

Overall, the book is full of good sound common sense and will provide useful background for those unfamiliar with the subject. Most of it is easy to read and it is in line with the thinking of the reviewer even if there are a few places where he would disagree with the opinion voiced, thus he would take issue with their comment, on the subject of fringe benefits, that a free haircut is worth little or nothing to a bald man. Bald men need haircuts like anybody else – and they are charged the same!

J. C. S. HYMANS

### CORRESPONDENCE

I believe that my written contribution to the discussion on Messrs Ford and Masters' paper (*J.I.A.* 106, 149) did not reach its destination, but perhaps I may be permitted to make the points in the form of a letter.

Mr Rowe noted that the majority of offices writing flexible endowment assurances projected the same rate of bonus on these assurances as they did on fixed-term endowments. He felt that this was inappropriate and that a separate bonus system should be used, preferably one with a large terminal or reparticipating element. In this he was supported by several other speakers. Nevertheless, the list of offices projecting identical bonus rates for both classes is impressive and it is reasonable to assume that they have done so after due consideration.

The approach suggested by Mr Rowe presents the office with the problem of deciding not only how the premium rates for flexible endowment assurances should differ from those for fixed-term endowment assurances, but also how the bonus rates should differ, and it presents the customer with his own problem in deciding how he should weigh the suitability of the one contract against the other. It is, on the contrary, quite reasonable for the office to proceed on the assumption that the same bonus system will operate for both classes of policy and then to decide what charge should be made for the option inherent in the flexible contract. After all, many offices declare the same bonus rate on other contracts which are not identical, e.g. whole-life and fixed-term endowment assurances.

Life offices issue several contracts involving options which may at times operate against the office. For example, currently many offices are issuing self-employed retirement annuities under which cash on a guaranteed basis may be uplifted by the policyholder to apply to an annuity purchase at any time of his choosing between age 60 and age 75. Here one is dealing with very substantial sums of money and with a policyholder who does not even need to retire before deciding to uplift his cash and draw his pension. He will, naturally, prefer to buy his pension at a time when annuity rates are high and the market low, i.e. at a time disadvantageous to the office for providing cash.

If an office issues a contract which permits an option the office should have the necessary financial backing, recognize the force of the option, make a reasonable charge for it, and hold appropriately strong reserves.

As was pointed out by Mr Proudfoot, the great preponderance of flexible endowment assurances are issued to relatively small savers who may be thought of as likely to pay the next premium securing higher benefits and further tax relief rather than to exercise a maturity option. Also, at any time a good proportion of an office's flexible endowment assurances will be less than ten years old. Many of those policies 'matured' at longer durations will be cashed for reasons which have nothing to do with the state of financial markets. Such maturities will on average be in no way disadvantageous to the office.

It was noted during the discussion that investments are available suitable for matching against the liabilities under flexible endowment assurances. There is no reason why an office of sufficient strength should not take a view on this, as on other investment matters, and decide not to match the liabilities fully by such assets.

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