THE INSURANCE INSTITUTE OF IRELAND

CENTENARY CONFERENCE

A Century of Life and Pensions

Paper presented by:

T.D. Kingston, B.A. F.F.A.
Managing Director,
Irish Life Assurance Plc.

A Century of Life and Pensions

by David Kingston

INTRODUCTION

Those of us who work in the Life Assurance Industry are fond of saying it is a very long term business. I have found it salutary, when composing this paper to look back over a hundred years and to look forward to the next twenty or thirty.

As an example of how long term a business this is, let me show you some policies. These are policies taken out around a hundred years ago on infant children that have only become payable in recent years. What clearer way have we of demonstrating that what we do now will still be visiting us in the year 2085, despite the fact that so much will have changed beyond recognition? This matter of the long term nature of our business clearly poses some special problems for life assurance. It also gives us special opportunities and I think it is fascinating to see how our business has remained fundamentally stable while coping with the underlying changes which must take place because of the changes in society.
THE INDUSTRY 100 YEARS AGO

Let me start by looking back at what our industry was doing a hundred years ago. 99 years ago, at the second Annual Meeting of this Institute, the then President, Mr Bernard O Reilly, regretted that no paper on Life Assurance had been delivered in the first session.

He went on to talk about the Social changes which were then affecting the Life Assurance business in Ireland. He tells us that a very large amount of money paid for Life Assurance in Ireland had been paid by Landlords and that the political and social changes which had recently set in, were likely to have a most serious influence on those interests.

He was not clear if this was going to be favourable or unfavourable for Life Offices but hoped that the changes would result in a formation of better middle and upper class farmers, "classes which in the course of some years should level up to something like business and professional men, more provident and more conservative in the true sense of the expression, more anxious to recognise their social responsibilities and more willing to make personal sacrifices to provide for them". I will leave you to judge whether this has happened.
With considerable foresightedness, he pointed out that the demise of the Landlord might lead to the end of policies for hundreds of thousands of pounds and the growth of hundreds of thousands of lives insured who never thought of insuring at all.

I am glad to say that Mr O Reilly's desire for a paper on Life Assurance was quickly answered. The following month, George Elliott, the Superintendent of the National Provident Institution read a paper on Life Assurance. He exhorted the Meeting to think of Life Assurance and quoted them the words of a Doctor Guthrie:

"I feel, as a Minister how important it is that on his sick or dying bed a man should not be distracted by domestic cares, and what better earthly relief from these than a Life Assurance Policy".

A hundred years ago, the purpose of a Life Assurance Company was simply to provide Life Insurance. Up to a hundred years before 1885, most life insurance was for one year only. Indeed, the earliest contracts that can be traced were on the lives of Seamen in the sixteenth century. In the latter part of the 18th Century, mortality tables first began to emerge. It is interesting, that at this time, the common premium rate for one year term insurance was £5.00 per £100 for ages twenty to fifty and £6.00 per £100 for ages fifty to sixty. It was virtually impossible to insure a life over age sixty.
I doubt if these were a complete reflection of mortality rates then in force, but they certainly give us some indication of mortality rates at the time.

Coming forward a hundred years, I have had the help of the paper by Sir Charles Cameron to this Institute in 1893. It is an interesting reflection on medicine at the time that Sir Charles's speciality was hygiene and those interested in mortality used hygiene as their base. Sir Charles quotes death rates in the early part of the 19th Century of the order of two and a half per hundred. Interestingly, these trebled in cases of Europeans in India. The crude death rate in Dublin in 1890 was around three per hundred. This was almost thirty per cent higher than the equivalent death rate in large English towns. At the time, it was estimated that the duration of human life in Irish towns was fifty per cent less than in the country. The main reason was felt to be bad sanitation. Apparently, this did not affect the upper classes! Rates of Mortality were almost twice as high amongst the working classes as against the middle class at that stage. Cameron drew the conclusion that mortality was greatest amongst lives assured for the smallest sums. Persons who assured their own lives for small sums belonged to what he called the "Uneasy Classes" whose minds were "ever filled with anxious thoughts as to how they would make both ends meet" This does not appear to have changed much!
Life Assurance Companies have benefited from the fact that mortality rates have been continuously improving. Death rates per 1000 of population have more than halved over the last hundred years. The improvement has been much greater at younger ages still further helping the position of Life Assurance Companies. While improving mortality is continuing the great advances of the period between 1850 and 1950 are now past. These were largely due to improvements in hygiene and to the elimination of certain epidemic diseases such as tuberculosis. Progress from now on will be slow and it is not surprising that the profitability of Life Insurance in its simplest form has fallen dramatically in the last twenty years. The combination of a slower improvement in mortality rates and much greater competition has had a very considerable impact on the adequacy of premiums.

Looking back a hundred years, the great growth in new Assurance Companies, both Ordinary Branch and Industrial, had already taken place. If we look at the original list of Companies whose members formed this Institute at its outset, we will find many of the names of those still transacting business here. However, at that time, almost all business was straightforward Life Insurance. Often, the rates were too high, and the surplus was distributed by way of bonus to the with profit policyholders. The Ordinary Branch Insurance Companies principally insured the wealthier classes, often covering specific financial contracts.
Poorer people, principally using Friendly Societies or Industrial Assurance Companies, normally just insured against funeral expenses.

We have seen a very considerable development of products over the last hundred years so that if one of our colleagues of 100 years ago could come back today, he would find a very different picture.

DEVELOPMENTS IN INDIVIDUAL LIFE

On the Individual Life side, the principal development has been the expansion into the field of savings. Stemming originally from the concept of charging too much for mortality and distributing the surplus, we have seen a very great growth in the use of Life Assurance Companies for savings. A number of factors have accelerated this process, so that Life Assurance Companies are now the principal channel for longterm savings in this country. The factors can be listed as follows

The first is, I suppose, that Life Assurance Companies were one of the first groups involved in the Savings Business - which, because of changing social conditions, has grown dramatically in the last hundred years. Wealth is much more widely spread and much more prevalent now than it was a hundred years ago, and far more people save. Life Assurance Companies were offering a product which allowed regular saving.
They also developed the Investment Management which went with this and a method of distributing their products which persuaded the public to participate. As a result, the typical Life Assurance contract which we see today, is probably the Unit Linked Whole of Life product.

The fundamental concept behind these Unit Linked Whole of Life products - called Universal Life in many countries - is that the client chooses the amount of premium he wants to pay, chooses the amount of life cover he wants at a particular point, has the cost of them, together with expenses, deducted from the premium and has the balance invested in a Unit Fund of his choice.

The really rapid evolution of product development in the Individual Life Assurance field has taken place in the last twenty-five years. It has taken Life Assurance Companies from a point where they were selling very similar products to those which were sold a hundred years ago to one where their principal lines are now these Unit Linked products.

We have also had the advent of Single Premium Bonds. These Bonds are now enormously important, whether they be Guaranteed Income Bonds, which are really a derivation of the old Annuity concept, or Unit Linked Bonds. Last year alone, over £500 million was invested in these products in the Republic of Ireland.
In 1910, W K Gibson gave a talk to this Institute at the end of which he summarised his ideal Policy. He said that it should be worldwide and indisputable on any ground except fraud. It should have age admitted from the outset if possible. It should have a suicide clause with a limit not exceeding two years. It should have liberal non-forfeiture advantages with the Surrender Value being used in Paid up Cases to buy Life Cover until that Surrender Value was exhausted. We take all these things for granted now although they are still largely true.

Today's ideal policy would be defined somewhat differently. I suppose one would say now that the ideal policy would be one where the client could vary his premiums at will, could vary his life cover at will, could have that life cover with as little evidence of health as possible, and could have as much variety as possible amongst the range of investment vehicles offered.

To my mind, we are now most of the way towards the production of this ideal policy. It has somewhat further to go and its development is dependant at this stage on improved computer systems. I believe, therefore, that the great period of radical product development over the last twenty-five years is now past. There will be continuing product development in the years ahead, not least because in an era where even Coca-Cola changes its formula, the public has an insatiable desire for new things.
Nevertheless, I think that in the next twenty-five years, the product changes we are likely to see are more of detail and more of flexibility than the type of radical change which we have seen in the last twenty-five years.

Where one may see development is in the area of packaged products. The latest UK products offer all sorts of options such as premium waiver on sickness, hospitalisation benefits and even the right to borrow money. We will see a great deal more of this trend particularly as life companies, banks and building societies try to exploit each others distribution systems.

PENSIONS BUSINESS

The other great change which has taken place in the Life Assurance Business over the last hundred years has been the growth of Group pensions. In 1945, one of my predecessors, Alec Bayne told the Institute that

"An increasingly important development in the social work of Life Assurance lies in the organisation of management of Group Pensions Schemes for Industrial and Clerical Staffs. I speak without great personal knowledge, but I understand that we have now definitely moved beyond the stage when the presentation of a suitable inscribed Gold Watch and a speech from a Manager is regarded as a reasonable satisfactory substitute for provision for old age".
Group Funded Pension Schemes, as we know them had begun in the 1920's but they made little impact in Ireland until after Mr Bayne had spoken. Indeed, it was at this time, that the Group Pensions Department was set up in my own Company. The business has expanded steadily over the last forty years, to a point where over half the population now have access to Company Pension Schemes.

From the point of view of the Assurance Company, assets managed on behalf of Pension Funds are very often more than half of the total assets under Management. In recent years, rather like the Individual Life Business, Group Pensions has become increasingly Unit Linked. To some degree, this is a function of the size of the Funds. Many of these are valued at several million pounds and some at nine figure amounts. They are thus in a better position to take the risks and rewards inherent in a more adventurous investment policy.

The typical large pension scheme now uses a Life Assurance Company - or indeed a Merchant Bank - as their Investment Manager and breaks down the element of the various services in Pension Scheme Provision. Thus, we have situations where the Investment Management is provided by one company, administration by a second, pension advice by a third, actuarial services by a fourth, and Group Life Cover by a fifth.
Group Pension Business is now maturing and no longer shows the
dramatic growth of several years ago, although there is still
considerable scope left.

The real potential for growth in Pensions business now should be
in regard to Individual arrangements. Many of those who work for
small companies or who are self-employed have totally inadequate
pensions or none at all. We have thus seen substantial growth in
this business in recent years but the real break through has been
slower than one might expect particularly as the business is so
favourable treated under the Tax Laws. A lot of product
development has been or is taking place in the Individual Pensions
field.

This favourable tax treatment of pension schemes has also
encouraged the development of additional voluntary contributions
for members of existing Pension Schemes. Quite a number of these
schemes have been started in recent years and I would expect to
see a considerable increase in the years ahead.
LOOKING FORWARD

From an overall point of view, we have seen that the Life Assurance business has evolved from one of almost pure Life Insurance to one where we are really now long-term Savings Companies with Life Insurance attached. This is not true of all countries - there are some where Life Insurance is still the principle product for Life Companies.

I do not see the emphasis on savings changing in Ireland, although there is still considerable scope to sell increased Life Insurance to the public. A couple of years ago we calculated that the average cover held by the working population in Ireland was only about £5,000. This represents less than a year's income for the average householder. A figure of five to ten times this would be more appropriate. It is always difficult to get people to accept that their own mortality may be imminent.

Dr. Guthrie, our death bid advocate, also quoted the greatest obstacle in selling Life Assurance

"all men think all men mortal except themselves".

This is still a problem. As I write this paper, I have been interrupted by a lady who has telephoned to exhort me to tell the world of the plight of widows like herself whose husbands had inadequate life cover.
Where should Life Assurance Companies look for growth in the next twenty years? Since we are now principally savings organisations maybe it is well to concentrate on this area. We can divide the Savings Market into two, although the division between the two is not clear cut. In the first instance we have the short term guaranteed savings market, largely dominated by the Banks and Building Societies. In the second place, we have the longer term savings market where people are prepared to stake their money for longer periods in order to achieve higher returns.

The second of these - the long term savings market - demands rather more advice than the first as there are many options involved. It also requires a certain type of selling, since it is normally difficult to get people to commit themselves to any form of long term savings programme. On the other hand, the short term savings market doesn't need much advice or selling.

It is not surprising, therefore, that the two ends of the savings market should demand different distribution systems.
DISTRIBUTION SYSTEMS

This gives me the key to look at the distribution systems which we use.

If we again turn the clock back, it is interesting to trace the development of our distribution systems over the last hundred years. In 1885, Life Insurance was typically purchased direct from a Company or through an Agent. It was rare for these Agents to be full-time Life Insurance people. Normally, they were chemists, or booksellers or some other reasonably sensible person. Writing a hundred years ago, Mr Arthur Reid in his little pamphlet "He's only an Insurance Agent" stated that "An Insurance Agent follows one of the noblest callings upon earth; he is something more than a benefactor. He is a missionary, because he carries glad tidings where ever he goes. He presses home to his hearers a plan by means of which they may, at little cost, secure not only peace of mind for themselves, but health, wealth, and happiness for those near and dear.

"An educator, because he educates men out of selfishness and tutors them to practical self-denial for the sake of their wives and children."
"He is a husband (house-band) because he prevents the home being broken up on the death of the breadwinner and the scattering of the family to the four winds of heaven."

"Who can count thousands of homes which have been kept together through the efforts of Insurance Agents?

"He is a ministering angel. When the grim monster, death, steals away the husband and father, kind relatives cluster around and tell the bereaved ones that "he is better off" forgetting the struggle which those who are left will have to fight alone in a hard world, in which the weakest are thrust to the wall. The thought of what one's loved ones will have to undergo when he is taken away has often troubled the soul of a dying man".

This stood in some contrast to the view expressed some years earlier by one Francis Baily, who worked for a "non-commission" company.

"I would attack the disgraceful practice of bribing solicitors, agents, and others to effect assurances at their offices; thereby notoriously inducing those parties to sacrifice the interests of their employers and friends, when the money would be more properly and more equitably employed in being appropriated towards a reduction of the premium."
I omit to give the names of those companies who have adopted this nefarious practise under the hope that this mean and improper artifice will not be encouraged in future."

It has to be said that the purpose of Mr Baily's tirade was to persuade everyone to take out life assurance only with a non-commission paying office and no doubt force all the other offices to go the route of not paying commissions. At the time the level of commissions was a level 5% of premiums.

The full time Insurance Agent is largely a 20th Century phenomenon. The Direct Sales forces - which largely arose from Industrial Branch collectors - began to be full time quite early in this Century but the process has really only become complete in the last thirty years. This was very often because the pay was so bad, forcing the job to be combined with another. One major factor in improving the lot of the Insurance Agent was the transfer of commissions from level payments to being front-ended which took place around the beginning of the Century.

Let me first of all, trace the development of the Assurance Companies Direct Sales force. As I have said, the origins of most of these lie in Industrial Branch collecting forces. In recent years, these have increasingly become oriented towards selling Ordinary Branch Life Assurance.
This seems to be particularly true of Ireland, where the idea of an Industrial Branch agent who makes most of his money from Ordinary Branch commissions is prevalent. I am conscious that, in the UK, and in the Southern States of the US where Industrial Branch business is still strong this is by no means as true. In Japan, the typical Industrial Branch agent is a housewife working part-time.

In recent years in the UK, many Life Offices have followed the path trodden by the Canadian and Australian Companies of having direct Ordinary Branch Sales Forces of their own. There has been a very rapid growth in these Direct Sales Forces in the UK in particular, in recent years and we see an increasing number of previously broker only offices coming into Direct Sales. One hopes that selection and training will be better than in other countries. In the USA only one in five of new agents is successful. In Australia, it is estimated perhaps with some degree of tongue in cheek, that half the male population has been an Insurance agent at one time.
The UK needs to do better than these figures, both for the good name of the industry and for profitability. I am glad to say that the experience with Industrial Branch agents is better.

The phenomenon of the full time Life Insurance broker is a comparatively recent one. As recently as twenty five or thirty years ago, very little business was sold through full-time Life Assurance brokers. However this has changed very considerably over the period. As of now, the market in Pensions arrangements in particular, is dominated by full-time Assurance brokers. Even the Individual Life and Bond Markets are about 50% controlled by Life Brokers.

I do not wish to tread on Paddy Cowman's ground, but I would like to say something about the future of distribution systems for Life Assurance Companies. I think that if the last twenty-five years were the period of radical product change in our business, it may well be that the next twenty five years will be the period of rapid distribution change. It is useful to look at what is happening in other countries.

In the USA, the market is dominated by the Sales forces of Life Assurance Companies themselves. Sometimes, these are called Direct Agents and are supposedly confined to selling one Company's products. Sometimes they are called Tied Agents where they give the bulk of their business to one company, but give a substantial proportion to other companies as well.
The great worry in the US is that the distribution system is becoming increasingly expensive and that with the new type of products, it may be impossible to maintain the system. There is, therefore, considerable searching for new ways of selling Life Assurance. We are seeing such phenomena as an increase in direct mail, attempts to set up booths in Retail Stores and Banks for selling both Life Assurance and other financial services. No doubt, other methods will be tried as well.

In the UK, as I have said, there is an increasing growth in the Direct Sales forces of Life Assurance Companies. I believe that this is partly because Brokers have not been able to provide the growth in business which the Companies have needed. Increasingly, the UK is moving towards the US System. I believe that the UK will end up with a lot of Direct Sales forces and quite a number of large Life Assurance Brokers who have ties to certain Companies. Whilst there will be a place for the smaller broker, his importance in the Market may well be on the decline.

What is going to happen in Ireland? Unlike, the UK and the USA the role of the broker is actually growing. This is not just in the specialist areas such as Group Pensions, and Bond business where one expects Brokers to dominate; it is also true of Individual Life Assurance.
In part this is a reflection of the very heavy personal Income Tax situation in Ireland which is inclined to force a more successful direct selling employed agent into brokerage. In practice, many of these brokers give the bulk of their business to one or two companies.

In the longer term, I would expect some of the American phenomena to reach us here. In fifty years time, we may see the Market divided into specialist brokers who provide detailed technical service where required, into brokers (or agents) who while independent are largely tied to one company, and into the Direct Sales forces of the Assurance Companies themselves. I have to say that this process is very dependant on the level and method of payment of commission. Legislation can have a profound effect as it has in some US States and in Europe.

I suspect that we will also see many efforts to distribute by new methods such as direct mail. It is too early yet to say whether these will be successful.

I would expect to see Life Assurance Companies continue to expand into areas where lighter first year costs make short term products attractive to the clients. We may well see more short term savings products with lower first year commissions and expenses (Bonds are an example of this).
Thus we are likely to see companies moving towards marketing a range of products in the Savings Market for various terms with different commission levels. These would be sold by a more professional salesforce. In order to cut down the costs of delivery, they may need some form of privileged access to the clients (one of the principal costs inherent in the present distribution system is that only one in four or five calls is actually successful).

OTHER ASPECTS

There are many other elements of the Life Assurance Business which I could cover. An obvious example is that of supervision where a great deal has happened in recent years, and I have no doubt more will happen. This is really a topic in itself and while I will be happy to answer questions on the subject, I do not propose to deal with it in my talk. I could also deal with the matter of profitability - listed recently as one of the main problems of the US market.

CONCLUSION

Let me finish by listing some of the reasons why I think the Life Insurance Business has remained generally prosperous for not just one hundred but for two hundred years.
In the first place, it has generally been well financed and has had strong asset backing.

Secondly, it has a good distribution system which, while expensive, for some products, has made sure that the customer has had good service.

Thirdly, it has a good investment record, something which I expect to continue and which should stand to our Industry for many years.

Fourthly, it has operated in a environment with comparative freedom. It is interesting to see how healthy the industry is in the UK and Ireland compared with some of our Continental counterparts where such freedom has not been normal.

Fifthly, we have had strong financial control. You will excuse me in my last few weeks as President of the Society of Actuaries in Ireland, extolling the virtues of the Actuarial profession. I think that there is a great deal to be said for having one profession responsible for financial control in an Insurance Company.

With these strengths, I have no doubt that when the Institute comes to celebrate its second Centenary in the year 2085, the fraternal delegates from this and twelve other planetary systems, will still be talking about Life Insurance, even if none of us is there to hear them.

Thank you very much.