsibility; or
 - (d) an independent intermediary seeking to act on behalf of the prospective policyholder, for whose conduct the company/companies do not accept responsibility;
- (iii) ensure as far as possible that the policy proposed is suitable to the needs and resources of the prospective policyholder;
- (iv) give advice only on those insurance matters in which he is knowledgeable and seek or recommend other specialist advice when necessary; and
- (v) treat all information supplied by the prospective policyholder as completely confidential to himself and to the company or companies to which the business is being offered.

2. The intermediary shall not:-

- (i) inform the prospective policyholder that his name has been given by another person, unless he is prepared to disclose that person's name if requested to do so by the prospective policyholder and has that person's consent to make that disclosure;
- (ii) make inaccurate or unfair criticisms of any insurer; or
- (iii) make comparisons with other types of policy unless he makes clear the differing characteristics of each policy.

B. EXPLANATION OF THE CONTRACT

The intermediary shall:-

- (i) identify the insurance company;

- (ii) explain all the essential provisions of the cover afforded by the policy, or policies, which he is recommending, so as to ensure as far as possible that the prospective policyholder understands what he is buying;
- (iii) draw attention to any restrictions and exclusions applying to the policy;
- (iv) if necessary, obtain from the insurance company specialist advice in relation to items (ii) and (iii) above;
- (v) not impose any charge in addition to the premium required by the insurance company without disclosing the amount and purpose of such charge, and
- (vi) if he is an independent intermediary, disclose his commission on request.

C. DISCLOSURE OF UNDERWRITING INFORMATION

The intermediary shall, in obtaining the completion of the proposal form or any other material:-

- (i) avoid influencing the prospective policyholder and make it clear that all the answers or statements are the latter's own responsibility; and
- (ii) ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective policyholder by drawing his attention to the relevant statement in the proposal form and by explaining them himself to the prospective policyholder.

D. ACCOUNTS AND FINANCIAL ASPECTS

The intermediary shall, if authorised to collect monies in accordance with the terms of his agency appointment:-

- (i) keep a proper account of all financial transactions with a prospective policyholder which involve the transmission of money in respect of insurance;
- (ii) acknowledge receipt (which, unless the intermediary has been otherwise authorised by the insurance company, shall be on his own behalf of all money received in connection with an insurance policy and shall distinguish the premium from any other payment included in the money; and
- (iii) remit any such monies so collected in strict conformity with his agency appointment.

E. DOCUMENTATION

The intermediary shall not withhold from the policyholder any written evidence or documentation relating to the contract of insurance.

F. EXISTING POLICYHOLDERS

The intermediary shall abide by the principles set out in this Code to the extent that they are relevant to his dealings with existing policyholders.

G. CLAIMS

If the policyholder advises the intermediary of an incident which might give rise to a claim, the intermediary shall inform the company without delay, and in any event within three working days, and thereafter give prompt advice to the policyholder of the company's requirements concerning the claim, including the provision as soon as possible of information required to establish the nature and extent of the loss. Information received from the policyholder shall be passed to the company without delay.

H. PROFESSIONAL INDEMNITY COVER FOR INDEPENDENT INTERMEDIARIES

The intermediary shall obtain, and maintain in force, professional indemnity insurance in accordance with the requirements of the Association of British Insurers as set out in the Annex, which may be updated from time to time.

I. LETTERS OF APPOINTMENT

This Code of Practice shall be incorporated verbatim or by reference in all Letters of Appointment of non-registered intermediaries and no policy of the company shall be sold by such intermediaries except within the terms of such a Letter of Appointment.

STATEMENT OF GENERAL INSURANCE PRACTICE

The following Statement of normal insurance practice applies to general insurances of policyholders resident in the UK and insured in their private capacity only

PROPOSAL FORMS

- (a) The declaration at the foot of the proposal form should be restricted to completion according to the proposer's knowledge and belief.
- (b) Neither the proposal form nor the policy shall contain any provision converting the statements as to past or present fact in the proposal form into warranties. But insurers may require specific warranties about matters which are material to the risk.
- (c) If not included in the declaration, prominently displayed on the proposal form should be a statement:-
 - (i) drawing the attention of the proposer to the consequences of the failure to disclose all material facts, explained as those facts an insurer would regard as likely to influence the acceptance and assessment of the proposal;
 - (ii) warning that if the proposer is in any doubt about facts considered material, he should disclose them.
- (d) Those matters which insurers have found generally to be material will be the subject of clear questions in proposal forms.
- (e) So far as is practicable, insurers will avoid asking questions which would require expert knowledge beyond that which the proposer could reasonably be expected to possess or obtain or which would require a value judgement on the part of the proposer.
- (f) Unless the prospectus or the proposal form contains full details of the standard cover offered, and whether or not it contains an outline of that cover, the proposal form shall include a prominent statement that a specimen copy of the policy form is available on request.
- (g) Proposal forms shall contain a prominent warning that the proposer should keep a record (including copies of letters) of all information supplied to the insurer for the purpose of entering into the contract.
- (h) The proposal form shall contain a prominent statement that a copy of the completed form:-
 - (i) is automatically provided for retention at the time of completion; or
 - (ii) will be supplied as part of the insurer's normal practice; or
 - (iii) will be supplied on request within a period of three months after its completion.
- (i) An insurer shall not raise an issue under the proposal form, unless the policyholder is provided with a copy of the completed form.

2. CLAIMS

- (a) Under the conditions regarding notification of a claim, the policyholder shall not be asked to do more than report a claim and subsequent developments as soon as reasonably possible except in the case of legal processes and claims which a third party requires the policyholder to notify within a fixed time where immediate advice may be required.
- (b) An insurer will not repudiate liability to indemnify a policyholder:-
 - (i) on grounds of non-disclosure of a material fact which a policyholder could not reasonably be expected to have disclosed;
 - (ii) on grounds of misrepresentation unless it is a deliberate or negligent misrepresentation of a material fact

APPENDIX 3 THE PROFIT TEST

The mechanism of the profit test will be illustrated by way of a simple annual premium home insurance policy sold directly (ie, without commission). For simplicity, the reserve basis for unearned premiums uses an even earnings profile and no deferred acquisition costs are incorporated. The outstanding claims reserve is based on a claims settlement pattern described below.

The first part of a profit test is the calculation of the expected earnings each year. The constituent parts will be some or all of the following items:-

- ◆ Premiums Received
- ◆ Investment Income Received
- ◆ Claims Paid
- ◆ Commissions Paid
- ◆ Expenses Incurred
- ◆ Tax Liabilities
- ◆ Increase in Reserves

In addition, a solvency margin (SM) strain will arise at outset (based on the desired corporate ratio of SM to written premiums) which will earn interest and eventually be released at the end of the profit testing period.

The results of the profit test will be demonstrated on the following set of "realistic" assumptions:-

- | | | | | | |
|---|--------------------------|---|---|----------------|-----------------|
| ◆ | Rate of Return | - | on insurance funds 7% pa | | |
| | | - | on shareholders funds 9% pa | | |
| ◆ | Expenses | - | Year 1 £40 | | |
| | | - | Annual maintenance £25 per policy, subject to inflation | | |
| ◆ | Lapse Rates | | | <u>Renewal</u> | <u>Mid-Term</u> |
| | | - | Year 1 | 15% | 1% |
| | | - | Year 2 | 10% | 1% |
| | | - | Year 3 | 10% | 1% |
| | | - | Thereafter | 10% | 1% |
| ◆ | Inflation Rate | - | 5% pa | | |
| ◆ | Taxation Rate on Profits | - | Nil | | |

- ♦ Risk Discount Rate (required yield on shareholders funds and additional profit discount rate)

- 15%

- ♦ Claims Incurred Amounts

		<u>Loss Ratio</u>	<u>Amount</u>
Per Policy in Force	- Year 1	80%	£128
	- Year 2	75%	£126
	- Year 3	70%	£123
	- Year 4	70%	£130
	- Thereafter	70%	£136
		(escalating @ 5% pa)	

- ♦ For simplicity, claims are assumed to be spread evenly over the year. The settlement pattern, ie, of the claims incurred in a year the percentage paid by the end of each year, assumed is:

- Year 1 85%
 - Year 2 92.5%
 - Year 3 100%

- ♦ Solvency Margin - 40% of written premiums

Table 1 below shows the expected earnings from this profit test in Year 1 allowing for the initial strain at outset arising from setting up the solvency margin.

At this stage the premium of £160 (escalating @ 5% pa) has been estimated. The earned premiums reflect a pro-rata refund of written premiums resulting from mid-term lapses. For the purpose of keeping the example simple the interest on the technical reserves (less initial expenses and commission) and SM has been calculated based on mid-year averages. The figures for incurred claims, commission and expenses are self explanatory. The reserves are those required for the outstanding claims and unearned premiums at the end of the year (the end year unearned premium reserve is zero as the premium is assumed to be written at the beginning of each year).

The present value of Year 1 earnings at outset has been calculated by discounting the cash-flow items and reserve/SM movements allowing for their obvious incidence (in general either mid-year or start year). However, for incurred claims, a mean average term of 0.7 years (allowing for the settlement pattern and discount rate) has been assumed to derive the associated present value.

TABLE 1: EXPECTED EARNINGS IN YEAR 1 PER POLICY ISSUED

		£	£
Earned Premiums	$160 * 0.995$		159.20
Incurred Claims	$160 * 0.995 * 0.8$	127.36	
Commission	Nil	0.00	
Expenses	- Initial 40	40.00	
	- Renewal $25 * 0.995$	24.87	
			<hr/> 192.23
Underwriting Profit			-33.03
Interest on Average	$0.5 * (160 + 0 - 40 + 0 + 19.10) * 0.07$		4.87
Technical Reserves (less initial expenses/ commission)			<hr/>
Insurance Result			-28.16
Transferred to Solvency			
Margin at Beginning of Year 1	$0.4 * 160$	-64.00	
Interest on Average SM	$0.5 * (64 + 63.36) * 0.09$	5.73	
			<hr/> -58.27
Earnings for Year 1			-86.43
Present Value of Year Earnings at Outset			<hr/> -73.55

Table 2 below repeats the profit test for the second year, again allowing for the movement in the SM at the beginning of the year. The premium is escalated by 5%, but there are fewer policies now in-force because of lapses. In particular, the renewal lapse rate is deemed to occur at the start of each year. The interest items are calculated on the average reserves (less initial expenses/commission) and the average SM. Again, earned premiums, incurred claims, commission and expenses are self-explanatory and the reserves are those required at the end of the year. The earnings show for this year a profit and it has been discounted at the discount rate (of 15%) allowing for the incidence of the cash-flow items, to the outset of the policy using the same methodology as for year 1.

TABLE 2: EXPECTED EARNINGS IN YEAR 2 PER POLICY ISSUED AND RENEWED

			£
Earned Premiums	$160 \times 1.05 \times 0.85 \times 0.09 \times 0.995$		140.67
Incurred Claims	140.67×0.75	105.50	
Commission	Nil	0.00	
Expenses	- Initial	Nil	0.00
	- Renewal	$25 \times 1.05 \times 0.85 \times 0.99 \times 0.995$	21.98
			<hr/> 127.48
Underwriting Profit			<hr/> 13.19
Interest on Average	$0.5 \times (141.37 + 0 + 19.10 + 25.38) \times 0.07$		6.50
Technical Reserves (less initial expenses/ commission)			
Insurance Result			<hr/> 19.69
Transferred to Solvency			
Margins at Beginning of Year 2	56.55-64		7.45
Interest on Average SM	$0.5 \times (56.55 + 55.98) \times 0.09$		5.06
Earnings for Year 2			<hr/> 32.20
Present Value of Year 2 Earnings at Outset			<hr/> 37.21

Table 3 below shows the result of this exercise for each policy year over a 5 year period. The total present value of profits is £66.71. This is the figure to be compared with criterion established for the profitability of the product, eg, the present value of profits should be equal to 40% of the initial premium (or a % of commission). If the present value of profits is zero then the product is basically just delivering a 15% pa return on capital employed.

TABLE 3
SUMMARY OF PRESENT VALUE AT OUTSET OF EARNINGS
ARISING IN EACH POLICY YEAR

<u>Policy Year</u>	<u>Present Value (£)</u>
1	-73.55
2	37.21
3	32.65
4	26.17
5	44.23
	<hr/>
	66.71
	<hr/>

**CODE OF PRACTICE FOR THE SELLING OF GENERAL INSURANCE
PROFESSIONAL INDEMNITY COVER REQUIRED
FOR NON-REGISTERED INDEPENDENT INTERMEDIARIES**

As from 1st January 1989 (new agents) and by 1st July 1989 (existing agents) all non-registered independent intermediaries must take out and maintain in force professional indemnity cover in accordance with the requirements set out below.

The insurance may be taken out with any authorised UK or EEC insurer who has agreed to:-

- (a) issue cover in accordance with the requirements set out below;
- (b) provide the intermediary with an annual certificate as evidence that the cover meets the ABI requirements, this certificate to contain the name and address including postcode of the intermediary, the policy number, the period of the policy, the limit of indemnity, the self-insured excess and the name of the insurer;
- (c) send a duplicate certificate to ABI at the time the certificate is issued to the intermediary;
- (d) inform ABI, by means of monthly lists, of any cases of non-renewal, cancellation of the cover mid-term or of the cover becoming inadequate.

The requirements are as follows:-

A. LIMITS OF INDEMNITY

The policy shall at inception and at each renewal date, which shall not be more than 12 months from inception or the last renewal date, provide a minimum limit of indemnity of either:-

- (a) a sum equal to three times the annual general business commission of the business for the last accounting period ending prior to inception or renewal of the policy, or a sum of £250,000, whichever sum is the greater.

In no case shall the minimum limit of indemnity be required to exceed £5m, and a minimum sum of £250,000 shall apply at all times to each and every claim or series of claims arising out of the same occurrence.

or

- (b) a sum equal to three times the annual general business commission of the business for the last accounting period ending prior to inception or renewal of the policy, or a sum of £500,000 whichever sum shall be the greater.

In no case shall the minimum limit of indemnity be required to exceed £5m.

B. MAXIMUM SELF-INSURED EXCESS

The maximum self-insured excess permitted in normal circumstances shall be 1% of the minimum limit of indemnity required by Paragraph A(a) or A(b) above as the case may be. Subject to the agreement of the professional indemnity insurer, the self-insured excess may be increased to a maximum of 2% of such minimum limit of indemnity.

C. SCOPE OF POLICY COVER

The policy shall indemnify the insured:-

(a) against losses arising from claims made against the insured:

- (i) for breach of duty in connection with the business by reason of any negligent act, error or omission; and
- (ii) in respect of libel or slander or in Scotland defamation, committed in the conduct of the business by the insured, any employee or former employee of the insured, and where the business is or was carried on in partnership any partner or former partner of the insured; and
- (iii) by reason of any dishonest or fraudulent act or omission committed or made in the conduct of the business by any employee (other than a director of a body corporate) or former employee (other than a director of a body corporate) of the insured;

and

(b) against claims arising in connection with the business in respect of:-

- (i) any loss of money or other property whatsoever belonging to the insured or for which the insured is legally liable in consequence of any dishonest or fraudulent act or omission of any employee (other than a director of a body corporate) or former employee (other than a director of a body corporate) of the insured; and
- (ii) legal liability incurred by reason of loss of documents and costs and expenses incurred in replacing or restoring such documents.

D. GENERAL BUSINESS ONLY

The above requirements relate only to the intermediary's general insurance business.

Association of British Insurers
November 1988

ASSUMPTIONS FOR PROFIT TEST OF DIRECT MAIL

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General

Average Premium 204.02 p.a. payable 1
Deferred Acquisition Exps 0.0% 1st year only
Term 5 years

Per Pol Per Prem

Exps	H/O	Initial	0 15.0%
	Rnl	0 10.0%	
	Claims		
	O/H		
Field	Initial		
	Renewal		
Comm's on	Initial	85.0%	
	Renewal	0.0%	
Reins Allow	Initial	0.0% Reinsured	
	Renewal	0.0%	

Solvency Margin (% WP) 40.0%
Solvency Margin (% Claims) 23.0%

Economic

Shareholders rate of return 15.0%
Discount Rate 15.0%
Premium Escalation Rate 5.0%
Expense Inflation 5.0%
Return on Technical Reserv 7.0%
Return on SHs Funds 9.0%
Tax Rate 0.0%

Date 27 8 93
Time 15 57

Demographic

Lapse Rates p.a.

yr 1	Renew Mid-term
yr 2	8.0% 2.0%
yr 3	8.0% 2.0%
yr 4 +	8.0% 2.0%

Claims Incurred
Per 1 in force

Year1	128.00
Year2	126.00
Year3	123.00
Year4	130.00
Year5	136.00
Year6	142.80
Year7	149.94
Year8	157.44
Year9	165.31
Year10	173.57

RESERVES

Claim Settlement Patt

yr 1	85.0%
yr 2	92.5%
yr 3	100%
yr 4	100%
yr 5	100%
yr 6	100%
Weighting	0.704
Weight used	0.7

15.0%														
Year of y.	In force Min-year	Discount Factor	Written Premium	AP' Income	Premium Incurred	Comm- Initial Expenses	Renewal Expenses	UW/ Profit	Inv Income	Cross Insurance		Net Insurance		Net Margin
										Result	Tax	Result	Solvency	
Year of y.	Next Year	e of year	Income	e of y	Claims	Commission	Initial Expenses	Profit	Inv Income	Technical Rsvs		Result	Margin	e of y
										Technical	Rsvs			
0	1.0000	0.9900	1.0000	204.02									81.61	
1	0.9016	0.8926	0.8696	204.02	193.14	201.98	126.72	171.68	30.60	6.73	-140.5	0.00	-140.5	77.26
2	0.8129	0.8048	0.7561	193.14	182.84	191.21	112.47	0.00		8.35	67.97	0.00	67.97	73.14
3	0.7329	0.7256	0.6575	182.84	173.10	181.02	98.98	0.00		8.14	72.07	0.00	72.07	69.24
4	0.6608	0.6542	0.5718	173.10	163.87	171.36	94.32	0.00		7.63	67.53	0.00	67.53	65.55
5	0.5958	0.5898	0.4972	163.87	155.13	162.23	88.97	0.00		7.21	64.24	0.00	64.24	62.05
6	0.5371	0.5318	0.4323	155.13	146.86	153.58	84.22	0.00		6.82	60.82	0.00	60.82	58.74
7	0.4843	0.4794	0.3759	146.86	139.03	145.39	79.73	0.00		6.46	57.57	0.00	57.57	55.61
8	0.4366	0.4323	0.3269	139.03	131.61	137.64	75.48	0.00		6.11	54.50	0.00	54.50	52.65
9	0.3937	0.3897	0.2843	131.61	124.60	130.30	71.46	0.00		5.79	51.60	0.00	51.60	49.84
10	0.3549	0.3514	0.2472	124.60	117.95	123.35	67.65	0.00		5.48	48.85	0.00	48.85	47.18
11	0.3200	0.3168	0.2149	117.95	111.66	116.77	64.04	0.00		5.18	46.24	0.00	46.24	44.67
12	0.2885	0.2856	0.1869	111.66	105.71	110.55	60.63	0.00		4.91	43.78	0.00	43.78	42.28
13	0.2601	0.2575	0.1625	105.71	100.07	104.65	57.39	0.00		4.65	41.44	0.00	41.44	40.03
14	0.2345	0.2322	0.1413	100.07	94.74	99.07	54.33	0.00		4.40	39.23	0.00	39.23	37.89
15	0.2115	0.2093	0.1229	94.74	89.69	93.79	51.44	0.00		4.16	37.14	0.00	37.14	35.87
16	0.1906	0.1887	0.1069	89.69	84.90	88.79	48.69	0.00		3.94	35.16	0.00	35.16	33.96
17	0.1719	0.1702	0.0929	84.90	80.38	84.05	46.10	0.00		3.73	33.28	0.00	33.28	32.15
18	0.1550	0.1534	0.0808	80.38	76.09	79.57	43.64	0.00		3.53	31.51	0.00	31.51	30.44
19	0.1397	0.1383	0.0703	76.09	72.03	75.33	41.31	0.00		3.34	29.83	0.00	29.83	28.81
20	0.1260	0.1247	0.0611	72.03	0.00	71.31	39.11	0.00		3.17	28.24	0.00	28.24	9.00

TOTAL FOR 5 YRS 81.61

Date 27 8 93
Time 15 55

546

15.0%															Net		Net																			
Year	In force	Mid-year	Discount	Factor	Year	Written	APL	Premium	Income	e of y	Premium	Incurred	Commi-	Initial	Renewal	UNW	Inv	Gross		Net		Net														
																		Insurance	Result	Tax	Insurance	Result	Income	Technical	Solvency	Margin	e of y	Solvency	Income	Cashflow	Disctd	Claims				
																																	Reserve	Reserve		
																																			Cashflow	Reserve
															Margin		only)		0.00																	
0	1.0000	0.9900	1.0000				168.71												67.49																	
1	0.8820	0.8732	0.8696	168.71	156.25	167.03	126.72	25.05	4.00	19.43	-8.17	6.43	-1.74	0.00	-1.74	62.50	6.01	63.22	-50.84	19.01																
2	0.7779	0.7701	0.7561	156.25	144.70	154.68	110.02	23.20		17.99	3.47	7.04	10.51	0.00	10.51	57.88	5.57	21.07	27.63	26.01																
3	0.6861	0.6793	0.6575	144.70	134.01	143.25	94.73	21.49		16.66	10.37	6.76	17.14	0.00	17.14	53.60	5.16	26.91	27.33	22.46																
4	0.6052	0.5991	0.5718	134.01	124.10	132.67	88.30	19.90		15.43	9.03	6.19	15.22	0.00	15.22	49.64	4.78	24.27	21.62	20.35																
5	0.5338	0.5284	0.4972	124.10	114.93	122.86	81.48	18.43		14.29	8.66	5.72	14.38	0.00	14.38	45.97	4.42	68.73	41.74	18.84																
6	0.4708	0.4661	0.4323	114.93	106.44	113.78	75.46	17.07		13.23	8.02	5.29	13.31	0.00	13.31	42.58	4.10	0.00	0.00	17.43																
7	0.4152	0.4111	0.3759	106.44	98.57	105.37	69.88	15.81		12.26	7.43	4.90	12.33	0.00	12.33	39.43	3.79	0.00	0.00	16.14																
8	0.3662	0.3626	0.3269	98.57	91.29	97.59	64.72	14.64		11.35	6.88	4.54	11.42	0.00	11.42	36.52	3.51	0.00	0.00	14.95																
9	0.3230	0.3198	0.2843	91.29	84.54	90.37	59.93	13.56		10.51	6.37	4.20	10.58	0.00	10.58	33.82	3.25	0.00	0.00	13.84																
10	0.2849	0.2820	0.2472	84.54	78.29	83.70	55.51	12.55		9.73	5.90	3.89	9.79	0.00	9.79	31.32	3.01	0.00	0.00	12.82																
11	0.2513	0.2488	0.2149	78.29	72.51	77.51	51.40	11.63		9.02	5.47	3.60	9.07	0.00	9.07	29.00	2.79	0.00	0.00	11.87																
12	0.2216	0.2194	0.1869	72.51	67.15	71.78	47.61	10.77		8.35	5.06	3.34	8.40	0.00	8.40	26.86	2.58	0.00	0.00	11.00																
13	0.1955	0.1935	0.1625	67.15	62.19	66.48	44.09	9.97		7.73	4.69	3.09	7.78	0.00	7.78	24.87	2.39	0.00	0.00	10.18																
14	0.1724	0.1707	0.1413	62.19	57.59	61.57	40.83	9.23		7.16	4.34	2.86	7.20	0.00	7.20	23.04	2.22	0.00	0.00	9.43																
15	0.1521	0.1505	0.1229	57.59	53.34	57.02	37.81	8.55		6.63	4.02	2.65	6.67	0.00	6.67	21.33	2.05	0.00	0.00	8.73																
16	0.1341	0.1328	0.1069	53.34	49.39	52.80	35.02	7.92		6.14	3.72	2.46	6.18	0.00	6.18	19.76	1.90	0.00	0.00	8.09																
17	0.1183	0.1171	0.0929	49.39	45.74	48.90	32.43	7.34		5.69	3.45	2.27	5.72	0.00	5.72	18.30	1.76	0.00	0.00	7.49																
18	0.1043	0.1033	0.0808	45.74	42.36	45.29	30.03	6.79		5.27	3.19	2.11	5.30	0.00	5.30	16.95	1.63	0.00	0.00	6.94																
19	0.0920	0.0911	0.0703	42.36	39.23	41.94	27.81	6.29		4.88	2.96	1.95	4.91	0.00	4.91	15.69	1.51	0.00	0.00	6.42																
20	0.0812	0.0804	0.0611	39.23	0.00	38.84	25.76	5.83		4.52	2.74	1.81	4.54	0.00	4.54	5.92	1.40	0.00	0.00	5.95																

TOTAL FOR 5 YRS 67.49

Date	27	8	93
Time	15	53	

Demographic

Lapse Rates p.a.	Renew Mid-term
yr 1	30.0% 5.0%
yr 2	20.0% 5.0%
yr 3	10.0% 5.0%
yr 4 +	10.0% 5.0%

Lapse Rates p.a.	Renew Mid-term
yr 1	30.0% 5.0%
yr 2	20.0% 5.0%
yr 3	10.0% 5.0%
yr 4 +	10.0% 5.0%

Exps	H/O	Initial	30	0.0%	Claims Incurred	Year1
		Rnl	10	10.0%	Per 1 in force	Year2
		Claims				Year3
		O/H				Year4
Field		Initial				Year5
		Renewal				Year6
Comm'son		Initial		18.0%		Year7
		Renewal		18.0%		Year8
Reins Allow		Initial		0.0% Reinsured		Year9
		Renewal		0.0%		Year10
						128.00
						126.00
						123.00
						130.00
						136.00
						142.80
						149.94
						157.44
						165.31
						173.57

Claims Incurred Per 1 in force	Year1	Year2	Year3	Year4	Year5	Year6	Year7	Year8	Year9	Year10
	128.00	126.00	123.00	130.00	136.00	142.80	149.94	157.44	165.31	173.57

Claims Incurred Per 1 in force	Year1	Year2	Year3	Year4	Year5	Year6	Year7	Year8	Year9	Year10
	128.00	126.00	123.00	130.00	136.00	142.80	149.94	157.44	165.31	173.57

Claims Incurred Per 1 in force	Year1	Year2	Year3	Year4	Year5	Year6	Year7	Year8	Year9	Year10
	128.00	126.00	123.00	130.00	136.00	142.80	149.94	157.44	165.31	173.57

RESERVES

Claim Settlement	Patt	yr 1	yr 2	yr 3	yr 4	yr 5	yr 6
85.0%							
92.5%							
100%							
100%							
100%							
100%							

yr 2	92.5%
yr 3	100%
yr 4	100%
yr 5	100%
yr 6	100%

Weighting	0.704
Weight used	0.7

Year	15.0%										Gross		Net		Net					
	Inforce Mid-year only	Discount Factor	Written Premium	AF1 Inforce	Premiums Earned	Incurred Claims	Commissi	Initial Expenses	Renewal Expenses	UW Profit	Inv Income	Insurance Result	Tax	Insurance Result	Margin e of y.	Solvency Income	Investme	Cashflow	Discl	Claims
220.88										Rsvs		Margin		only)		0.00				
0	1.0000	0.9750	1.0000												88.35					
1	0.6650	0.6484	0.8696	220.88	154.23	215.36	124.80	38.77	30.00	31.29	9.49	7.34	-2.15	0.00	-2.15	61.69	7.75	-82.75	-69.72	18.72
2	0.5054	0.4928	0.7561	154.23	123.08	150.38	81.70	27.07		21.85	19.77	6.81	26.58	0.00	26.58	49.23	5.41	58.65	58.37	21.61
3	0.4321	0.4213	0.6575	123.08	110.49	120.00	60.61	21.60		17.43	20.36	5.60	25.95	0.00	25.95	44.20	4.32	42.74	37.10	15.22
4	0.3695	0.3602	0.5718	110.49	99.19	107.73	54.77	19.39		15.65	17.92	4.85	22.76	0.00	22.76	39.68	3.88	31.68	24.59	12.76
5	0.3159	0.3080	0.4972	99.19	89.05	96.71	48.99	17.41		14.05	16.27	4.32	20.58	0.00	20.58	35.62	3.48	64.21	38.01	11.46
6	0.2701	0.2633	0.4323	89.05	79.95	86.83	43.98	15.63		12.61	14.60	3.88	18.48	0.00	18.48	31.98	3.13	0.00	0.00	10.27
7	0.2309	0.2251	0.3759	79.95	71.77	77.95	39.48	14.03		11.32	13.11	3.48	16.59	0.00	16.59	28.71	2.81	0.00	0.00	9.22
8	0.1974	0.1925	0.3269	71.77	64.43	69.98	35.45	12.60		10.17	11.77	3.12	14.89	0.00	14.89	25.77	2.52	0.00	0.00	8.28
9	0.1688	0.1646	0.2843	64.43	57.84	62.82	31.82	11.31		9.13	10.57	2.81	13.37	0.00	13.37	23.14	2.26	0.00	0.00	7.43
0	0.1443	0.1407	0.2472	57.84	51.93	56.40	28.57	10.15		8.19	9.49	2.52	12.00	0.00	12.00	20.77	2.03	0.00	0.00	6.67
1	0.1234	0.1203	0.2149	51.93	46.62	50.63	25.65	9.11		7.36	8.52	2.26	10.78	0.00	10.78	18.65	1.82	0.00	0.00	5.99
2	0.1055	0.1029	0.1869	46.62	41.85	45.45	23.02	8.18		6.60	7.64	2.03	9.67	0.00	9.67	16.74	1.64	0.00	0.00	5.38
3	0.0902	0.0880	0.1625	41.85	37.57	40.81	20.67	7.35		5.93	6.86	1.82	8.69	0.00	8.69	15.03	1.47	0.00	0.00	4.83
4	0.0771	0.0752	0.1413	37.57	33.73	36.63	18.56	6.59		5.32	6.16	1.64	7.80	0.00	7.80	13.49	1.32	0.00	0.00	4.33
5	0.0659	0.0643	0.1229	33.73	30.28	32.89	16.66	5.92		4.78	5.53	1.47	7.00	0.00	7.00	12.11	1.18	0.00	0.00	3.89
6	0.0564	0.0550	0.1069	30.28	27.19	29.53	14.96	5.31		4.29	4.97	1.32	6.28	0.00	6.28	10.87	1.06	0.00	0.00	3.49
7	0.0482	0.0470	0.0929	27.19	24.41	26.51	13.43	4.77		3.85	4.46	1.18	5.64	0.00	5.64	9.76	0.95	0.00	0.00	3.14
8	0.0412	0.0402	0.0808	24.41	21.91	23.80	12.05	4.28		3.46	4.00	1.06	5.06	0.00	5.06	8.76	0.86	0.00	0.00	2.82
9	0.0352	0.0344	0.0703	21.91	19.67	21.36	10.82	3.85		3.10	3.59	0.95	4.55	0.00	4.55	7.87	0.77	0.00	0.00	2.53
0	0.0301	0.0294	0.0611	19.67	0.00	19.18	9.71	3.45		2.79	3.23	0.86	4.08	0.00	4.08	2.23	0.69	0.00	0.00	2.27

TOTAL FOR 5 YRS 88.35

ASSUMPTIONS FOR PROFIT TEST OF DIRECT SALES

Date 27 8 93
Time 15 51

General		1		Demographic	
Average Premium		159.08	p.a. payable	Renew Mid -term	
Deferred Acquisition Exps		0.0%	1st year only	15.0%	
erm		5 years		1.0%	
Per Pol Per Prem				1.0%	
Exps	H/O	Initial	40	0.0%	1.0%
	Rnl	Claims	25	0.0%	1.0%
	O/H				1.0%
Field	Initial				1.0%
	Renewal				1.0%
Comm'son	Initial	0.0%			
	Renewal	0.0%			
Reins Allow	Initial	0.0%	Reinsured		
	Renewal	0.0%			
Solvency Margin (% WP)		40.0%			
Solvency Margin (% Claims)		23.0%			
economic					
Shareholders rate of return		15.0%			
Discount Rate		15.0%			
Premium Escalation Rate		5.0%			
Expense Inflation		5.0%			
Return on Technical Resv		7.0%			
Return on S.I.s Funds		9.0%			
Tax Rate		0.0%			
Claim Settlement Palt		yr 1			
		yr 2			
		yr 3			
		yr 4			
		yr 5			
		yr 6			
Weighting					
Weight used					

Policy #	15.0%										Gross				Net				Net			
	In force		Discount	Written	API	Premium	Incurred	Comm-	Initial	Renewal	UW	Inv	Insurance	Tax	Result	Solvency	Investment	Cashflow	Discid	Claims		
	Force	Year	Factor	Premium	Income	e of y.	Claims	mission	Expenses	Expenses	Profit	Income	Technical	Result	Income	e of y.	Income	Reserve	Reserve	Reserve		
	Force	Year	Factor	Premium	Income	e of y.	Claims	mission	Expenses	Expenses	Profit	Income	Technical	Result	Income	e of y.	Income	Reserve	Reserve	Reserve		
	Force	Year	Factor	Premium	Income	e of y.	Claims	mission	Expenses	Expenses	Profit	Income	Technical	Result	Income	e of y.	Income	Reserve	Reserve	Reserve		
1	0.10000	0.9950	1.0000			159.08		0.00	40.00	24.88	-33.95	4.84	-29.11	0.00	-29.11	56.22	5.70	-87.05	-74.15	19.10		
2	0.8415	0.8373	0.8696	159.08	140.56	158.29	127.36	0.00		21.98	12.38	6.48	18.86	0.00	18.86	52.60	5.03	31.30	36.42	25.38		
3	0.7498	0.7460	0.7561	140.56	131.50	139.86	105.50	0.00		20.56	18.52	6.25	24.77	0.00	24.77	49.21	4.71	33.10	32.02	21.68		
4	0.6681	0.6647	0.6575	131.50	123.03	130.84	91.76	0.00		19.24	16.76	5.76	22.52	0.00	22.52	46.04	4.41	30.32	25.66	19.84		
5	0.5952	0.5923	0.5718	123.03	115.10	122.41	86.41	0.00		18.00	15.98	5.37	21.35	0.00	21.35	43.07	4.12	71.72	43.68	18.56		
6	0.5304	0.5277	0.4972	115.10	107.68	114.52	80.55	0.00		16.84	14.95	5.03	19.97	0.00	19.97	40.30	3.86	0.00	0.00	17.34		
7	0.4725	0.4702	0.4323	107.68	100.74	107.14	75.36	0.00		15.75	13.99	4.70	18.69	0.00	18.69	37.70	3.61	0.00	0.00	16.23		
8	0.4210	0.4189	0.3759	100.74	94.25	100.24	70.50	0.00		14.74	13.08	4.40	17.48	0.00	17.48	35.27	3.38	0.00	0.00	15.18		
9	0.3751	0.3733	0.3269	94.25	88.17	93.78	65.96	0.00		13.79	12.24	4.11	16.35	0.00	16.35	33.00	3.16	0.00	0.00	14.20		
10	0.3343	0.3326	0.2843	88.17	82.49	87.73	61.70	0.00		12.90	11.45	3.85	15.30	0.00	15.30	30.87	2.95	0.00	0.00	13.29		
11	0.2978	0.2963	0.2472	82.49	77.17	82.08	57.73	0.00		12.07	10.71	3.60	14.31	0.00	14.31	28.88	2.76	0.00	0.00	12.43		
12	0.2654	0.2640	0.2149	77.17	72.20	76.79	54.01	0.00		11.29	10.02	3.37	13.39	0.00	13.39	27.02	2.59	0.00	0.00	11.63		
13	0.2364	0.2353	0.1869	72.20	67.55	71.84	50.53	0.00		10.56	9.38	3.15	12.53	0.00	12.53	25.28	2.42	0.00	0.00	10.88		
14	0.2107	0.2096	0.1625	67.55	63.19	67.21	47.27	0.00		9.88	8.77	2.95	11.72	0.00	11.72	23.65	2.26	0.00	0.00	10.18		
15	0.1877	0.1868	0.1413	63.19	59.12	62.88	44.22	0.00		9.24	8.21	2.76	10.97	0.00	10.97	22.12	2.12	0.00	0.00	9.52		
16	0.1672	0.1664	0.1229	59.12	55.31	58.82	41.37	0.00		8.65	7.68	2.58	10.26	0.00	10.26	20.70	1.98	0.00	0.00	8.91		
17	0.1490	0.1483	0.1069	55.31	51.75	55.03	38.71	0.00		8.09	7.18	2.41	9.60	0.00	9.60	19.36	1.85	0.00	0.00	8.33		
18	0.1328	0.1321	0.0929	51.75	48.41	51.49	36.21	0.00		7.57	6.72	2.26	8.98	0.00	8.98	18.12	1.73	0.00	0.00	7.80		
19	0.1183	0.1177	0.0808	48.41	45.29	48.17	33.88	0.00		7.08	6.29	2.11	8.40	0.00	8.40	16.95	1.62	0.00	0.00	7.30		
20	0.1054	0.1049	0.0703	45.29	42.37	45.06	31.69	0.00		6.63	5.88	1.98	7.86	0.00	7.86	6.82	1.52	0.00	0.00	6.82		
21	0.0939	0.0934	0.0611	42.37	0.00	42.16	29.65	0.00														
TOTAL FOR										5 YRS		63.63										

ASSUMPTIONS FOR PROFIT TEST OF BANK/BUILDING SOCIETY BLOCKS

Date 27 8 93
Time 15 38

General				Demographic	
Average Premium	200.55	p.a. payable	1		Renew Mid-term
Deferred Acquisition Exps	0.0%	1st year only		yr 1	7.5%
Term	5 years			yr 2	2.5%
				yr 3	7.5%
				yr 4 +	2.5%
Exps	H/O	Initial	Per Pol Per Prem	Year1	128.00
		Rnl	0 0.0%	Year2	126.00
		Claims	0 7.5%	Year3	123.00
		O/H		Year4	130.00
Field		Initial		Year5	136.00
		Renewal		Year6	142.80
Comm'son		Initial	30.0%	Year7	149.94
		Renewal	30.0%	Year8	157.44
Reins Allow		Initial	0.0% Reinsured	Year9	165.31
		Renewal	0.0%	Year10	173.57
Solvency Margin (% WP)				RESERVES	
Solvency Margin (% Claims)				-----	
Economic				Claim Settlement Pattern	
Shareholders rate of return				yr 1	85.0%
Discount Rate				yr 2	92.5%
Premium Escalation Rate				yr 3	100%
Expense Inflation				yr 4	100%
Return on Technical Reserve				yr 5	100%
Return on SHs Funds				yr 6	100%
Tax Rate				Weighting	0.704
				Weight used	0.7

15.0%

In force Mid year	In force Next Year	Discount Factor	Premium Written	APL Income	Premium Earned	Incurred Claims	Comm- ission	Initial Expenses	Renewal Expenses	UMI Profit	Inv. Income	Insurance		Tax	Insurance Result	Solvency Margin	Investme Income	Cashflow	Disctd	Claims Reserve		
												Result	Margin								Result	Margin
												Technical Rsvs									15.0% (for inv only)	
1.0000	0.9875	1.0000		200.55								7.68	5.06	0.00	5.06	75.97	80.22		0.00			
1.09019	0.8906	0.8696	200.55	189.92	198.04	126.40	59.41	0.00	14.85	-2.62	7.68	5.06	0.00	0.00	5.06	75.97	7.13	-68.03	-56.13	18.96		
2.08134	0.8032	0.7561	189.92	179.84	187.54	112.22	56.26		14.07	5.00	8.23	13.23	0.00	0.00	13.23	71.94	6.75	24.24	30.21	26.31		
3.07336	0.7244	0.6575	179.84	170.31	177.60	98.79	53.28		13.32	12.20	8.03	20.23	0.00	0.00	20.23	68.12	6.39	30.65	30.17	23.24		
4.06616	0.6533	0.5718	170.31	161.28	168.18	94.17	50.45		12.61	10.94	7.53	18.47	0.00	0.00	18.47	64.51	6.05	28.34	24.43	21.54		
5.05967	0.5892	0.4972	161.28	152.72	159.26	88.85	47.78		11.94	10.69	7.11	17.80	0.00	0.00	17.80	61.09	5.73	88.23	51.55	20.39		
6.05381	0.5314	0.4323	152.72	144.62	150.81	84.14	45.24		11.31	10.12	6.73	16.85	0.00	0.00	16.85	57.85	5.43	0.00	0.00	19.28		
7.04853	0.4792	0.3759	144.62	136.95	142.82	79.68	42.84		10.71	9.58	6.38	15.96	0.00	0.00	15.96	54.78	5.14	0.00	0.00	18.26		
8.04377	0.4322	0.3269	136.95	129.69	135.24	75.45	40.57		10.14	9.07	6.04	15.11	0.00	0.00	15.11	51.88	4.87	0.00	0.00	17.29		
9.03947	0.3898	0.2843	129.69	122.81	128.07	71.45	38.42		9.61	8.59	5.72	14.31	0.00	0.00	14.31	49.13	4.61	0.00	0.00	16.38		
10.03560	0.3516	0.2472	122.81	116.30	121.28	67.66	36.38		9.10	8.14	5.41	13.55	0.00	0.00	13.55	46.52	4.37	0.00	0.00	15.51		
11.03211	0.3171	0.2149	116.30	110.13	114.85	64.07	34.45		8.61	7.71	5.13	12.83	0.00	0.00	12.83	44.05	4.13	0.00	0.00	14.69		
12.02896	0.2860	0.1869	110.13	104.29	108.76	60.68	32.63		8.16	7.30	4.86	12.15	0.00	0.00	12.15	41.72	3.92	0.00	0.00	13.91		
13.02612	0.2579	0.1625	104.29	98.76	102.99	57.46	30.90		7.72	6.91	4.60	11.51	0.00	0.00	11.51	39.50	3.71	0.00	0.00	13.17		
14.02355	0.2326	0.1413	98.76	93.52	97.53	54.41	29.26		7.31	6.54	4.35	10.90	0.00	0.00	10.90	37.41	3.51	0.00	0.00	12.47		
15.02124	0.2098	0.1229	93.52	88.56	92.36	51.52	27.71		6.93	6.20	4.12	10.32	0.00	0.00	10.32	35.43	3.32	0.00	0.00	11.81		
16.01916	0.1892	0.1069	88.56	83.87	87.46	48.79	26.24		6.56	5.87	3.90	9.77	0.00	0.00	9.77	33.55	3.15	0.00	0.00	11.18		
17.01728	0.1706	0.0929	83.87	79.42	82.82	46.21	24.85		6.21	5.56	3.70	9.25	0.00	0.00	9.25	31.77	2.98	0.00	0.00	10.59		
18.01558	0.1539	0.0808	79.42	75.21	78.43	43.75	23.53		5.88	5.26	3.50	8.76	0.00	0.00	8.76	30.08	2.82	0.00	0.00	10.03		
19.01405	0.1388	0.0703	75.21	71.22	74.27	41.43	22.28		5.57	4.98	3.32	8.30	0.00	0.00	8.30	28.49	2.67	0.00	0.00	9.50		
20.01267	0.1252	0.0611	71.22	0.00	70.33	39.24	21.10		5.27	4.72	3.14	7.86	0.00	0.00	7.86	9.02	2.53	0.00	0.00	8.99		

TOTAL FOR 5 YRS 80.22

APPENDIX 4 **COMPARISON OF PREMIUM BY DISTRIBUTION CHANNEL & PRODUCT**

In 1990 the ABI launched a survey of the share of general insurance premium sold through the different distribution channels. The results of the UK Personal Lines analysis are set out below.

The premiums are in respect of UK direct business only and are gross of commission and outwards reinsurance.

Sources of UK Companies General Insurance Premium Income 1990 - Personal Lines

DISTRIBUTION CHANNEL	MOTOR %	HOUSEHOLD %	OTHER %	TOTAL %
Brokers	58	22	32	39
Other Independent Intermediaries	19	37	48	31
Home Service Agents & Company Staff	5	8	2	6
Other company Agents	6	21	7	11
Direct	12	12	7	11
Total	100	100	100	100
Total Premium £M	3094	2745	1325	7164

This data is believed to cover about 80% of the UK income for the above categories.

The 1990 exercise was a pilot study and some problems with the data collection and interpretation were identified (as outlined below). There were some changes of definition between the 1990 and 1991 surveys.

**Sources of UK Companies General Insurance Premium Income 1991 -
Personal Lines**

DISTRIBUTION CHANNEL	MOTOR %	HOUSEHOLD %	OTHER %	TOTAL %
Brokers	52	23	30	37
Other Independent Intermediaries	21	39	34	30
Home Service Agents & Company Staff	9	13	2	9
Other company Agents	3	14	12	9
Direct	13	9	18	13
Other	2	2	4	2
Total	100	100	100	100
Total Premium £m	3866	3507	2027	9400

Definitions:

Brokers:	Members of the IBRC
Independent Intermediaries:	As defined in the ABI Code of Selling Practice
Company Agents:	As defined in the ABI Code of Selling Practice
Direct:	Includes direct marketing and direct sales without Independent Intermediaries, eg, through branch offices

Problems:

At the time of the survey some offices had problems gaining accurate data by distribution channel so estimated their figures, at least in the short-term. These may now be known with more accuracy, but initial estimates have not been revised. Some of the variation between the two years' figures may be due to different coverages or companies contributing data in 1991, but not in 1990.