



A warm welcome to the latest edition of eNews from GAD.

- > In this issue, Ian Rogers talks about how GAD is able to use its expertise to assist Department of Energy and Climate Change with nuclear power insurance
- > Colin Wilson examines the implications of HMT guidance 'Managing Public Money' for dealing with strategic risk.
- > In the News section, we provide a link to our annual review which charts the incredible range of work we have conducted over the 2013/14. Please do take time to click on the link and take a peek.

I hope you enjoy this issue. As always, previous issues of eNews are available on our website www.gad.gov.uk.

TREVOR LLANWARNE GOVERNMENT ACTUARY

NEWS FROM GAD

Annual Report

The GAD 2012/13 Annual Report will shortly be available on our [website](http://www.gad.gov.uk). This sets out our aims, service commitments and values and provides details of our achievements during 2012/13 as well as our plans for 2013/14.

New appointments

Following the end of term of office of Jane May, one of our Non-Executive Board members, we have appointed two new NEBMs, namely:

Louise Redmond

Angela Marshall

Alex Jablonowski has a further year's appointment.

GA joins Foresight steering group

The Government Actuary has joined the steering group for the Foresight Project 'The Future of Demographic Change'. This project will look at the implications of demographic change for the UK government and report in the autumn. Foresight is part of the Government Office for Science within the Department for Business, Innovation & Skills.

DEVELOPMENTS

Marriage (Same Sex Couples) Act 2013

The [Marriage \(Same Sex Couples\) Act](http://www.gad.gov.uk) received Royal assent on 17 July 2013. The first same sex wedding is expected to be held by [summer 2014](http://www.gad.gov.uk). The Act requires the Secretary of State for Culture, Media and Sport to publish, by 1 July 2014, a review of the survivor benefits provided under occupational pension schemes. GAD will be providing assistance with this review.

Care and support consultation

The Department of Health has published a [consultation](http://www.gad.gov.uk), 'Caring for our Future', seeking views on the practical details of how to implement the [Care Bill's](http://www.gad.gov.uk) proposals to reform what and how people pay for their care and support. The consultation closes on 25 October. See our [Technical Bulletin](http://www.gad.gov.uk) for further details of the proposals.

Disclosure of information: occupational and personal pension schemes

The Department for Work and Pensions has published the government's [response](http://www.gad.gov.uk) to its February 2013 [consultation](http://www.gad.gov.uk) which made proposals intended to consolidate, simplify, update and where possible harmonise the information pension schemes are required to disclose in certain situations. Some amendments are now being made to the [draft regulations](http://www.gad.gov.uk), which will then be laid in Parliament and are to come into force on 6 April 2014.

FINDING INSURANCE SOLUTIONS THIRD PARTY LIABILITY FOR NUCLEAR POWER

One of GAD's strengths is our ability to add value to a diverse range of projects across Government. This is particularly true when commercial risk and insurance raise issues for public sector organisations.

A specific example of this is our work on nuclear power generation. A planned increase in statutory compensation requirements in the event of a nuclear incident has highlighted potential gaps in the commercial insurance market. GAD is bringing together its flexibility in tackling different issues, its knowledge of the commercial insurance market and its risk analysis frameworks to assist the Government with this problem.

Background

Nuclear power has been part of the UK's energy mix since the 1950s. Despite this, public support for nuclear energy is mixed, as consistently shown by the public attitudes tracking [survey](#) conducted by the Department of Energy and Climate Change. It is a question of weighing up the benefits against the risks.

Operators of nuclear power stations in the UK currently buy commercial insurance to help manage the financial consequences of these risks. This includes insurance to cover third party liability following a nuclear incident.

What are the issues?

In 2004 the European framework for compensating third parties following a nuclear incident was substantially amended to provide more compensation to more people for a wider scope of nuclear damage. The EU contracting parties (including the UK) are still working towards jointly ratifying these changes in their national laws.



Ian Rogers

'Compensation requirements... highlighted potential gaps in the commercial insurance market.'



FINDING INSURANCE SOLUTIONS THIRD PARTY LIABILITY FOR NUCLEAR POWER (continued)

For standard site operators, the key changes include:

- > increasing their financial liability from £140m to €1.2bn, to cover third party compensation following an incident that causes damage;
- > widening the types of liabilities for which compensation can be claimed, including those related to the environment;
- > widening the geographical scope so that in addition to claims from other contracting parties, claims may also be made by those with reciprocal arrangements and non-nuclear states; and
- > increasing their exposure to personal injury claims from 10 years to 30 years.

The Government [consultation](#) on these proposals in 2011 stated that the insurance market would be able to cover most of the liabilities arising from the new categories of damage. However, it also noted that there may initially be gaps in the cover, which operators may not be able to address even with the use of alternative sources of financial security. This then raised the questions of whether the Government should step in as a last resort to fill any insurance gap and how the charge for this cover should be calculated.

The [outcome](#) of this consultation was published in 2012 and the majority of responses accepted the possibility of the Government intervening to provide cover for any insurance gap and charging accordingly.

GAD's role

The Department of Energy and Climate Change has engaged GAD to provide actuarial support and advice on these issues. GAD helps the Government manage its financial risks and has a team that specialises in providing insurance solutions. We are therefore well placed to offer creative solutions to the issues raised from these changes, including how the Government could intervene as a last resort

Our [website](#) details the full range of insurance services we can offer. To find out more about how we can help you, please contact Ian Rogers.

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'...the question of whether the Government should step in as a last resort.'

DO YOU NEED TO GET ON TOP OF STRATEGIC RISK MANAGEMENT?

The culture towards risk of the CEO and the Board is one of the biggest drivers of quality of decision-making within an organisation and ultimately of success or failure. Top-down strategic risk management is therefore critical.

'A new top-down strategic risk analysis.'

This message has recently been reinforced and codified in Annex 4.3 of Treasury's publication: 'Managing Public Money' (July 2013). This requires not only that a traditional bottom-up operational risk process is

followed by the Executive, but that this is also combined with a new top-down strategic risk analysis at Board level. Both of these processes need to be supported by a single, appropriately aligned escalation mechanism.



Colin Wilson

One possible approach for the Board to achieve the necessary focus on strategic management of risk and alignment with operational risk management is as follows:

1. Clearly define and articulate their risk tolerance (as per the [NAO's 2011 review of risk management](#)). This could be most easily achieved by linking it to 'outcomes'. For example intolerance of departmental 'failure' or being branded 'not fit for purpose'.
2. Identify the possible causes of these bad outcomes (these causes are often labelled 'risks').
3. Understand the likelihood of these outcomes occurring and the impact of steps taken, or those which could be taken, to reduce their likelihood.
4. Review these regularly at each Board meeting together with lessons learned.
5. Align with bottom-up operational risk management through risk tolerance analysis and an escalation process.

There are many potential benefits of such an approach, including:

- > Greater focus on what really matters to minimize risks of the organisation failing to deliver
- > A freeing up of acceptance of small risks being taken
- > A change in decision-making by the addition of an extra test: 'which of the options under consideration increases the likelihood of breaching our tolerance limit?'
- > Greater engagement and involvement of Non Executives to maximize their value to the organisation.

For more details and further information, please see our [website](#).

Alignment with bottom-up operational risk management

A typical bottom-up process will have an often lengthy list of causes of risk. Each cause may be rated low, medium, high for impact. One method of alignment, risk tolerance analysis, would be to construct a table with the following headings and update it on a regular basis:

- > Cause (e.g. fraud, weather, and IT)
- > Can it result in an outcome beyond the Board's risk tolerance?
- > If yes, what is likelihood in current year?

Any figures or assessments in the final columns above a certain threshold (specific to the organisation) need to be escalated to the Board.