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LIFE — AN ASSURED FUTURE!

Joint Actuarial Convention

Blackpool, 21–23 November 1993

This Convention marked the start of a new chapter in the history of major Life Actuarial Conventions, moving away from the previous biennial format of meetings in Harrogate to hold an annual convention and try a new venue. This was partly because of the new Continuing Professional Development requirements, and so it may be no coincidence that it was also the largest convention yet organised jointly by the Institute and Faculty. Around 350 participants, including a number of members who were visiting from overseas, attended the two days of meetings held at the Norbreck Castle Hotel in Blackpool, and even with this number the convention was oversubscribed. The convention addressed many of the issues which were either confronting actuaries at present or which were likely to have a significant impact for the future.

The Convention Committee had put together a programme offering a wide choice of topics, with two plenary sessions and the other eight periods offering many choices of forums and workshops. With such a wide variety of subjects and over 100 sessions of all sorts taking place, it is clearly impossible, in a report such as this, to provide more than a flavour of the plenary sessions and the main themes and issues running through the convention. One new feature was that, to allow participation at an appropriate level, sessions were designated specifically as either Learner, Practitioner or All.

The first plenary session was the key note address given by one of the European visitors, Mr Jaap Peters, entitled, 'The Competitive Environment in the 1990s'. This gave a fascinating and thought-provoking insight into the management of an international insurance group. Mr Peters' talk mentioned all the key strands which were to emerge later in the convention, highlighting the need for actuaries to be aware of what is happening around them and needing to understand and retest their assumptions. He focused on the need for clear strategy and structure and the need to know the risks, strengths and weaknesses affecting both your own and competitor companies. The need to understand your company meant obtaining the key figures, and hence knowing where profits arose. Mr Peters also argued that understanding the sources of profits may suggest a need for different forms of profit reporting. This led to the need to concentrate the business on the key areas where your company was large or well-positioned enough to be successful. On an international scale this means concentration on your key

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markets, with a strategy of thinking globally, but acting locally. This led Mr Peters to the suggestion that international mergers (not takeovers) were a logical way forward.

Many of the subsequent sessions enabled the participants to take this advice and focus on their understanding of the building blocks of life assurance business. Workshops covered such topics as assumption bases, persistency, mortality and morbidity loadings, expense management, taxation and also the issue of how to obtain the required management information.

Further sessions covered the way these influences were brought together in terms of the products offered in the market and the influence of technology on what was available. Some of the groups of participants considered how tomorrow's new products may appear, whereas others considered whether the current product designs had been led by the industry of consumers. Opinion was divided on both issues, with views being influenced by the distribution channels used and the market positioning of different product providers together with the interpretation of changes external to the industry.

The issue of value for money and client perceptions and the reasonable expectations of policyholders was another of the major topics of the convention. This included sessions on how asset shares and payouts should be calculated as well as on the overall topic of PRE and particularly how these should be handled in one specific area, that of surrender values disclosure. This touched on an issue which was likely to have a significant impact in future — disclosure.

The question of distribution channels was picked up in more detail in a number of other forums and workshops, which focused on the management of specific forms of distribution such as direct sales or tied agents, the trends in distribution or the overall issue of distribution in the current regulatory environment.

There were many other themes running through the convention. One was valuation methods, where there were several forums and workshops covering different aspects. Unfortunately the new valuation regulations which had been expected to be published in time for the convention had not appeared, and so the discussion was based on the likely shape of what may be expected. There were several sessions which considered valuation techniques and the management of assets and liabilities, highlighting varieties of applications of the principles appropriate to different classes of business. Other groups focused on specific elements of valuation such as the resilience test and the importance of understanding the valuation implications as part of planning the strategy of a company, because of the impact of profit emergence.

One of the features of the convention was that it gave several of the joint actuarial working parties the opportunity to present draft reports on their

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findings for discussion. In this area of valuation, for example, a report was presented on alternatives to the net premium valuation. The working party concluded that an alternative method was required to handle the newer types of contract and should be extended, for consistency, to all products. The alternative recommended was a gross premium method with specific allowance for future bonuses and margins for profit, despite possible problems with the provisions of the Third Life Directive. The desire was to use this basis to report profits as well as for solvency purposes.

This issue of profit reporting and some of the alternatives formed another of the threads running through the convention. This topic re-emerged in forums on the practical aspects of accruals accounting and embedded values as a management tool, where practitioners explained their approach to some of the practical points arising from an actuarial viewpoint. It was also touched on from the investment analysts' viewpoint of company performance in a forum on the value of a life company.

Another theme which could be traced through the convention was, not surprisingly, that of risk in general and different approaches to the evaluation and reporting of risk in particular. This was, in effect, the subject of two more of the joint actuarial working parties. One of these considered the United States approach to risk-based capital and applied this approach to a United Kingdom with-profits office. This approach used stochastic modelling of possible future outcomes, and was seen as one possible method of anlysing both the degree of risk which an office was running and how this risk was progressing from year to year.

The other working party reported on dynamic solvency testing. Here the method favoured in Canada and Australia was analysed for application to the U.K. This approach projects the solvency position of a life company under a variety of predetermined scenarios, and hence flags potential sensitivities to adverse experience of various key assumptions. The general view of the forum was that some form of test like this, together with a resulting report to the Board of Directors on the financial condition of the company, would be desirable for the U.K. It saw this approach based on fixed scenarios as more practical to implement in the short term than the stochastic approach of risk-based capital.

The topic of risk was also handled in general terms in relation to financial products in another seminar. One of the more recent developments which can help with handling certain risks is that of financial derivatives. As the use and treatment of derivatives was still a novel subject to some of the participants, two sessions were devoted wholly to these, one at the learner level and one to discuss the new issues presented for practitioners.

Derivatives can find uses in stabilising investment performance, and reporting of investment performance was the subject of the fourth joint working party report. This report was particularly concerned with questions related to the measurement of investment performance in the light of liability based objectives. The conclusion was that no one measure would serve for all purposes, and the user will need to select an appropriate method for the intended purpose with an eye for the cost, and hence the degree of detail which can be justified. The importance of reporting the information in an understandable way was emphasised, together with a suggestion that there is scope for further work in this area.

This area of communication was also emphasised in one of a series of sessions on the general role of the actuary in different environments. These also considered the actuary as a good manager, the actuary as multi-disciplined professional and the status of the Appointed Actuary.

The convention concluded with the second plenary session, considering strategies for prosperity or survival. This was in two parts. The first part led us back to the future by considering what a group of chief excecutives felt would have been keys to success in the 1990s if they were to imagine themselves looking back from the perspective of the year 2000. The areas seen as important for future success were maintaining demand, control of distribution, effecting differentiation from the competition, and effective use of capital. On current performance, only the latter was generally considered to be good, so that this was considered to be a strong area. The current performance in other areas was seen to be less good, so these were classed as areas of opportunity. The second part considered the case study of an overseas life office and the influences on the strategy in acquiring and repositioning a U.K. life office. This showed how one office had focused on what it saw as its strengths and key business areas and had developed tactics to move itself forward in the international arena. This also showed the range of choices available and the reasons for selecting the chosen path.

A report such as this would not be complete without a mention of the less formal part of the proceedings which, nevertheless, are viewed by the participants as an essential part of the convention. The opportunities for individual discussion over meals and in the tea and coffee breaks were widely used, and the Civic Reception, Conference Dinner and the quiz which followed provided an enjoyable diversion from the more technical matters of the day.

Finally, on behalf of those who attended, I would like to express our thanks to the organising committee for creating another successful event in the life actuary's calendar.

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