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THE REAL LIFE ACTUARY

JOINT ACTUARIAL CONVENTION, HARROGATE, 13–15 SEPTEMBER 1992

THIS Convention, which was organised jointly by the Institute and the Faculty, was the major event in the 1992 actuarial calendar. It was held at the Majestic Hotel, Harrogate, and attended by over 300 participants. The Convention, as its title suggests, addressed the real issues confronting actuaries connected with, or working within, the life assurance industry. The menu served up by the Programme Committee had several main courses and a choice of side dishes served at multiple sittings. The ingredients were mainly related to domestic recipes, but there was a continental flavour to some of the dishes.

The Financial Services Act and the changes it has brought about accounted for a wide range of topics concerned with marketing, distribution and pricing. Indeed, the opening address by Sir Mark Weinberg on these issues set the tone and background to much of the subsequent sessions.

A significant part of the programme was devoted to tax, asset management and modelling, profit recognition techniques, performance measurement and control, and the level of bonus rates. The discussions took place against a background of high interest rates, a commitment to staying within the ERM, and an economy deep in recession, with property and equity markets in the doldrums. The changes that followed the United Kingdom leaving the ERM the week after the Convention, with the resulting fall in interest rates and the surge in the equity market, underlined the difficulties of long-term planning in a changing and often volatile financial environment and the need for suitable strategies to deal with such situations. Several sessions were devoted to product design and how they might be influenced by the regime of fuller disclosure and higher front end costs.

It is clearly impossible, in a report such as this, to provide other than a flavour of the discussions held, views expressed and conclusions reached at the plenary sessions and in the separate workshops. On some issues a consensus was reached, on others strongly held opposing views resulted in stimulating, but inconclusive, discussions.

In his opening address, Sir Mark surveyed and commented on the marketing strategies and distribution methods used in the industry. His acknowledged expertise and experience in these areas made his contribution a particularly valuable one, and it influenced many subsequent discussions. Institutions operating in the financial sector with a large client base were well placed to retain their clients and promote an extended range of products in a cost effective manner. The management of direct sales forces required special skills, and not all operating in this sector would succeed. Rates of turnover were very high, as were the costs of recruiting, training and retaining successful consultants and managers. Sir Mark also commented on the capital requirements for writing new business. Front end loading and profit signatures, designed to release profits early rather than late, were likely to remain the most efficient use of shareholder capital.

The first of two case studies was concerned with distribution, and accounted for two sets of four concurrent sessions, with a final reporting back session. A wide variety of views was expressed, but there was a general consensus that there would not be much growth in the direct marketing sector, that the large tied agents such as the banks and building societies were likely to prosper, but that there would be a contraction in the number of smaller appointed representatives. Views of the prospects for independent financial advisers and direct sales forces varied, there being staunch supporters in both camps. It was generally agreed, however, that commissions in the independent market were likely to rise, as were the costs of operating direct sales forces. There were doubts about the future of the savings and mortgage markets, and general agreement that the emphasis in the future would be on protection and on personal pensions, but not group pensions.

The second case study was concerned with the pricing of the different distribution channels. There were four concurrent sessions with a final reporting back session. The individual sessions varied in their assessment of the future of commission rates, dual pricing and the profitability of business generated by the different distribution channels, but there was agreement that business produced by the independent sector had the highest level of persistency.

In the report back session there was general agreement that difficulties would arise from dual pricing, and it was felt that, rather than risk the adverse reaction from the more highly priced distribution channels, offices should adopt a uniform pricing strategy, but should determine price in relation to the channel majoring in the sale of particular products. On the subject of commissions, a view held by some was that, as a result of increased disclosure and pressure from consumer bodies, levels of commission were likely to come down as they have done in Australia. Similar views were expressed at the workshop discussing pricing strategy for multiple distribution channels. The analogy of customers paying more for a bar of chocolate at a corner shop than at a supermarket was felt not to apply to financial products, and reinforced the case for uniform product pricing based on target markets.

The sessions dealing with recent and future product developments considered the impact of high front end loading and initial commission that are common practice in the market. While the adverse effect of these high levels of payments on the customers was acknowledged, the general feeling was that such payments would continue in a free market, and that it was most unlikely that level commission payments would succeed in producing business. Legislation could bring about such a change, but it was unlikely that voluntary action would succeed.

The workshops discussing future developments reaffirmed the conclusions reached earlier in the case study, that protection and personal pensions were seen as the likely growth areas, but that savings were likely to suffer from the availability of PEPs and TESSAs. The development of long-term care products was a possibility, but the high cost of providing such benefits was likely to prove a deterrent.

There was a full discussion on the development and growth of unitised with-profits business. While there was general agreement on the need to bridge the gap between unit-linked business and traditional with-profits business, particularly in the case of pensions policies, there was a certain amount of unease over the way in which such business was developing. Few such policies had matured, and the robustness of the system had yet to be tested against a background of changing financial conditions. It would appear that further research and development is needed in this area.

The sessions dealing with the financial management of life offices covered the traditional areas of performance measures and control, with general agreement on the need for regular monitoring of the key performance indicators. The frequency of information to be provided depended on the sector: weekly reports of new business levels; monthly reports on expense performance, with possibly quarterly reports on persistency and the contribution of new business to embedded values were seen as essential. The timeliness and relevance of the information provided was deemed to be more useful than its comprehensiveness. The importance of tax and asset liability modelling was emphasised; few participants had practical experience of futures and financial derivatives. The workshops on bonus declarations were well attended, underlining the importance and the imminence of decisions which had to be made. The general consensus was that both reversionary and terminal bonuses would need to come down, as indeed they did for the vast majority of offices. The importance of meaningful communications with policyholders on this issue was also emphasised.

There were two sessions on Europe. Between them they described the major distribution channels in each of the major insurance markets and the steps that needed to be taken by U.K. companies planning to establish or sell their products within the Community.

The final session concerned the role of the Real Life Actuary, the professional and extra statutory responsibilities of the Appointed Actuary in his dealings with the Board of his company. The relative merits of the Appointed Actuary being an employee or a consultant was discussed. The general conclusion appeared to be that, in most cases, the employed Appointed Actuary, by virtue of his intimate knowledge of the company and his 'on site' availability, is better able to play a wider role in its management.

It would be inappropriate to conclude this report without recording the appreciation by the participants of the work done by the Programme Committee, the speakers, moderators and rapporteurs and the staff of the Institute and the Faculty for the organisation of the Convention and their sympathetic consideration of the many requests that were made of them.

The quiz following the Convention dinner clearly demonstrated that the knowledge and expertise of the younger members of the profession extended well beyond the realms covered by the Convention programme. The Convention, in addition to providing a forum for debate and the discussion of professional and industry issues, was an excellent opportunity for renewing friendships and social contact.

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