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SYNOPSES

THE DIRECT MARKETING OF LIFE ASSURANCE IN THE UNITED KINGDOM

BY ELAINE FAIRLESS

(Synopsis of a paper presented to the Society on 17 January 1984)

THIS paper describes the basic principles, methods and techniques of direct marketing, particularly as they relate to the Insurance Industry. It concentrates on those areas that are peculiar to this art and which would not necessarily be familiar to the Actuarial Profession in the normal course of events. The paper therefore has a marketing rather than a technical bias.

Legislation relating to this business is set out briefly and a review of the types of insurance product marketed by this method is included.

The paper concludes with some of the problems direct marketing presents to the Actuary and with some thoughts for the future.

The sections of the paper are as follows:

A. Introduction
B. Background
   1. Definition and Scope
   2. Why do people respond to Direct Marketing?
   3. Why sell life assurance by Direct Marketing?
   4. History
C. Legislation and Voluntary Controls
   1. General Principles
   2. Contracts
   3. The Post Office
   4. Codes of Practice
   5. The BDMA Code of Practice
   6. Mailing Preference Service
   7. ROLAC and Direct Marketing
D. Direct Response Media
   1. Direct Mail
   2. Door-to-Door Leaflets
   3. Newspapers
   4. Magazines
   5. The Broadcast Media
   6. The Telephone
   7. Posters

E. Direct Mail
   1. Package design
   2. Mailing lists
   3. The Post Office
   4. General
F. Publications
   1. Choice of Publication
   2. Timing
   3. Position
   4. Size
   5. Repetition
   6. Design
   7. Product Range
G. Testing
   1. Methods of Testing
   2. Timing
   3. Reliability of Results
   4. Administration
H. Technical Considerations
   1. Persistency
   2. Mortality Considerations
   3. Underwriting
   4. Reassurance
   5. Intermediaries
   6. General
I. The Future
   1. Videotex
   2. Gateway
   3. Cable/Satellite
   4. VCRs, Discs and Personal Computers
   5. Implications for Direct Marketing
J. Conclusion
   1. Summary
   2. Acknowledgements
   3. References

PERSONAL FINANCIAL PLANNING

BY R. J. CHAPMAN

(Synopsis of a paper presented to the Society on 6 March 1984)

THE paper explains how Personal Financial Planning (PFP) covers all aspects of financial advice for individuals, with emphasis on pensions, life assurance, tax and investment. Advice may be confined to one of these subjects, but in its widest sense PFP extends to the process whereby an individual's financial affairs are looked at as a whole before comprehensive planning recommendations are made in accordance with his or her objectives.

The training of actuaries specifically covers the subjects of pensions, life assurance and investment. It also provides a working knowledge of trust law and tax. A familiarity with financial projections, an understanding of the effects of inflation and the ability to use computers provide actuaries with a further strong base for giving PFP advice.

For presentation purposes, the paper deals separately with the various aspects of PFP. The chapter on life assurance and pensions draws attention to the use of life assurance for protection and for investment and explains the need to look at state, occupational and personal pensions. The chapter on tax looks at income, capital gains and capital transfer tax and stresses the need for flexible planning given the changing nature of the tax regime. The chapter on savings and investments, groups personal assets according to their income, risk and market value characteristics. The paper explains how the decision about the categories in which to invest will depend on the personal circumstances of the investor. Tax, family commitments and the relative levels of income and expenditure are factors of particular importance. Also important is the need to consider wills and estate planning.

Finally, the paper speculates about the way ahead in early 1984. Artificial tax avoidance schemes are almost unpromotable, following recent court decisions, but encouragement by Government for small businesses has resulted in the Business Expansion legislation which offers straightforward tax avoidance of very great benefit to high rate taxpayers. The message seems to be that tax avoidance is acceptable as long as it does not involve artificial arrangements.

Further developments are likely in the area of one-stop financial services where already one group, which includes a life assurance company, offers a combined banking, investment and life assurance service with regular statements of assets. This linking of all financial affairs in one-stop services is an example where computing is one of the keys to achieving a breakthrough. Equally, the use of computers to provide clients with direct, interactive advice will be an important development as the use of home and business micro-computers grows.

TOWARDS A PENSIONS ACT

BY H. R. WYNNE-GRIFFITH

(Synopsis of a paper presented to the Society on 20 March 1984)

DESPITE a plea for no more legislation, the author admits to having been overtaken by events. To this extent, the paper should be seen as a review of the current position in 1984. Whilst the trust fund might not be an ideal vehicle it did seem to be the best available and probably better than an alternative, totally new instrument. This view is held by the TUC, Gower, the Wilson Committee, and the Occupational Pensions Board (OPB). The principal deficiency at present is that the three relationships: Employee-Employer, Employer-Trustee and Trustee-Employee need to be better defined. Is membership of a scheme enforceable by an employee under contract law—or, indeed, by the employer? If so, are the benefits enforceable by the employee against the employer if the trustees have inadequate resources? Certain more immediate suggestions were (i) a pension fund should be protected against claims by a liquidator, (ii) the trustees on wind-up should be a creditor ranking with unpaid salaries, (iii) separate bank accounts for trustees and employer (this has now come to pass). The interesting concept of a 'principal beneficiary' is introduced. Not surprisingly, the author is against funding standards but looks forward to Institute guidelines on them and also on reporting standards (GN9 has since been published). On the subject of disclosure of information to shareholders, the author is reluctant to suggest a winding-up solvency certificate because a small change in market values could invalidate the certificate. Disclosure to members is also covered in the paper. The subject of who should be disclosed to is touched upon and interestingly, the suggestion is made that shareholders as well as members be given a statutory right to defined information. A list is given of what this should include and one item is an actuarial statement. Benefit statements are mentioned as something which could be included as disclosed information. (The Green Paper on the subject of disclosure has since been published.)

Member trustees are not the norm although attitudes are changing. This attitude is based on mistrust which derives mainly from ill-defined roles and inadequate information. Although 'good practice' will continue, no legislation is expected on this subject. Early leaver legislation is, of course, expected and the author, somewhat predictably, expects franking to be banned and any excess deferred pension (above the Guaranteed Minimum Pension (GMP)) to be increased at 3% or 5% p.a. Death benefits would also have to be preserved and the age-26-rule will go. The OPB are against compulsory transferability but this may become law. The author expects to see a requirement that schemes submit returns—possibly to a Registrar, the role of the Superannuation Funds Office (SFO) would be performed by the OPB.

Somewhat contentiously, the author supposes the abandoning of the 'partnership' between State and occupational schemes. He would like to see this take the form of abandoning the second-tier State pension but with an enforced system of funded, occupational provision substituted. However, cancelling the system of contracting-out is more likely. Reference is made to the way recent pensions legislation is always targeted on the 'average' employer. Nothing ever effects the 'bad' employer with no scheme or the 'good' employer who probably already does what the new legislation required. The author refers to the Swiss 3-pillar system of private savings, occupational benefits and State pensions. Each has its own defined role and object within a total framework. The roles of the three pillars in the United Kingdom are confused.

In looking at the shape of things to come, the author anticipates the advent of Personal Portable Pensions. Compulsory membership of a contributory occupational scheme will not be permitted, the employer would have to pay 3% to the personal pension, membership of the occupational scheme would be optional. The design of occupational schemes will alter significantly.

OUTSTANDING CLAIMS RESERVES

BY G. E. LYONS

(Synopsis of a paper presented to the Society on 17 April 1984)

THE paper is based on a Report produced by a working party of the General Insurance Study Group for the General Insurance Seminar held at Bristol in November, 1983. The terms of reference of the working party were:

(i) To review and summarize the published papers on the valuation of outstanding claims.
(ii) To classify the methods described, and comment on the assumptions implied by each method.
(iii) To discuss the problem of estimating the degree of uncertainty associated with the valuation of outstanding claims, disregarding the uncertainty resulting from the effects of inflation and (insofar as this may be taken into account in the valuation) investment income.

The first part of the paper is concerned with terms of reference (i) and (ii), explaining how the paper could be used as part of the loss reserving process and describing the format and presentation of the summaries which are shown in three Appendices.

The Appendices form the bulk of the paper and are:

(i) A list of papers on outstanding claims.
Headings: Author(s)
Title of paper
Code: whether no particular method, one method, or more than one method described
(ii) Summaries of all the papers.
Headings: Author(s)
Title
Source
Summary of paper

(iii) Indexed summaries of most of the methods split into direct/reinsurance and general/specific sections.
Headings: Method: a brief summary
Author(s)
Paper: title
Source: of paper
Applications: o/s claims reserves and/or I.B.N.R. etc.
Data required
Main assumptions
Comments

The second part of the paper is concerned with term of reference (iii) and examines the factors affecting the degree of uncertainty associated with outstanding claims valuation.

'Degree of uncertainty' is a probabilistic concept. In theory, if the whole claim process was probabilistic, and if its structure and parameters were known, it would be possible to calculate confidence limits on the value of outstanding claims as predicted by a particular model. In practice it is not possible to discover the structure and parameters of all distributions involved so that estimation of the degree of uncertainly of a valuation must be fairly crude. It could involve a number of stages including running down a check-list of factors which may disturb the various properties of the claims process. These factors are listed below (and amplified in the paper):

(a) Claim Settlement Pattern
- (i) Timing of Claim Occurrences
- (ii) Allocated Loss Adjustment Expenses
- (iii) Changes in Settlement Patterns
- (iv) Severity of Claims
- (v) Claim Frequency
- (vi) Increasing Use of Partial Settlements
- (vii) Special Settlements
- (viii) Nil Claims—Precautionary Advices
- (ix) Judicial Awards
- (x) Large Claims

(b) Nature/Mix of Business
- (i) Changes in Portfolio Volumes
- (ii) Change in Mix of Business
- (iii) Change in Policy Conditions

(c) Data Constraints
- (i) Computer Systems
- (ii) Availability of Data
- (iii) Reliability/Credibility of Data
- (iv) Processing Backlogs
- (v) Heterogeneity of Data

(d) Exogenous Influences
- (i) Changes in Legislation
- (ii) Social Environment
- (iii) Weather Conditions
- (iv) Currency Movements
- (v) Miscellaneous

(e) Inwards Reinsurance Arrangments
- (i) Data
- (ii) Claim Payment Delays
- (iii) Valuation Methods

(f) Outwards Reinsurance Arrangements
- (i) Net Liability Calculation
- (ii) Catastrophe Covers/Large Claims