

" THE UK PROFESSION'S SOCIAL POLICY BOARD A UNIQUE STEP INTO THE NEW MILLENNIUM"

Alan Fishman

United Kingdom

Summary

The UK Profession, comprising the Institute of Actuaries in London and the Faculty of Actuaries in Edinburgh, took the unique step in the year 2000 of formally creating a Social Policy Board, ranking *pari passu* with, amongst others, the long established Pensions Board, Life Board and General Insurance Board.

While social policy is fundamental to the work of actuaries throughout the world, the UK's formal recognition of this area of activity provides a strong message, particularly to the public, consistent with the Cancun Congress's theme of "A new millennium, a new challenge for actuaries".

This paper will briefly cover the background to the process leading to the formation of the Social Policy Board and, in passing, questions the relevance of continuing to refer to pensions and insurance as "traditional" areas of actuarial activity.

“Directoire de Politique Sociale de UK Profession Un Pas Unique Pour Entrer Dans Le Nouveau Millénaire”

Alan Fishman

United Kingdom

Résumé

UK Profession qui comprend the Institute of Actuaries (L’Institut des actuaires) à Londres et the Faculty of Actuaries (La Faculté des actuaires) à Édimbourg prit en l’an 2000 la mesure unique de créer formellement un Directoire de Politique Sociale qui occupe, parmi ses pairs, le même rang que, entre autres, le Directoire de Pensions, le Directoire de Vie et le Directoire d’Assurances Générales, établis depuis longtemps.

Tandis que la politique sociale est essentielle pour le travail des actuaires dans le monde entier, la reconnaissance formelle de ce domaine d’activité par la GB transmet un message fort, en particulier pour le public, en accord avec le thème du Congrès de Cancun : «Un nouveau millénaire, un nouveau défi pour les actuaires».

Cet écrit tracera brièvement le contexte du processus qui mena vers la formation du Directoire de Politique Sociale et, en même temps, met en question l’importance de la référence continue aux pensions et assurances comme domaines «traditionnels» de l’activité des actuaires.

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1. INTRODUCTION

- 1.1 In July 2000, the Institute of Actuaries in London and the Faculty of Actuaries in Edinburgh (the UK profession) created a Social Policy Board, ranking in terms of seniority with such Boards as the Life Board, the Pensions Board and the Professional Affairs Board.
- 1.2 The status accorded to social policy, by the creation of a dedicated new Board, was a reflection of several strategic debates commencing in 1998 including, in particular, consultation with the entire membership of the profession.
- 1.3 This paper traces the process and strategic thinking leading to the formation of the Social Policy Board. The paper then proceeds to describe the Board's objectives for the future.
- 1.4 These objectives give practical impetus to the Congress's theme of "A new millennium, a new challenge for actuaries."

2. VISION AND VALUES

- 2.1 After many years of seemingly endless references over the role actuaries should be playing in the future, steps were taken in 1998 to bring the talking to an end and to set the profession on a strategic and structured path to putting words into action.
- 2.2 In particular, arising out of several national scandals, such as the theft of funds from the Maxwell pension schemes and the misselling of personal pensions, there had been a growing chorus surrounding the need to finally elevate public interest as a key role which the profession would have to tackle at the same time as widening its horizons.
- 2.3 The 1998 initiative resulted in the profession's Vision and Values document published in December 1999. This was produced after widespread consultation with members and set out the profession's goals for the next 20 years. It is worthy of note, that Vision and Values achieved the rare distinction in actuarial circles of a largely enthusiastic acceptance by the membership that this was, indeed, the way forward for the profession.

- 2.4 In the opinion of the author, however, the most remarkable aspect of Vision and Values was the absence of any reference whatsoever to certain areas of actuarial work as ‘traditional’ or ‘core’. This is to be welcomed. In normal conversation, it is of course difficult to avoid referring to the fact that most actuaries work in the traditional areas of pensions and insurance. But, as we widen and continue to widen our horizons, this gives the wrong signals to the public.
For Vision and Values to succeed, the oft quoted public perception of actuaries with narrow, but important skills, working in ‘insurance’ must change.
- 2.5 The author believes that pensions work represents a prime example of why labels such as traditional should be dropped. For as long as the author can remember, technical actuarial work has been lavished on the liability side of pension scheme valuations. This is certain to continue, driven by legislation on topics such as minimum funding requirements as well as international pressure in the area of accounting standards.
Moreover, in the 60’s and 70’s, the actuarial valuation of a pension scheme represented the prime focus for the actuary and justifiably would have been regarded as traditional work. It must also be remembered that in those days, there were no more than 200 actuaries in consulting practice compared with 1500 today.
- 2.6 Times have changed out of all recognition for the actuary working in pensions. Furthermore, the pace of change has accelerated with no sign of abating. As mentioned above, the liability side of a pension scheme valuation will continue to command detailed actuarial attention but this fades into insignificance with the issues now facing the pensions industry. Longevity, consumer risk, educating the public, shorter working lives, impact of the trend from defined benefit to defined contribution schemes, the role of employers as facilitators rather than sponsors of occupational pension schemes, and a move by Governments throughout the world to reduce the burden on the State, spring to mind.
These areas of activity, which have a major social and public interest impact, are fertile grounds for actuarial involvement.
- 2.7 In fact, on a positive note, in the UK over the last ten years, the profession’s image as offering value in wider areas of activity has been enhanced, with major contributions to debates over healthcare, genetics and ageing. In Government circles, the profession is highly regarded and its opinions sought on these areas of increasing national importance. The challenge for the profession is to now actively promote its value outside Government and official circles.
- 2.8 Vision and Value was, therefore, to be commended in stating as its prime goal the need for actuaries to work in a much wider range of businesses than at present and yet, at the same time, implicitly recognising that activities where actuaries have been involved since the birth of the profession fell comfortably within the definition of new horizons.

3. THE WIDER FIELDS BOARD

- 3.1 The Wider Fields Board was formed in September 1994 and was the first formal step taken by the profession to cater for sectors of actuarial work not covered by long standing Boards such as Life, Pensions and General Insurance.
- 3.2 The new Board was very successful in harnessing activity in many areas such as equity release mechanisms, genetics and ageing. Well-attended members' conferences took place and useful and well regarded input provided to Government, all serving to raise the profession's profile in the public arena.
- 3.3 Operationally, the Wider Fields Board tended to seek niche areas of activity where the actuary could move in and attempt to create a monopoly. Unfortunately, this took place within the context of an essentially inflexible education system, which had not adapted to the role of Wider Fields actuaries. Tensions also arose on professional matters, where issues such as what constitutes actuarial work for the purpose of professional conduct standards gave rise to complex debates.
- 3.4 The arrival of Vision and Values, however, required a major strategic re-think for the following key reason. In broadening the profession, enabling actuaries to be involved in an ever widening range of businesses, Vision and Values required a commensurate development of the education system, including the introduction into the examination syllabus of more business and practical skills.
The Wider Fields Board picked up these themes in a strategic document produced in March 2000 and proposed a radical change of emphasis as to how actuaries would fulfil the goal of being involved in an ever widening range of businesses. Instead of looking for target areas, where the primary offering was unique to the profession, the stated objective would be achieved by developing the profession's ability to compete with those who possess other skills.
- 3.5 The profession readily accepted this key strategic statement but, in doing so, implicitly accepted the necessity for an equally radical review of the education system and, arguably, a less radical review of the profession's code of conduct. Fortunately, these reviews were already underway following the Vision and Values document.
- 3.6 One other aspect of the Wider Fields Board strategy report was worthy of note. This was recognition that the actuarial profession in the UK was increasingly being used by individuals as a stepping stone to a career in business, similar in fact to the accounting profession. By contrast, lawyers and doctors did not tend to use their training as a springboard for other careers. There was, of course, a time where actuaries were closer in terms of career aspirations to lawyers and doctors but, clearly, this had changed dramatically. Furthermore, the actuarial profession's education system had struggled to come to terms with the need, on the one hand, to keep up to date

with every advance on actuarial thinking and, on the other, to avoid too many changes to the basics of the syllabus.

The recently completed education strategy review will lead to a system which accords much more closely with the fundamental strategic aims of Vision and Values and the Wider Fields Board in recognising that many of the actuaries of the future will require business and practical skills as a stepping stone to competing with other professions in a business and management environment.

4. FINANCE, INVESTMENT AND BANKING

- 4.1 For more years than the author cares to remember, there has been much talk, often negative, about the influence, or rather lack of influence, of actuaries in the area of finance, investment and, latterly, banking. Statements such as ‘we’ve lost the plot’ and ‘financial engineers have taken over from us’ allied to a feeling by actuaries involved in these areas that they were treated as second class citizens, with little or no support from the profession, spring readily to mind.

By the same token, soundbites such as ‘why can’t we just have more actuaries in banking’ were heard with increasing frequency.

- 4.2 The profession’s structure for dealing with these crucially important areas of actuarial work was also lacking in focus and clarity, with a Banking research sub-committee reporting to the Investment Committee of the Wider Fields Board and a separate Action Group for Banking reporting direct to the Wider Fields Board.

- 4.3 Fortunately, while accepting that the profession’s influence had slipped, there was also recognition that the position was not irretrievable. This manifested itself in an upbeat strategic paper, produced in September 1999, on the role of actuaries in investment. The key conclusions were that the profession had a paramount responsibility to support investment actuaries and, to demonstrate this responsibility, practical steps had to be taken through the education system, promotion of seminars and continuing professional development.

- 4.4 The strategic paper specified with clarity the role actuaries were already playing in the investment field as well as focussing on areas where actuaries were probably better placed than other disciplines to provide input and advice. Emphasis was placed on the actuarial profession’s capacity to understand assets and liabilities, and their inter-relationship. Further, with the expansion of asset classes, the concept of measuring financial risk and the ability to deal with that risk were fundamental to the work of actuaries.

- 4.5 It was also recognised that, hitherto, the balance of actuarial work was heavily weighted towards understanding liabilities rather than assets. The time was ripe for this balance to be redressed and support given to a core of actuaries who would be asset specialists.

5. THE BIRTH OF THE SOCIAL POLICY BOARD

- 5.1 A number of elements combined to give sustenance to the concept of a Social Policy Board. Vision and Values, strategic reports on wider fields and on investments, and strategic reviews which, by good judgement or sheer luck, were in hand on education and professional issues.

One further piece of the jigsaw puzzle came in the form of a rebranding of the actuarial profession incorporating the strapline “Making financial sense of the future”.

Such a strapline was capable of being interpreted as covering almost any area of activity, particularly in the public arena. Decommissioning of nuclear power plants, setting lending criteria for banks and financing of capital projects were often quoted examples.

- 5.2 Arising out of these various initiatives, the strong view was formed that the profession should establish a Finance and Investment Board, catering for the significant number of actuaries now working in investment, corporate finance and banking.

The Wider Fields Board, responsible for many of the investment areas, was thus left with what seemed to be reduced responsibilities, virtually all of which, however, were matters of growing public debate, such as healthcare, ageing and genetics. Coupled with well documented exhortations from senior actuaries that the profession should be involved in the development of social policy, the Government having placed this high up on their agenda, the rump of the Wider Fields Board evolved into the Social Policy Board.

These strategies were approved by the profession’s executive in May 2000 and the Social Policy Board, together with the Finance and Investment Board, became effective from 1 July 2000.

6. SOCIAL POLICY BOARD FUNDAMENTALS

- 6.1 The fundamental remit of the Social Policy Board was to increase the profession’s involvement in social issues of public interest. Two distinct areas of activity were identified. The first, embraced existing committees and groups, numbering 8 in total, most of which in turn had played a major role, over many years, in enhancing the profession’s reputation in the public arena. The other area of activity was to identify and prioritise areas of research for the future.

- 6.2 Ageing Population Group

The Ageing Population Group (APG) began life under the Wider Fields Board to address the growing issues of ageing populations faced by advanced nations around the world. In the course of the last four years, it has produced several actuarial analyses of the social needs that accompany Britain’s ageing population and the social policies required. In particular it responded to the Government-sponsored Foresight Ageing Population Panel’s consultation *The Age Shift*. Sponsored by the Office of Science and Technology, the *Foresight*

project has produced a number of important reports examining future trends in business, technology and society with the aim of pooling knowledge and increasing national prosperity and well-being. It produced a detailed response to the Royal Commission Report on Long Term Care in 1999 and to the Treasury consultation document of 2000 on long term care insurance. Early in 2002 the profession has arranged its first-ever international conference at Edinburgh on *The Ageing Population: Benefit or Burden?*

6.3 Damages Working Party

This Working Party grew out of a Damages Working Group paper that studied the role of actuaries in advising on legal issues of damages and compensation. It has contributed to discussions in British law about the use of an income or indemnity award as an alternative to lump sum damages awards.

6.4 Equity Release Working Party

The Equity Release Working Party, set up by the APG, has provided wide exposure to one of the most innovative areas of financial provision. In keeping with the profession's public interest concerns, the Group harnessed the resources of a wide range of people in the financial services, voluntary, academic and actuarial worlds – an important sign of the new way in which actuaries are working today.

6.5 Genetics Group

The origins of the Genetics Group also lie in the Wider Fields Board. At a time of growing interest in human genetics, the Group has come to play an increasingly central role in the profession's work in furthering the public interest. This has been especially so for the role of the Group and its members in providing expert submissions to public bodies and in giving public lectures. The Group drafted a memorandum submitted by the profession to the House of Commons Science and Technology Committee's inquiry into genetic testing and insurance. The publication of the Committee's report aroused widespread press interest in the complex scientific and ethical issues surrounding genetic testing. The profession also submitted a response drafted by the Group to the Government's Human Genetics Commission Consultation *Whose Hands on Your Genes?*

6.6 Health and Care Committee

The Health and Care Committee was one of the oldest committees of the former Wider Fields Board, and like the other committees and groups has contributed analyses of important developments in British healthcare policy, for example, in relation to the 1999 *National Health Service Plan*. In addition the Committee has organised an annual series of Healthcare Conferences for actuaries which act as host to colleagues from around the world. Several leading members have contributed to the establishment of the Continuing

Care Conference on Long Term Care to promote greater awareness of long term care in the minds of the public, private providers and Government.

Its Health and Care Research sub-committee monitors and supports a wide range of projects addressing the interests of healthcare actuaries in the areas of critical illness cover, long term care and private medical insurance. An important part of this brief concerns the study and appraisal of new types of public-private partnerships in healthcare in Britain – an area of social policy receiving priority from Government as it addresses the financial and social needs of the British healthcare system.

6.7 The Actuarial Panel on Medical Advances

This Panel on Medical Advances has been recently created to gauge how medical advances, changing social habits and the environment have affected mortality and morbidity experience. In short, the panel is considering how current and future developments will affect future experience.

6.8 Pension Provision Task Force

Another important issue central to British social policy is pension provision. Although the UK profession has a long-standing Pensions Board addressing the more technical side of this area of work, the new Social Policy Board decided that it should establish a Task Force to examine specifically the wider social policy issues that Government and other bodies have been addressing in relation to pension provision. A priority for the Task Force has been to produce a series of high quality papers addressing five core areas: the size of the state pension, means testing, the age of retirement, unfunded pensions in the EU, and the impact of annuitisation. Three papers were presented at a high profile seminar at the House of Commons early in 2001 before an invited audience of MPs, civil servants, journalists, academics and representatives of the insurance industry and the voluntary sector. In addition, the Task Force has produced several responses on behalf of the UK profession to Government proposals for pension reform.

6.9 Personal Financial Planning

The Personal Financial Planning Committee began life under the Wider Fields Board, reflecting both the established technical interests of actuaries in personal finance and the new role that savings strategies play in social policy. In Britain the Government has been developing what it calls ‘asset based welfare’ provisions alongside a more active involvement in the regulation of the financial sector through the Financial Services Authority and support for greater financial literacy among school children and adults. The profession is actively involved in all of these developments. In particular, the Committee has been developing a new approach to the dissemination of financial information by encouraging employers to provide regular personal financial checks for their employees. It has recently set up a working party on retirement options, with the object of providing a clear and comprehensive report on the range of annuity provisions.

7. RESEARCH AS THE WAY AHEAD

- 7.1 In recent years, there has been an increasing call both by friends outside of the profession as well as those within, that actuaries should speak up on matters of public interest. To achieve this objective of significantly raising the profession's profile, the Social Policy Board took the view that public pronouncements had to be based on thorough, detailed and relevant research projects on matters of social importance to the community at large. Soundbites, which could not be substantiated, would affect the profession's credibility and marginalize its reputation.

In short, only when projects had been thoroughly researched and resourced could the profession go public with its pronouncements.

- 7.2 In its first year of operation, the Social Policy Board identified 6 relevant research themes, all with a social bias in the public domain. They cover the environment, medical advances, ageing population, insurance and social welfare, consumer risk and pension provision.

7.3 The Environment

The objectives of this theme are three-fold: to study the environmental costs and benefits of different approaches to commissioning and decommissioning public assets such as airports, railways, road systems and nuclear power plant; to explore the relations between these two processes; and to unravel some of the unforeseen consequences of current practices in these areas.

7.4 The Actuarial Panel on Medical Advances (see 6.7)

7.5 The Ageing Population

The core aim of the *Ageing Population Group* is to make a significant contribution to thinking on ageing population issues in the UK. It will do this by commissioning cross-board and cross-disciplinary research, by contributing to external bodies such as Foresight, and by co-ordinating responses to consultation documents.

7.6 Insurance and Social Welfare

This theme seeks to study the impact of private insurance on social provision in a climate where Government is advancing a new partnership between the private and public sectors and a stronger regulatory framework for financial services. This can be seen in the growing regulation of charges in stakeholder pensions. These developments provide several areas for possible research, such as long term care insurance, underwriting and discrimination, risk pooling and 'insurer of last resort'.

7.7 Consumer Risk

This theme studies three areas: the risks associated with investments; consumer attitudes to risk; and the factors influencing these attitudes. It will adopt two approaches: a mathematical analysis of risk which seeks to measure and profile risk; and a social and psychological study of factors shaping the consumer's approach to risk-taking.

7.8 Pension Provision

This theme examines the long term imperatives shaping pension provision, including the impact of the ageing population, the changing volatility of financial markets, increasing female participation in employment, and the widening inequalities in income and wealth. In addition, it studies the impact of changes in pension policy on the public's propensity to save and on future trends in income inequality and social exclusion.

8. CONCLUSION

8.1 There is no doubt that the formal establishment of a Social Policy Board has had an immediate and early effect in focussing on new areas of social policy, where the profession can play an important role.

8.2 For those who are anxious to see the profession speak with a louder voice, sooner rather than later, the Social Policy Board's approach of research first, communicate second, will come as a disappointment. However, there remain a number of current social policy initiatives, where the very formation of the Social Policy Board will enhance and widen the profession's influence. In the UK, the profession is responding to new initiatives from Government on state pension provisions, long-term care and National Health Service planning.

Furthermore, as research into new topics evolves, the ability to communicate the profession's view on matters of national importance will more than satisfy the theme of "A new millennium, a new challenge for actuaries".