



## WELCOME FROM THE GOVERNMENT ACTUARY



Welcome to the third edition of GAD's electronic newsletter, **e-News from GAD**. We have a number of quite different articles which we hope you will find of interest.

We hope you received a copy of our recent client survey and thank you to all of you for your responses. We will release the results of the survey as soon as possible.

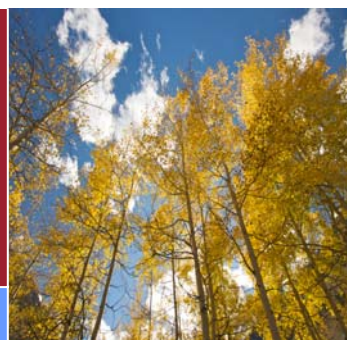
There have been a few changes at GAD since our last edition, including some senior appointments which you can read about on page 2. We have sadly said goodbye to David Hughes, a long-serving and well-respected Chief Actuary, who has recently retired. We wish David all the best for the future.

As always, back issues of e-News are archived on our website [www.gad.gov.uk](http://www.gad.gov.uk) and we very much value your feedback.

TREVOR LLANWARNE GOVERNMENT ACTUARY

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## NEWS FROM GAD

### PROMOTIONS AND APPOINTMENTS

#### Deputy Government Actuary

George Russell has been appointed as Deputy Government Actuary, succeeding Andrew Johnston who has retired.

#### Management Board

Eddy Battersby has taken on the role of Technical Director, and Bill Rayner has been appointed as Client Relations and Development Director, and we welcome them both to the GAD Management Board.

#### Chief Actuaries

We have also recently appointed three new Chief Actuaries. Sue Vivian has taken over David Hughes' role leading the NHS and Funded Schemes team and Sandra Bell has taken over Eddy's role leading the Teachers & Police team. Adrian Hale will lead the new Staff Transfers team. Congratulations to all of them and we wish them success in their new roles.

### NEW OFFICE IN SCOTLAND

GAD will be opening a new office in Glasgow early in 2010 . We will let you have further details as our work progresses.

### PMI WEBCAST

GAD's Ian Boonin was recently interviewed on Staff Transfers for the Pension Management Institute's TV channel. You can see Ian at [www.asset.tv](http://www.asset.tv) (PMI Registration is required to view the interview.)

### STAFF TRANSFER PROCESS

Following the introduction of our new Staff Transfers team, we have launched Process Flowcharts, which helpfully present the different stages involved in staff transfers. The flowcharts are available at [www.gad.gov.uk/services/Staff%20Transfers/](http://www.gad.gov.uk/services/Staff%20Transfers/)

### ENVIRONMENTAL CERTIFICATION

GAD's ongoing commitment to our environmental impact has seen us awarded with the Environmental Kitemark.

## SWANSEA BUSINESS AND ECONOMICS STUDENT WINS GAD'S £15K SPONSORSHIP

Ms Elena Veprauskaite currently completing her MSc degree in Economics and Business Finance, has been awarded GAD sponsorship to fund her PhD research into the linkage between reserving, reinsurance and earnings management in the UK non-life insurance industry. We look forward to working with Elena. Her research will be a valuable addition to the thinking on solvency regulation and taxation of insurance companies, in the UK and overseas.

*"ALL ENTITIES IN THE PUBLIC OR PRIVATE SECTOR FACE RISKS. THE INSURANCE INDUSTRY FOCUSES ON THE MEASUREMENT AND MANAGEMENT OF RISK."*

NOVEMBER 2009



HARVEY DUCKERS

INSURANCE

## INSURANCE ADVICE IN THE PUBLIC SECTOR— GAD'S GROWING INSURANCE TEAM

GAD provides actuarial advice to the public sector anywhere in the world. In recent years more and more of this advice has related to Insurance.

Actuaries can play a key role in helping insurance companies run efficiently and effectively. They can also help insurance regulators and others in the public sector understand the work of insurance companies.

GAD's Insurance team is made up of 8 experienced actuaries, supported by 3 part-qualified actuaries and we have recently contracted a further 3 actuaries to support the increased demand for our services.

All of GAD's team have worked extensively in the private sector, in insurance companies, reinsurance companies, brokers and consultancies.

*"THE GOVERNMENT ACTUARY,  
NOT JUST THE GOVERNMENT  
PENSIONS ACTUARY."*

### INSURANCE FUNDAMENTALS

All entities in the public or private sector face risks. The insurance industry focuses on the measurement and management of risk.

Some fundamental features of insurance are:

- > The four broad objectives that insurance contracts can serve:
  - > transferring a financial risk from one entity to another, e.g. motor insurance.
  - > obtaining a service in particular circumstances, e.g. private health insurance or roadside assistance.
  - > long-term saving and investment, e.g. life insurance and pensions contracts.
  - > providing specific financial benefits in the event of unfortunate events, e.g. accident and disability cover.
- > Insurance companies buy their own insurance in order to spread the risks they accept. They generally do this by arranging reinsurance contracts with specialist reinsurance companies.
- > Managing insurance company assets can be tricky. The manner in which this is done generally reflects the term and amount of the liabilities underlying the insurance company's book of business.
- > In much of the world, insurance companies are split into short-term General Insurance companies and long-term Life Insurance companies.
- > Most jurisdictions regulate their insurance industry. The increasing sophistication of the insurance and finance industries are in turn requiring increased technical support to be provided to the regulatory process.

All of these features mean there are sound reasons why the public sector in many jurisdictions want insurance advice.

## SO, WHAT SORT OF PUBLIC SECTOR BODIES MIGHT SEEK OUR ADVICE, AND WHY?

### STOCK MARKETS

Many insurance companies are listed on stock markets. Listing requirements mean that the stock market authority needs to analyse the numerous documents submitted.

In carrying out this task, stock market authorities generally seek advice from the regulator. But they may want their own advice, independent from any perceived vested interests of the regulator. They can turn to GAD for an expert opinion.

### INSURANCE COMPANIES LINKED TO THE PUBLIC SECTOR

There are often several insurance companies connected with the Public Sector, such as specialist insurers for public servants, or Mutual companies covering general insurance risks for Local Authorities.

GAD is well equipped to provide full actuarial advice to such companies.

### PUBLIC SECTOR TECHNICAL PROVISIONS

Public sector bodies are exposed to insurance claims as a result of their activities. They may choose to self-insure these risks, especially if the risks are large or unusual, for instance those associated with nuclear power stations. But unlike insurance companies, the public sector is not required to set aside funds to meet these risks.

However, there is an ongoing effort to align Public Sector accounting standards with International Accounting Standards (IAS). IAS standards require liabilities to be determined on a fair value basis. GAD's actuaries currently help a number of clients determine appropriate provisions for such self-insured risks.

### TAX AUTHORITIES

Insurance company finances are specialised and may be highly complex. GAD actuaries can help to explain many aspects, and analyse their impact.

### SOCIAL DEVELOPMENT—MICRO-INSURANCE

There are initiatives in many parts of the world to establish insurance schemes to help individuals, or groups, who are not normally insured.

### REGULATOR ASSISTANCE

GAD's Insurance team has a wealth of experience developing regulatory frameworks in a range of different countries to help ensure new markets run as smoothly and efficiently as possible.

**"...HELP ENSURE NEW  
MARKETS RUN SMOOTHLY  
AND EFFICIENTLY"**

As the above shows, there is a wide range of different areas that require actuarial advice that GAD already operates in – it's not just pensions. As Trevor Llanwarne says, "I'm the Government Actuary, not just the Government Pensions Actuary."

*"AN APPROACH WHICH IS TIMELY, EFFICIENT AND FULLY AUDIT-COMPLIANT"*

NOVEMBER 2009



DANIEL SELBY

LOCAL GOVERNMENT

## POLICE & FIRE AUTHORITIES - ACCOUNTING FOR PENSION COSTS

Many organisations find accounting for pension costs demanding, with the associated audit scrutiny and tight deadlines. The position is no less so for Police and Fire authorities. In response to their need for timely, audit-compliant disclosures, GAD has developed an innovative approach to producing accurate disclosures, within an agreed delivery timetable and at a low fixed cost. The approach should be of interest to other public sector bodies needing to account under FRS17.

### POLICE & FIRE FINANCING & ACCOUNTING

New financing arrangements for Police and Firefighters' pensions were introduced in 2006 in England and in 2007 in Wales. Employing authorities pay contributions and an adjustment is provided from central government to equalise annual benefit expenditure and contribution income. A similar approach to financing Police and Firefighters' pensions has been proposed for Scotland.

Police and Fire authorities in England, Wales and Scotland are required to disclose pension scheme costs and liabilities in line with the FRS17 accounting standard, but subject to the Statement of Recommended Practice (SORP) guidance which applies to all local authority accounting. The arrangements and requirements for the Northern Ireland Police and Fire schemes are slightly different, as they report under the Financial Reporting Manual (FRM) requirements which apply to central government accounting, rather than the SORP.

### GAD'S APPROACH

The key to GAD's innovative approach is its self-validating data collection spreadsheet. This permits more accurate disclosures without painful data validation or increased costs.

*"... OF INTEREST TO ...  
ALL POLICE AND FIRE  
AUTHORITIES ... OTHER  
PUBLIC SECTOR BODIES..."*

ACCURACY

PAINLESS  
MEMBERSHIP  
DATA  
VALIDATIONCOMFORT ON  
THE ACTUARIAL  
ASSUMPTIONSINJURY  
BENEFITSLOW FIXED COST  
& AGREED  
DELIVERY  
TIMETABLE

#### ACCURACY

FRS17 permits "roll-forward" valuations whereby the results of a full valuation are projected forward and adjusted for significant changes to provide the disclosures in the following few years. However, GAD's approach is to carry out a full actuarial valuation of the pension liabilities each year. This ensures accurate, robust and audit friendly disclosures. The detailed calculations also enable us to run different valuation scenarios easily, or even projections of future cashflow, if required.

### PAINLESS MEMBERSHIP DATA VALIDATION

Good quality membership data is the cornerstone of meaningful actuarial valuation figures. However, it is often the case that the process of ensuring that the data is fit for purpose is costly and painful with seemingly endless iterations between client and actuary.

GAD's self-validating data collection spreadsheet breaks this cycle. Authorities input their data and the spreadsheet alerts them to any significant inconsistencies in the data so these can be investigated and corrected before the spreadsheet is returned to us. This spreadsheet significantly reduces, and sometimes completely bypasses, the need for client/actuary iterations on data and it has been very much welcomed by our clients. Indeed, in our recent client survey, many have commented positively on this "user-friendly software", the supporting instructions and guidance and the "friendly, helpful, quality customer service" when any queries arise.

Our service also includes help with setting assumptions and valuing injury benefits.

**"COMPLETELY BY-PASSES THE  
NEED FOR CLIENT/ACTUARY  
ITERATIONS ON DATA"**

### COMFORT ON THE ACTUARIAL ASSUMPTIONS

Under FRS17, it is the Authority that is responsible for setting the actuarial assumptions, not the actuary. GAD's approach is to propose assumptions to the Authority which are compliant with the accounting guidance and, as far as possible, based on actual scheme-wide experience. We have found that our clients greatly value our proposals as giving them a high level of comfort in setting their assumptions.

### INJURY BENEFITS

Under the new financing arrangements, injury benefits are no longer payable from the pension scheme. But as they need to be shown as separate liabilities within the accounts, GAD values these injury awards alongside the normal disclosures, on request.

### LOW FIXED COST & AGREED DELIVERY TIMETABLE

Because we provide this standardised, streamlined service to a large number of Authorities, we can call upon large economies of scale, and offer this service at a low fixed cost - a fraction of the cost of a typical stand-alone actuarial valuation.

We also recognise the importance of prompt delivery. We work to a multi-stage pre-agreed timetable designed to meet Authorities' disclosure needs. We aim to produce final disclosures within one month of the final data receipt.

This standardised approach ensures provision of timely, efficient and fully audit-compliant pension accounting disclosures to Police and Fire authorities.

## CONTACT US

GAD currently provides the annual pension disclosures to nearly 50 Police and Fire Authorities. If you would like more information about GAD's FRS17 Service or the self-validating data collection spreadsheet, please e-mail [gfs@gad.gov.uk](mailto:gfs@gad.gov.uk) or call Daniel Selby on 020 7211 2616.

"UNCERTAINTY DOESN'T COME NATURALLY TO MANY PEOPLE. FOR ACTUARIES, IT IS A WAY OF LIFE."



COLIN WILSON

INVESTMENT AND RISK

## RISK MANAGEMENT IN GOVERNMENT

"If a man will begin with certainties, he shall end in doubts; but if he will be content to begin with doubts, he shall end in certainties." Francis Bacon, *The Advancement of Learning* (1605).

Heard the one about the optimist, the pessimist and the realist?

To the optimist, the glass is half-full.

To the pessimist, it's half empty.

To the realist, he makes sure the glass doesn't shatter and drinks the contents.

Risk management is about the realist—avoid the bad and enjoy the rewards.

## THE CABINET OFFICE REPORT, NOVEMBER 2002

The first major step towards the effective management of risk right across government occurred in 2002, when the Cabinet Office published the important report, '*Risk: Improving government's capability to handle risk and uncertainty*'.

As declared in the foreword:

**"Risk management - getting the right balance between innovation and change on the one hand, and avoidance of shocks and crises on the other - is now central to the business of good government."**

The report identified three main roles for government in managing risk:

- > As regulator, setting the rules of the game for others;
- > As steward, to provide protection or mitigation of consequences for major events like natural disasters or threats to economic stability;
- > As managers of the government's own business, including the provision of services to citizens.

Past problems were reviewed in the report, including:

- > The lack of preparation of alternatives to the exchange rate mechanism in the early 1990s.
- > Inadequate contingency plans in major change projects, often involving IT.
- > Passport delays in the summer of 1999.
- > Unsatisfactory aspects of the handling of the BSE crisis.

**" RIGHT BALANCE BETWEEN INNOVATION AND CHANGE ..... AND AVOIDANCE OF SHOCKS AND CRISES"**

## CONTINUING NEED FOR RISK-MANAGEMENT

Since 2002 there have been significant positive developments in risk management in government. These include:

- > The Green Book which gives guidance on appraisal and evaluation of project risk.
- > The Orange Book which gives guidance on operational risk.
- > The risk register held by the Cabinet Office for civil emergencies.
- > The risk register held by each Government Department under the mandate of the Department.
- > A cross Government Risk Improvement Group.

But problems still arise. There are regular reports of big IT projects facing major cost and time over-runs. The Government is investing billions as part of the banking bail-out. And these are just two examples.

## WHAT ELSE CAN BE DONE?

All the work that actuaries do relates to uncertainty, risk and quantification. So here is what we are doing to assist, working in concert with others:

- > Assisting in co-ordination of risk initiatives round Government.
- > Chairing a cross Government group to see how to use a project risk methodology developed for the civil engineers. We are working with Chris Lewin, an expert actuary in this field.
- > Working with audit processes to assist on questions such as insurance, quantification of liabilities and managing/mitigating/financing risk.
- > Developing experience and skills on banking and investment/asset risk.

**"THE GOVERNMENT ACTUARY'S  
DEPARTMENT HAS ACTUARIES  
TRAINED IN THE USE OF  
MATHEMATICAL TECHNIQUES TO  
MODEL RISK."**

So if you would like to find out more of what we are doing, whether or not you have specific problems you would like to discuss, please contact Colin Wilson, who heads our investment and risk initiatives, on 020 7211 2672.



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