



Michael Pomery,  
Institute president

## Communicating uncertainty

From the president of the Institute of Actuaries

Sitting on a train recently, travelling to Blackpool, I was reading the papers for the forthcoming plenary sessions at the GIRO Convention. One of the papers really set me thinking, and I would strongly urge you all to read it. Don't be put off by the totally misleading prosaic title ('A Maths Toolkit for Actuaries – Part 1'). Sections 1 to 5 are short, relevant to all actuaries, and above all wonderfully thought-provoking. As a taste of what it has in store, it introduced me to this delightful quotation: 'In theory, there is no difference between theory and practice: in practice, there is.'

([www.actuaries.org.uk/files/pdf/proceedings/giro2005/MaynardOrr1.pdf](http://www.actuaries.org.uk/files/pdf/proceedings/giro2005/MaynardOrr1.pdf))

Actuaries are highly numerate people, but we are not generally renowned for our communication skills. In my career, I have met quite a few actuaries who are very good communicators. However, it is often the case that actuaries are better at explaining how they have arrived at a result, ie the methods and assumptions they have used, than they are at explaining the implications and consequences to their client or colleagues.

The core of actuarial work, reserving and pricing, involves assessing the present value of future liabilities. This requires us to make assumptions about the future. The future is inherently uncertain. Communicating that uncertainty to others, whether to our clients or our employers, to journalists or to the general public, is a major challenge for actuaries.

To meet that challenge, there are a number of difficulties we have to overcome. First, in much of our work we are required to produce a single result, for regulatory, accounting, or practical purposes. This single result creates an aura of certainty. Non-actuaries can believe that the single result we have given them is, in some sense, the 'right answer' to a question they have asked. This explains why they find it difficult to understand that two actuaries, faced with very similar circumstances, can come up with different results. Surely, they think, one actuary must be 'right' and the other must be 'wrong'.

This way of thinking also helps to explain why actuaries are accused of having made a mistake when the actual outcome differs from their earlier advice. Successive published projections of future mortality tables by the profession have indicated longer and longer life expectancy. As actuaries, we argue that the emergence of new data has enabled us to update our previous estimates. But the media frequently criticise the actuarial profession for 'getting it wrong' by consistently underestimating life expectancy. We sometimes see the blunt criticism that, as the latest result is different from the previous one, the earlier result must have been 'wrong'.

The answer to the challenge of communicating uncertainty is to show ranges of possible outcomes. The 'single result' can then be seen as one out of a large number of possible answers, every one of which might turn out to be the right one. This approach does, however, require greater effort by the person for whom the work is being done to understand the underlying actuarial advice. How many times have you come across the client who says 'I'm very busy – don't bother me with the explanation, just tell me the result'?

Another difficulty is that showing a range of possible outcomes may be unwelcome. Many people feel uncomfortable with uncertainty and crave as much certainty as possible in their lives.

The question of how best to communicate uncertainty is already being actively addressed within the UK actuarial profession in three quite different areas of our work: pension projections, mortality rates, and general insurance reserving.

On pension projections, the Finance & Investment Board (recently renamed the Finance, Investment & Risk Management Board) prepared a paper for the Financial Services Authority (FSA) that discussed alternative ways of presenting projections of possible outcomes of long-term savings products for consumers. The emphasis was on helping consumers to appreciate the uncertainty of the outcomes. We were also able to send the FSA, which is conducting a review of the rules on projections, a copy of the final report on research which the Social Policy Board had commissioned from Warwick University on consumer understanding of risk.

([www.actuaries.org.uk/files/pdf/social\\_policy/ConsumerUnderstandingRiskRep.pdf](http://www.actuaries.org.uk/files/pdf/social_policy/ConsumerUnderstandingRiskRep.pdf))

Adair Turner, chairman of the Pensions Commission, has highlighted in a number of his speeches the issue of the uncertainty around projections of future longevity. The Continuous Mortality Investigation (CMI) has been engaged in detailed consultations with academics and actuaries into stochastic methodologies for projecting longevity, to meet the aim of highlighting the uncertainty surrounding projections. The CMI has published a series of working papers which chronicle the development of its thinking in the light of the input from the consultation process.

([www.actuaries.org.uk/files/pdf/cmi/wp15/wp15.pdf](http://www.actuaries.org.uk/files/pdf/cmi/wp15/wp15.pdf))

In the third field of general insurance, a major project on reserving is under way, (called GRIT for short). This is an area of actuarial work where the necessity for the 'single result' and the inevitable disappointment when subsequent outcomes differ from the previous advice are common features. Not surprisingly, a key component of the project is the issue of communicating uncertainty. The draft consultation paper published by the project taskforce contains a chapter (chapter six) which discusses the distinction between parameter uncertainty and stochastic uncertainty. It contains a number of examples of actuaries' current practice in communicating uncertainty when reporting on reserves and sets out draft proposals for improved communication.

([www.actuaries.org.uk/files/pdf/general\\_insurance/grit\\_consultation.pdf](http://www.actuaries.org.uk/files/pdf/general_insurance/grit_consultation.pdf))

Communicating uncertainty is part of a wider requirement for better communication to reduce the 'understanding gap' between actuaries and users of actuarial advice, which Sir Derek Morris considered to be so important. It is being tackled from various angles and I hope we can pull the strands together to help the Board for Actuarial Standards form a coherent communication standard, in order to meet a key recommendation in the Morris Review.

 MICHAEL POMERY

## Christmas and new year

The actuarial profession's offices at Staple Inn (London) and Napier House (Oxford) will close at 1pm on Friday 23 December, re-opening at 9am on Wednesday 28 December. These offices will close at 5pm on Friday 30 December and re-open after the new year at 9am on Tuesday 3 January 2006.

The office at Maclaurin House, Edinburgh will close at 5pm on Thursday 22 December, re-opening at 9am on Wednesday 28 December. This office will close at 5pm on Friday 30 December and re-open after the new year on Wednesday 4 January 2006.



## Institute president-elect

The Institute of Actuaries announced on 4 November that Nick Dumbreck (right) will be its next president. Nick, who will take up the presidency in July 2006, will serve a term of two years, succeeding Michael Pomery, the current Institute president. He will take office at the end of the Institute's annual general meeting, which has a provisional date of Tuesday 27 June 2006.



Nick Dumbreck joined the profession in 1976. He qualified as a fellow of the Institute in 1982. He was a member of Institute Council from 1993 to 1998 and from 1999 to 2005, acting as Institute vice-president from 2003 to 2005. He was chairman of the profession's Education and Continuing Professional Development Board in 2002-04 and served as honorary secretary of the Institute in 1996-98. He has been a member of the Education Committee of the International Actuarial Association and the Groupe Consultatif Actuariel Européen since 2002. He also chaired the Staple Inn Actuarial Society (SIAS) between 2002 and 2004.

## Continuous Mortality Investigation (CMI) news

### Publication of CMIR 22

The CMI is pleased to announce the publication of *Continuous Mortality Investigation Report Number 22*. CMIR 22 contains an analysis of the 1999-2002 individual income protection experience and is available to download from the CMI section of the profession's website, which can be found under 'Research and prizes'.

This is the latest of our four-yearly series of experience reports, which analyse both inceptions and terminations using the multi-state approach presented in CMIR 12 and the methods described in CMIR 15.

As with the previous CMI report, CMIR 22 is not being printed and despatched to all members of the profession. Anyone who would like a printed copy should apply to the CMI by 16 December 2005, by sending their name and postal address to the dedicated email address [cmir22@cmib.org.uk](mailto:cmir22@cmib.org.uk). Depending on the level of response, the CMI will then look into the viability of a limited one-off print run early in 2006.

### New CPD scheme

The Faculty and Institute Management Committee has approved the new CPD scheme that will become mandatory for all working fellows/associates of the actuarial profession from 1 July 2006. A consultation letter and copy of the scheme is available from the profession's website at: [www.actuaries.org.uk/Display\\_Page.cgi?url=/cpd/cpd\\_scheme.xml](http://www.actuaries.org.uk/Display_Page.cgi?url=/cpd/cpd_scheme.xml).

The deadline for receipt of comments is **16 December**.

FACULTY OF ACTUARIES

The Actuarial Profession  
making financial sense of the future

## Living with mortality: longevity bonds and other mortality-linked securities

Monday 16 January 2006, 5pm

The Merchants' Hall, Edinburgh

The Fourth Sessional Meeting of the Faculty for the session 2005-2006 will be held in the Merchants' Hall, 22 Hanover Street, Edinburgh, on Monday 16 January 2006 at 5pm. Tea will be served from 4.30pm.

The subject of the meeting is to discuss the paper 'Living with mortality: longevity bonds and other mortality-linked securities' by David Blake, Andrew Cairns, and Kevin Dowd.

This paper addresses the problem of longevity risk – the risk of uncertain aggregate mortality – and discusses the ways in which life insurers, annuity providers, and pension plans can manage their exposure to this risk. In particular, it focuses on how they can use mortality-linked securities and over-the-counter contracts – some existing and others still

hypothetical – to manage their longevity risk exposures. It looks at the universe of hypothetical mortality-linked securities – including longevity bonds, swaps, futures, and options – and investigates their potential uses. It also addresses implementation issues, and draws lessons from the experiences of other derivatives contracts. Particular attention is paid to the issues involved with the construction and use of mortality indices, the management of the associated credit risks, and possible barriers to the development of markets for these securities.

The paper will become available on the profession's website at the end of December. Members will be notified of the web link in an e-news bulletin.

AW Botterill, Honorary Secretary

## Sponsor Covenant Working Party Report

The final report of the Sponsor Covenant Working Party is now available on the profession's website at [www.actuaries.org.uk/files/pdf/pensions/sponsorcovenantrep.pdf](http://www.actuaries.org.uk/files/pdf/pensions/sponsorcovenantrep.pdf).

## Paper on the buyout basis in GN9

A board-sponsored paper, which considers the assumptions used for GN9 solvency valuations, has been finalised and is now available on the website at [www.actuaries.org.uk/files/pdf/pensions/buyout.pdf](http://www.actuaries.org.uk/files/pdf/pensions/buyout.pdf). The paper comments on the potential impact of the Pension Protection Fund as well as examining the mortality and financial bases and other factors an insurance company uses for setting bulk annuity rates and considers whether the gilts minus at least 0.5% basis remains sufficiently robust.

## Guidance

December is not usually a month of great pensions guidance note activity. But this year is different. As *The Actuary* goes to press, there are four guidance notes that are in the final stages of preparation. However, for quite different reasons, it is difficult to say exactly when they will be released; this is by way of notification to be aware that the following guidance notes either might have already appeared or are in the offing.

### GN16: Retirement benefit schemes – transfers without consent

Earlier in the year, version 3.0 of GN16 was issued simultaneously as a fast-track guidance note (effective from 5 April 2005)

and an exposure draft. Comments have been considered and the board is hoping to issue version 3.1 either at the end of November or the beginning of December.

### GN9: Funding defined benefits – presentation of actuarial advice and

### GN49: Occupational pension scheme – scheme funding matters on which advice of actuary must be obtained

Both GN9 and GN49 are due to come into effect on 30 December 2005, at the same time as the new scheme funding regulations.

The main purpose of GN9 version 8.0 is to ensure that actuarial advice on the funding of defined benefits is presented with sufficient information to enable the recipient of the advice to understand the expected future course of a scheme's contribution rates and of its solvency.

GN49 is a new guidance note approved by the secretary of state for work and pensions. It gives specific guidance to an actuary in relation to his or her role of giving advice to trustees under the Pensions Act 2004.

### GN28: Retirement benefit schemes – adequacy of benefits for contracting-out

GN28 is another guidance note that is approved by the secretary of state for work and pensions. Although the cabinet change in November has affected the timetable, it is hoped that a new GN28 will be in place by the time the civil partnerships legislation comes into effect. The new version of GN28 also reflects the removal of the MFR.

## GIRO 2005 Blackpool

It was good to see so many of you at this year's GIRO convention, both in various sessions and socially. What Tony Jones said in his GRIT presentation about reserving equally applies to the whole practice area of general insurance (GI): 'It is exciting and interesting – it is the place to be.'

It may sound clichéd, but the convention really does go from strength to strength. The numbers attending this year were at an all time high of 420. For the first time ever we were in the difficult position of having to turn people away. There were also a record number of workshops.

Elsewhere in this issue (p24), Kate Angell's report sets out the highlights of the convention.

As I mentioned in the recent GIB Mail ([www.actuaries.org.uk/Display\\_Page.cgi?url=/general\\_insurance/gibmail.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/general_insurance/gibmail.html)), while I am delighted by the success of GIRO 2005, I am also aware that increasing numbers of GI actuaries are, for one reason or another, unable to attend our annual convention, and that there are limited alternative sources of CPD available to them. Properly undertaken and regular CPD is important, and so expanding the number and range of GI-related CPD opportunities is something that the GI Board will seek to address over the coming months.

The GI research programme is flourishing with a good number of working parties established at GIRO 2005 – the challenge for them will be to ensure that this momentum is maintained, particularly during the coming winter months

which I know are an extremely busy time for many GI actuaries. We were fortunate to have a good number of Casualty Actuarial Society (CAS) actuaries at GIRO this year and I am particularly keen that our collaboration with CAS should continue. Research is an obvious area for us to further co-operate to mutual benefit. This was also highlighted during Amy Bouska's recent visit to the GI Board meeting in November.

Amy is the vice-president of CAS with responsibility for international Affairs, and she emphasised how much we could each benefit from working with one another.

The dates for next year's convention have been changed to 26–29 September 2006.

Finally on the subject of GIRO 2005, there were a number of very important issues aired in Blackpool which will have a significant impact on the future of our profession and on the way that we all do business. These have been widely aired by the presidents and Caroline Instance (chief executive), but I make no apology for mentioning them here as well.

## The introduction of the BAS – Board for Actuarial Standards

Michael Pomeroy's address at GIRO made clear the extent of the changes to come with regard to the recommendations from Sir Derek Morris, in particular the establishment of the Board for Actuarial Standards (BAS). Michael also highlighted the strategy review of the profession (details of which are prominently displayed on the website). >>



Wendy Beaver,  
board chairman

Pensions  
Board  
news



Derek Newton,  
board chairman

General Insurance  
(GI) Board  
news

➤ Do please read this and send in your comments and use the bulletin board set up for this purpose. This is your chance to influence the shape of your profession – please do not let this opportunity pass you by.

In April 2006 the BAS takes over all responsibility for the setting of actuarial technical standards. From reactions at GIRO, both the immediacy and the potential impact of this change have come as a surprise to many.

As most of you should know, Eamonn McMurrough and his team have been working on revisions to GNs 12, 20, and 33 and the proposed new guidance note (GN) on principles and practice (which goes under the working title GNPP). We would like to take advantage of all the hard work put in by Eamonn and his team to get these agreed and in place by 1 April 2006, to ensure that we hand over a fully up-to-date set of professional guidance, for the benefit of both the BAS and our members. The revised drafts were outlined in Blackpool during the working party's plenary session and at Henry Johnson's workshop on Lloyd's issues. They are now ready to go through the profession's approvals process and, subject to the revised guidance notes being approved by the Faculty and Institute Management Committee (FIMC) on 12 December, the two-month exposure period will commence then.

Please note that, despite what was said at GIRO, the revised GN12 will not be in place by mid-February 2006. Indeed, even if any of these revised GNs do come into force by 1 April 2006, it is not the intention that they apply to normal year-end 2005 work.

A common theme at GIRO was the need to be better at measuring, managing, and reporting on uncertainty. This is reflected in the changes proposed for GN12, which is more explicit on the need to consider uncertainty. The change to 'practice standard' will promote a higher standard of consistency.

Most of the proposed changes to GNs 20 and 33 are structural, moving paragraphs around under different headings. There have been some changes to reflect changes in the Lloyd's Valuation of Liability Rules, mainly related to one-year accounting.

**Date for your diaries:**

A consultation meeting to discuss the proposed revisions to the guidance notes has provisionally been arranged at Staple Inn on Wednesday 18 January 2006 at 4pm. Please take the opportunity of sending in your comments either by email, in writing, or in person at the consultation meeting.

**General insurance Reserving Issues Taskforce (GRIT)**

GRIT, under Tony Jones's chairmanship, has worked extremely hard and produced an excellent, comprehensive paper, which can be found at:

[www.actuaries.org.uk/Display\\_Page.cgi?url=/general\\_insurance/grit\\_consultation.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/general_insurance/grit_consultation.html)

If there are any general insurance actuaries who have not yet read the report, I strongly recommend that you do so now (if you can't face it all then please at least read the 20-odd page summary at the beginning, but there is much of value throughout the entire paper and it is a commendably easy, and very rewarding, read).

The report makes about 20 recommendations, covering all facets of general insurance reserving, including communication skills, behavioural awareness, and the education and CPD of GI actuaries. One of my priorities is to drive forward the implementation of the GRIT recommendations, subject to review of the comments emerging from the consultation meetings.

**General insurance Rating Issues working Party (GRIP)**

Following close on the heels of GRIT is GRIP (the acronym clearly came first!). This research is intended to do for actuarial involvement in premium rating what GRIT has done for actuarial involvement in reserving. Duncan Anderson is leading this and offers his thanks to those who contributed their initial views at his plenary and workshop sessions at GIRO. This has been an invaluable source of information in the setting of the working party's terms of reference to ensure that they deliver what is required, and will ensure that they focus on the key issues which members of the profession will be able to influence.

**The board and its committees**

The board and committees are essential to the future of the GI practice area. We rely heavily on the hard work and generosity of time given by the volunteers. It is this which gives credibility to our work within the profession and for our members. GI is still an expanding area of the profession with many areas of research and development still to be explored. If you – whatever your experience or seniority – would like to play your part and help your profession either through joining a working party or helping one of the committees, please contact either me or the board secretary, Peter Stirling, email [peter.stirling@actuaries.org.uk](mailto:peter.stirling@actuaries.org.uk).

**The actuarial profession's Scrutiny Committee**

In the June 2005 issue of *The Actuary* we explained that the profession's Faculty and Institute Management Committee (FIMC) had created the Scrutiny Committee to help to bring some independence in to the process of setting standards (or guidance) until such time as the Financial Reporting Council sets up the Board for Actuarial Standards (BAS).

The Scrutiny Committee's tasks include proposing to FIMC criteria for a sound actuarial standard, with a view to their publication. The Scrutiny Committee has completed this task and

the criteria were approved by FIMC. They were published as part of the revised version of the note on 'Due Process for Approving Professional Guidance' which was sent to members in October. They can be found on the profession's website, [www.actuaries.org.uk](http://www.actuaries.org.uk); please see the areas of practice tab on the home page, and click on Scrutiny Committee.

We are grateful to the Scrutiny Committee for its work on the criteria. We are confident that the BAS will find these a useful starting point for its deliberations when it takes over the role of setting standards from April 2006.

 HARVIE BROWN/MICHAEL POMERY



Gordon Bagot,  
board chairman

**Finance, Investment  
& Risk Management  
(FIRM) Board news**

**Risk management**

Following its rebranding from Finance & Investment Board (FIB) to FIRM, the board has issued the following statement in the context of discussion on the future strategy of the profession:

If we are to ensure a healthy future for actuaries (adapt or die), the profession must subscribe to the following:

- ◆ **We are all risk managers now!**  
'Risk management' has far higher visibility than 'actuarial advice'.  
It is a broad and growing global church.  
If life and pension actuaries are not doing work which is part of risk management, what are they doing?
- ◆ **Risk management is much more than risk measurement**  
Risk management is active and dynamic.  
It focuses on decisions in a context which is never stationary.  
Actuaries need to focus on the purpose of measurement as much as the technique.
- ◆ **Follow the money: focus on firms**  
Better to adapt to the world, than seek to adapt it to us.  
But our professionalism is a valuable selling point.  
Understanding the problems and opportunities faced by firms is key.  
Pensions issues and risk-based supervision of insurers (Solvency 2) are opportunities.
- ◆ **Choose our niche, but not our tomb!**  
In this broad church, actuaries will never be alone in the congregation.

Our role should grow out of our training and our traditional domains.

We should make the most of the advantages of our training and knowledge base.

Other professions can reasonably be expected to do the same. Multidisciplinary TEAM work (Together Everyone Achieves More) is our watchword.

- ◆ **Conclusions – We will:**  
Develop a picture of the current contribution by actuaries in the UK risk management field, including seeking to understand where the leading edge may be.  
Develop a picture of key trends in the field itself as perceived by firms and others, including seeking to understand developments in skills and knowledge requirements.  
Develop a programme of internal and external communication to enhance the relevance of actuaries.  
Liaise with peer bodies to share pictures and potentially joint actions.  
Recommend changes to the operations of the Profession to facilitate our objective.  
Councils warmly endorsed the board's mandate to proceed.

**Taking control of flexible retirement**



Staple Inn was the venue for the profession's competition workshop, 'Taking control of flexible retirement: making choices and managing changes' on 1 November, where teams generated ideas to help consumers tackle decisions relating to their retirement assets. Seven teams took part in the competition. The photograph shows the panel of judges – Debbie Harrison of the Pensions Institute at Cass Business School; Deborah Cooper of Mercer Human Resources Consulting; Mick McAteer of *Which?*; Ian Naismith of Scottish Widows; and Ian Sissons of Munich Reinurance Group– with Institute president Michael Pomeroy.

The profession had identified that the financial services industry needs to evolve to suit the changing nature of retirement. The competition marked the start of a thought leadership campaign in which the profession will seek to redress matters, and has generated a number of suggestions for research to be led by the profession to stimulate further industry debate. Details will be available on the website and in the profession's calls for research in the near future.

A full write-up and photo gallery of the day can be found on the profession's website at [www.actuaries.org.uk/link/finance\\_invest/competitionreport.html](http://www.actuaries.org.uk/link/finance_invest/competitionreport.html). An article will also appear in a forthcoming issue of *The Actuary*.

**INSTITUTE OF ACTUARIES**

**Adjudication panel**

**Mr Mark William Lloyd FIA (the respondent)**

On 24 August 2005 an adjudication panel considered a complaint arising from the respondent's position as scheme actuary to a pension scheme, in which it was alleged that he had failed to make contact with the outgoing scheme actuary, had failed to obtain the information that would normally be provided to the incoming scheme actuary, and had failed to make a report to the Occupational Pensions Regulatory Authority (Opra) about the non-compliance by the trustees with their obligations.

The panel determined:

- ◆ that the case report disclosed a prima facie case of misconduct under rule 1.6 of the Institute of Actuaries' Disciplinary Scheme; and
- ◆ to invite the respondent to accept that there had been misconduct and to accept a reprimand.

The panel's reasons were as follows:

- ◆ The respondent failed to make effective contact with the outgoing scheme actuary.
- ◆ As a consequence, the respondent did not have at his disposal information that could have been relevant in determining whether to make a report to Opra about the non-compliance by the trustees with their obligations to adopt a certified Schedule of Contributions under section 58 of the Pensions Act 1995.
- ◆ The respondent accepted that he should have followed up the professional clearance letter in the absence of any reply to it.

The respondent accepted that there had been misconduct and also accepted a reprimand.

## Life guidance notes

Over the past few months, the Life Board has been revising a number of its guidance notes (GNs) that were introduced at the end of 2004. Full consultation with members has been undertaken for each GN and the board is grateful for all the comments it received. The following GNs are expected to be available by mid-December and will be available in the Life Board section of the website ([www.actuaries.org.uk/Display\\_Page.cgi?url=/life\\_insurance/lb\\_consultations.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/life_insurance/lb_consultations.html)) as well as the MAP area:

- ◆ **GN37: *The Financial Services and Markets Act 2000 (Communications by Actuaries) Regulations 2003*** (to take effect on 1 February 2006);
- ◆ **GN39: *General responsibilities of and relationships between actuarial function holders, with-profits actuaries, appropriate actuaries, and reviewing actuaries, of UK life insurance firms and friendly societies*** (to take effect on 1 February 2006);
- ◆ **GN40: *The role of the actuarial function holder*** (to take effect on 1 February 2006);
- ◆ **GN44: *Mathematical reserves and resilience capital requirement*** (to take effect on 31 December 2005);
- ◆ **GN45: *Determining the with-profits insurance capital component*** (to take effect on 31 December 2005).

GNs 44 and 45 will reflect any changes required as a result of FSA feedback on CP05/09, which was published last month.

### Exposure drafts

The following GNs have also been revised and exposure drafts will be released in mid-December; see [www.actuaries.org.uk/Display\\_Page.cgi?url=/life\\_insurance/lb\\_consultations.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/life_insurance/lb_consultations.html) for the most up-to-date position.

- ◆ **GN41: *The role of the with-profits actuary***
- ◆ **GN42: *The reviewing actuary***
- ◆ **GN43: *The role of the appropriate actuary***

The consultation period will run for two months from the date of publication (the exact date will be included on the website) and consultation meetings for members to discuss

and comment upon the drafts will take place in London and Edinburgh; exact details will be available on the website. For more information or to reserve your place at one of the meetings, please contact Ingrid Johnston (tel 020-7632 2181; email [ingrid.johnston@actuaries.org.uk](mailto:ingrid.johnston@actuaries.org.uk); fax 020-7632 2131) as soon as possible.

### GN46 and GN47

Work on revising GN46 *Individual capital assessment* and GN47 *Stochastic modelling for life insurance reserving and capital assessment* has also been progressing over the past few months. A discussion draft of GN47 was published in September, and the board is grateful to all those who offered comment. Exposure drafts of GN46 and GN47 will be published early in the new year, with the consultation period running for two months from the date of publication. The consultations area of the Life Board section of the website ([www.actuaries.org.uk/Display\\_Page.cgi?url=/life\\_insurance/lb\\_consultations.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/life_insurance/lb_consultations.html)) will include the latest position.

### Life Convention

The biggest Life Convention yet was held in Cardiff on 20–22 November at which over 800 delegates were encouraged to ‘always look on the bright side of life’ and heard from Allan Pease, a business and motivational speaker, as well as an update how the profession is moving forward with the recommendations in the Morris review. Other plenary sessions covered closed funds and ICAs, and a Q&A panel including Trevor Matthews (Standard Life), Tricia Guinn (Tillinghast), and Ralph Heidrich (McKinsey & Co) provided much food for thought. The numerous and wide-ranging breakout sessions meant that there was a good deal of lively and stimulating debate. A Welsh real ale event and a tour of the Millennium Stadium rounded off the two days’ activities.

A date for your diaries – next year’s convention will be held on 5–7 November at the SECC, Glasgow. More details will be available in the coming months.



Nigel Masters,  
board chairman

Life  
Board  
news

## INSTITUTE OF ACTUARIES

### The cost of capital for financial firms

Monday 23 January 2006, 5pm

Staple Inn Hall, High Holborn, London

An ordinary general meeting of the Institute of Actuaries will be held on Monday 23 January 2006 at 5pm at Staple Inn Hall, High Holborn, London WC1V 7QJ. Tea will be served from 4.30pm.

The authors, Jon Exley and Andrew Smith, introduce the paper as follows:

Most businesses have assets financed by capital providers. The cost of capital is a measure of the returns required by those capital providers. Its main use is to set a target for the profits, which must be achieved on the firm’s assets in order to satisfy equity and bond holders. This paper describes the classical theory of the cost of capital, and then applies it to the special case of banking and insur-

ance firms. We develop implications for product pricing, performance measurement, and capital structure optimisation.

Anyone wishing to contribute to the discussion should notify the Oxford office in advance, although contributions from the floor are welcome during the discussion. Please note that speakers will be allocated three minutes to make their point(s). Anyone wishing to claim CPD for attending the meetings should sign the list that will be available on the night.

For more information, please contact Pauline Simpson or Maria Lyons, email [maria.lyons@actuaries.org.uk](mailto:maria.lyons@actuaries.org.uk), tel 01865-268236, fax 01865-268253.

## The Actuarial Profession

making financial sense of the future



David Paul,  
board chairman

**Social Policy  
Board  
news**

### A working party on non-financial risks

The board is planning to set up a new Non-Financial Risks Working Party to research risks which fall outside the area of finance. If readers find the following of interest and would like to join, please contact the board secretary at the address below.

#### The Genetic Group looks forward

The initiative came from the board's Genetics Group chaired by Chris Daykin, a group studying a scientific topic with ethical implications for how financial institutions such as life firms do business in the light of genetic information about the risks individual customers pose. Following the concordat between the Association of British Insurers (ABI) and the government to extend the initial moratorium to 2011 on the use of genetic tests for insurance business under £500K, the group is scaling down its work and operating as an email exchange while it considers next steps.

#### Studies of non-financial risks

Interest in the working party continues a long line of studies by the profession on risks that fall outside mainstream actuarial work, such as HIV/AIDS, the UK vaccination programme, climate change, and the compensation culture. These projects have attracted public interest and extended actuarial knowledge to new areas beyond financial risks. They also seek to measure the financial risks involved.

Several new risks have caught the public's attention that arguably could benefit from actuarial study, such as the risks associated with BSE/new variant CJD, mobile phones, residential proximity to power stations and electricity pylons, and the impact of avian flu and other pandemics. The profession is often approached for informed responses about the implications for insurance.

One possible benefit from studying these risks is that as an independent body the profession may be able to settle popular controversies where some groups have shown a heightened sense of risk-taking or risk-aversion based on popular suspicions about official and scientific announcements on specific risks. For example, parents who choose not to vaccinate their children run the risk that they might contract the illnesses they would otherwise be protected from; at the same time, these parents may be consciously acting in a risk-averse way to the alleged risks they associate with vaccinations.

Although there is agreement that a risk exists, there is often sharp disagreement over the nature of the risk. These disagreements could be understood as differences between popular and scientific views of risk, or between opposing political interests appropriating selective scientific findings for their own purposes. For each risk there might be a case for the profession examining the arguments on both sides in order to disseminate a more scientifically based viewpoint in its role as an independent expert on risk, and disseminating its findings in the public interest. On the other hand, this approach might raise unrealistic expectations that such disputes can be settled by scientific evidence alone.

#### Risk and public interest

After Morris, the profession is keen to extend its knowledge

into new areas where it can be applied. The Social Policy Board has overseen work on vaccination programmes, personal injuries settlements, the ageing population, and fertility trends. Each area carries implications for public policy, such as immunisation policy, structured settlements for personal damages, family policy, and fertility, which have attracted interest from government, politicians, public, and media.

The profession has played a leading role in collaborating with other professions in developing risk methodologies (eg RAMP – risk analysis and management of projects), academic research programmes (ESRC's social contexts and responses to risk), and inter-professional bodies. These projects are characterised by a blurring of edges between financial and non-financial risk and an awareness of the multi-dimensionality of risk in modern society. For good reason sociologists talk of modern society as a 'risk society'.

#### Terms of reference

The concept of non-financial risk may be too broad to provide a clear conceptual definition for the working party. A better approach would be to for the group to define its terms of reference in general but its individual project in risk-specific terms. Without pre-empting its work, the following broad objectives might apply:

- ◆ Conduct research into one risk (at a time) chosen because:
  - it attracts increasing public interest;
  - the risk generates conflicting views about its impact;
  - actuaries can contribute to greater understanding of the risk and its impact.
- ◆ Provide actuarial analysis of a selected risk, paying close attention to its economic, social, and policy implications, and where appropriate, contribute to public policy. Currently a leading candidate would be avian flu or other pandemic.

The working party will work with the newly named Finance, Investment & Risk Management Board (formerly FIB) and the communications team. It would also provide opportunities for actuaries to work with people with different expertise and provide the basis for SIAS and sessional meeting papers.

If readers would like to join the Non-Financial Risks Working Party, please contact Martin Hewitt, tel 020-7632 2185, email [martin.hewitt@actuaries.org.uk](mailto:martin.hewitt@actuaries.org.uk).

#### Profession/ILC-UK talk

The next talk in the joint profession/ILC series is by Dr Adam Hedgecoe (senior lecturer, Department of Sociology, University of Sussex) who will talk on 'The personalised is political – pharmacogenetics and medical futures'. The event will take place on Tuesday 20 December at Staple Inn, starting at 4pm with tea and registration. Michael Pomery and Baroness Sally Greengross will welcome the participants and Adam Hedgecoe will give his lecture at about 4.30pm. The lecture will be followed by informal chat over wine and nibbles. If you or a colleague would like to attend, please contact Hodan Ali on [hali@ilcuk.org.uk](mailto:hali@ilcuk.org.uk) or call 020-7735 7565.

Adam's interests are in the social and ethical issues around genetic testing, and he has recently published *The Politics of Personalised Medicine: Pharmacogenetics in the Clinic* (Cambridge University Press, 2004).