Some partnerships have found it worthwhile to set up limited companies, owned by the partners, to conduct part of their business. For example, a firm of accountants might set up a management consultancy company. The company will then charge its clients for its work and may well employ various members of the partnership. Their renumeration from the company will be taxable under Schedule E. It will therefore be possible for the company to establish a scheme approved under the Finance Act 1970 to provide pension benefits for those partners who are employed by it. Such an arrangement allows the partners to take advantage of the less severe restrictions on contributions, and constraints on investment policy allowed to these schemes, compared to the §226 pension arrangements. Possible optimum employment arrangements, i.e. partner *v.* employee, are discussed.

The possibility of using §226(5) of the Taxes Act to establish a trust fund is mentioned. It is noted that virtually no such funds exist at present.

It is, of course, open to the remaining partners simply to provide an annuity to their retiring colleagues out of the practice's income on a year-to-year basis. The disadvantages of such a 'pay as you go' scheme are discussed.

Successive governments have sought to encourage individuals' saving for retirement since it is clearly desirable that they should not be a burden on the State in their old age. In the meantime their savings will form a useful capital base for the country. The Government's chosen method has been to provide tax incentives for savings schemes which satisfy certain restrictions laid down in the various Acts. These are aimed at limiting the dates at which savers can withdraw their savings to around their retirement age and ensuring that the bulk of the savings have to be withdrawn as life annuities. In addition, the savings must be managed by an insurance company or friendly society. Possible changes that would make this legislation less restrictive yet still ensure that the stated objectives are achieved are discussed.

The paper concludes with some practical guidelines crystallized from the earlier discussion.

PROMISES, PROMISES:

The Myth and Reality of Life Office Quotations

BY M. IQBAL AND E. SHORT

(*A synopsis of a paper presented to the Society on 18 February 1986*)

THE Government's success in reducing inflation to around 5% and the long term rate of interest to around 11% and the likelihood that the days of high interest rates are unlikely to return in the near future has put the current rates of bonus under severe strain. Inevitably they must fall at some stage. This poses an urgent problem because of the industrywide practice of providing quotations assuming that the current rates of reversionary and terminal bonuses will be maintained.

Section 73 of the Insurance Companies Act 1982 makes it an offence for a company to make misleading statements when inducing people to enter into contracts of insurance. However, this piece of legislation has not been very effective, A quotation, or an illustration or a projection fulfills two specific functions:

(i) It gives an indication of the likely emerging benefits if certain stated assumptions are borne out,
(ii) it helps in the choice between one or two insurance products or between an insurance product and the product of another savings institution.

We believe that the first function should be all important. In practice too much attention is paid to the latter with the quotation operating as an instant discriminator between companies.

The present practice in respect of with profits business is fallacious for several reasons:

(i) Bonuses granted in days of high inflation are being projected into a future of low inflation,
(ii) Current terminal bonuses are often added to current reversionary bonuses,
(iii) No attempt is made to relate monetary figures to their real values allowing for inflation—particularly acute in the case of pension products.

The present practice on unit-linked business is much more acceptable, particularly that of giving two illustrative values. Nevertheless there are inconsistencies in their treatment of expense charges. There are also instances of offices using unacceptably high growth rates.

If quotations are so potentially misleading is there an alternative? There is a growing body of opinion that more attention should be given to past performance. However that can be misleading too. For example, a company

(i) may have changed its investment policy significantly,
(ii) may have consciously or otherwise overdistributed surplus in the past, leading to better past performance but a weaker financial base for the future,
(iii) may have expanded much faster than others and thereby accepted more business on unsupportable terms,
(iv) may have done very little with profits business until the past decade or so making it very inexpensive to generate good past performance with very high terminal bonuses.

The Financial Services legislation makes it imperative that a sensible basis be evolved (a) to make sure that offices comply with the requirement not to make misleading advertisements and (b) to enable intermediaries to offer best advice to their clients.

There is no unique solution. We would recommend the following:

(i) A system of risk classification should be devised and all investment products should be given a risk rating,

(ii) Illustrations should be shown on two alternative investment assumptions to convey the inherent uncertainty of final outcome,

(iii) The two assumptions should be very wide, 5% and 10% for life products and $7\frac{1}{2}$% and 15% for pension products are recommended under current conditions.

(iv) A corresponding rate of inflation (10% price, 12% earnings) must be shown,

(v) If past performance is being used, it is best to use externally published league tables. If it is to be an integral part of the illustration basis this measure must relate to a comparable product. The return must be expressed as an overall yield on the gross premiums invested and the corresponding average annual rate of price inflation must be shown,

(vi) Specific guidance should be given to appointed actuaries not to overdistribute simply to inflate league table position and possibly to add a note along the following lines whenever past performance is used in the sales process:

'Although past performance is no guide to the future, the Company has been advised by its Actuary that given similar investment conditions a similar result can be achieved for the current generation of new policyholders'—assuming that it can honestly say so,

(vii) Avoid spurious accuracy by sensibly rounding figures.

NORTH AMERICAN CASUALTY BUSINESS WRITTEN IN THE LONDON MARKET

BY JOHN P. RYAN

(*Synopsis of a paper presented to the Society on 18 March 1986*)

THIS paper is an introduction to the actuarial aspects of U.S.A. Casualty business written in the London Market. It provides an indication of the type of problems encountered and how the business differs from that in other fields perhaps more familiar to non-life actuaries in the U.K. Whilst premium rating and claims reserving are central to the discussion, particular techniques are not described in detail. Various aspects of the legal, fiscal and institutional facets of the market are described with the aim of giving the background knowledge essential for effective data analysis for rating and reserving.

The key difficulties are the especially long tails of the business and the relative short experiences of companies and syndicates writing the business. For many