



eNews from GAD

Supporting effective decision-making and robust reporting

Issue 28, June 2017



Welcome to eNews – GAD's regular newsletter. As we embark on a new parliamentary session, we reflect on our duty as civil servants to serve the government of the day whatever challenges might arise. One area of challenge for both public sector and private sector organisations are the issues presented by latent claims, liability claims which can remain hidden for long periods. Philip Jacob highlights some of the issues associated with these claims as well as some potential solutions for managing them effectively.

As actuaries, we also have a duty to comply with professional standards. Joanne Meusz provides an overview of the new professional requirements coming into force on 1 July and the benefits these standards provide for our clients.

Another benefit for our clients is the events we facilitate which bring together clients and experts to share knowledge and expertise. Daniel Selby and Jeanette Johnson report on two such recent events, the Parliamentary Pension Schemes seminar and the Health Data Visualisation seminar.

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

MARTIN CLARKE, GOVERNMENT ACTUARY

NEWS FROM GAD

Civil Service Live

The Government Actuary, Martin Clarke, and two other GAD staff, Matt Kirkpatrick and Jack Carroll, will be presenting at the Civil Service Live events on 11 and 12 July. Martin will be leading a session on 'Selling yourself as a Skilled Person' and Matt and Jack will be showcasing the collaborative work with DfE on the Risk Pooling Arrangement, which has won a Government Finance Award for Innovation. Civil Service Live celebrates achievements and provides an opportunity for civil servants to learn, network and share best practice.

GAD report and accounts

The GAD 2016/17 [Annual Report and Accounts](#) were published on our website on 29 June. Details of GAD's strategy to 2020 are included as well as the financial statements.

DEVELOPMENTS

State Pension age review

Two [reports](#) were published on 23 March 2017, to inform the government's review of State Pension age (SPa). John Cridland published an [independent review](#) and recommendations on future State Pension arrangements whilst the [Government Actuary's report](#) considered the implications of alternative scenarios for SPa. Please see GAD's [Technical Bulletin](#) for a summary of these reports. The government's response to these reports has been delayed by the general election.

The Pensions Regulator (TPR)

TPR published its [Annual Funding Statement](#), highlighting some of the key issues currently facing defined benefit pension schemes and setting out the regulator's expectations. Looking further ahead, TPR has published its [Corporate Plan](#) for 2017-2020, and a [report](#) on the findings of a recent [survey](#) on governance and administration in public service pension schemes. Finally, TPR has made public its [response](#) to DWP's Green Paper on 'Security and Sustainability in Defined Benefit Pension Schemes' (see [GAD Technical Bulletin](#)).

GAD client survey results 2016-17

GAD's mission is to support effective decision-making and robust reporting within government as the first choice provider of actuarial and specialist analysis, advice and assurance. The results from our [client survey](#), along with many face to face meetings and other feedback, will help to shape our client priorities for 2017-18 and beyond.

Risk Pooling in the Public Sector

GAD held an event on Risk Pooling in the Public Sector on 27 June 2017, focused on capturing, understanding and managing large and complex risks in order to deliver best value for taxpayers. The seminar included presentations from BEIS, DfE, NHS Resolution, HS2 and the Nuclear Decommissioning Agency, as well as a panel discussion.

Personal injury discount rate (Ogden)

Further to February's [announcement](#) of a reduction in the real discount rate used by courts in personal injury cases, the Ministry of Justice (MoJ) has [consulted](#) on possibilities for how, when and by whom the discount rate should be set. The consultation, which closed on 11 May, formed the first stage of the MoJ's and the Scottish Government's reviews of the framework under which the rate is set.

Parliamentary activity

A number of Bills received Royal Assent before Parliament was dissolved prior to the General Election. These included the [Pension Schemes Act 2017](#), which includes provisions for a new regulatory regime for Master Trust pension schemes. Significant amendments were made to the Finance Bill in order that it could complete the Parliamentary process in time. The [Finance Act 2017](#) no longer includes provisions to reduce the Money Purchase Annual Allowance nor to increase the income tax exemption for employer-provided pensions advice. Following the election, the [Queen's Speech](#) took place on 21 June and outlined the government's legislative plans for the new parliamentary session, which will run for two years.

LATENT CLAIMS

Of all the liability claims arising from harm caused to individuals, latent claims can be the most difficult to manage, as they may remain hidden only to emerge many years later. Both the public sector and the private sector grapple with the issues presented by latent claims.

In this article Philip Jacob, who is the Chair of the IFoA Deafness Working Party, highlights some of the key challenges associated with them as well as some potential solutions for managing them effectively.



Philip Jacob

Latent claims

Latent claims most commonly arise from industrial diseases and are typically the result of exposure to harmful chemicals or environments, or of repetitive physical work.

The long duration (or latency) between exposure to the harmful environment and diagnosis of a related disease makes the management and valuation of associated liabilities very difficult.

Examples of latent claims

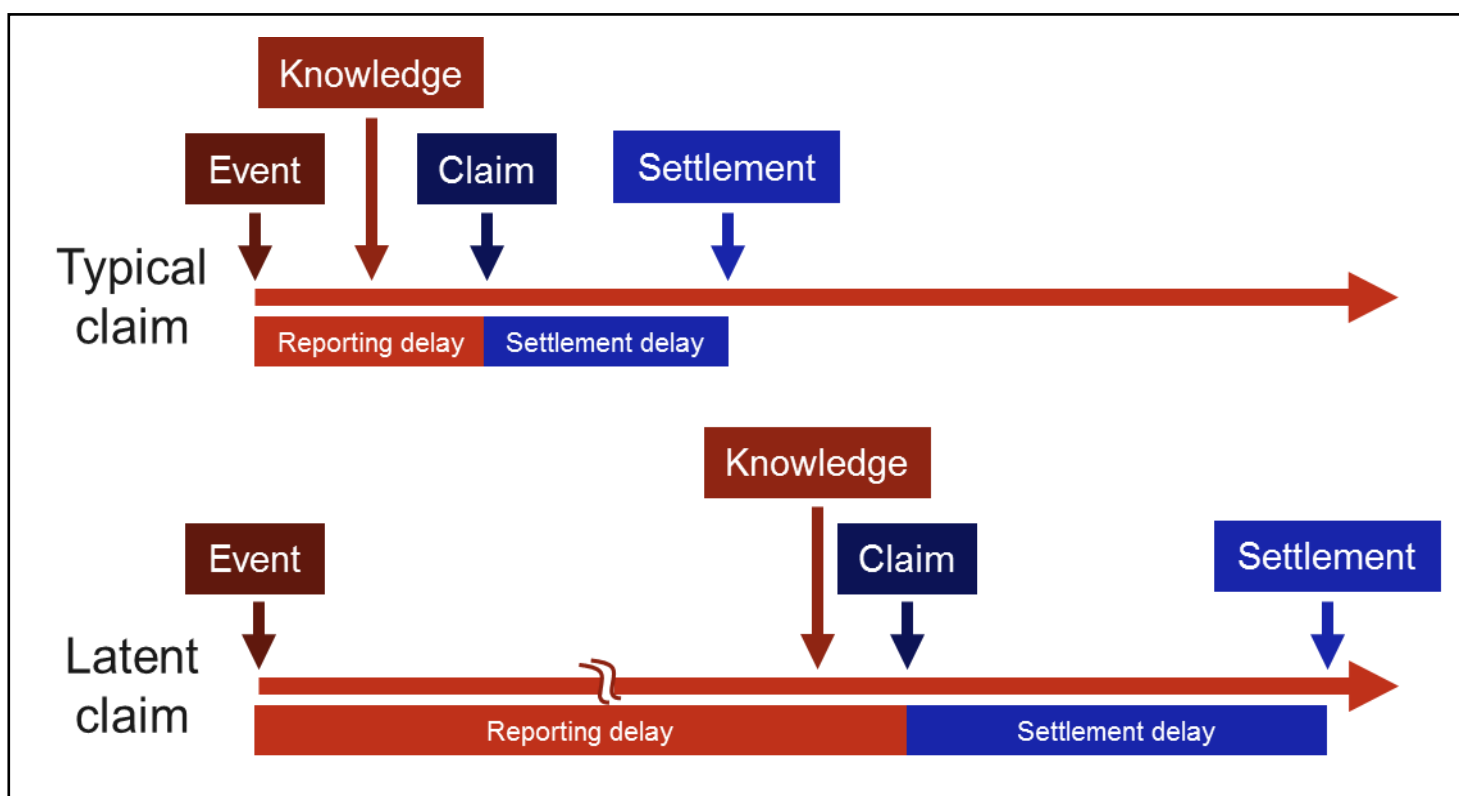
The range of industrial disease claims is as wide as the range of chemicals, environments and jobs but the most common industrial diseases in the UK are asbestos-related diseases and noise-induced hearing loss (NIHL).

Many people have heard of asbestos and the dangers associated with asbestos exposure. The largest financial

liability arises from the most serious asbestos-related disease: mesothelioma. Mesothelioma is an aggressive, typically fatal lung cancer caused almost exclusively by exposure to asbestos.

Individuals were often exposed to asbestos during the installation or manufacture of various products used in the construction and shipbuilding industries. The symptoms of mesothelioma often only become evident many decades after the exposure occurred.

NIHL, otherwise known as industrial deafness, is caused by long-lasting constant exposure to levels of noise above a safe threshold. The ears are gradually damaged, often without the individual noticing, and the extent of hearing loss may not become apparent until the damage is compounded with age-related deterioration.



This diagram compares the claim timeline for a latent claim with a typical non-latent claim. The key differences to note are that there is a significant gap between the claim event happening and the claimant becoming aware of the damage, and that the long delay between the event and the claim also often leads to a long settlement process as it is often difficult to identify and obtain documentation from many years prior to establish liability.

LATENT CLAIMS

Latent claims in the public sector

There are many places in the public sector where latent claims have arisen or may arise, including:

- Public sector employees exposed to harmful environments during their careers, eg teachers or nurses exposed to asbestos in old school or hospital buildings and railway workers exposed to excessive levels of noise.
- Members of the public exposed to harm through public sector negligence, eg pupils or patients exposed to asbestos in the same places as above and children under local authority care subject to physical or sexual abuse.
- Exposures the government chooses to bear through intervention in the private sector, eg the academy Risk Protection Arrangement whereby the government provides cover for latent claims that may arise from the employment of staff at academies that would otherwise be covered through purchase of private sector insurance.

“Latent claims most commonly arise from industrial diseases...typically the result of exposure to harmful chemicals or environments, or of repetitive physical work”

In addition, the NHS bears the cost of treatment for latent diseases more widely, including those where no liability claim could be brought. This includes the potentially increased disease risk posed by long-term exposure to poor air quality or asbestos-related diseases where no link to negligent exposure can be made.

Key challenges

The examples above illustrate that latent claims are particularly difficult to foresee, quantify and manage. The key challenges with these claims are:

- **Prevention** It is very difficult to prevent claims arising as, almost by definition, the potential for harm is unknown at the time of exposure. Where potential harm is known, appropriate precautions can be taken and latent claims tend not to arise.
- **Forecasting** As these claims tend to arise from periods many years ago, it is often difficult to gather data about the population who were exposed to a particular harmful substance or environment and to quantify how many claims might emerge in the future.
- **Social factors** Disease claims can be subject to significant social factors, such as workers not wanting to bring a claim against their employer until after they retire, or individuals being more likely to make a claim during an economic downturn.
- **Claims management** Records from periods when a claimant was exposed can be of poor quality, if they exist at

all. Establishing which insurer is liable can be hard without good records.

Potential solutions

Despite the challenges associated with these claims, there are some potential solutions to the problems above and strategies for trying to avoid them in the future.

- **Collect data and identify trends** Data analysis can help understand the different types of claims from the past and their common features. It also enables an understanding of emerging trends in claims and provides insight into how claims may continue to develop in the future.
- **Develop knowledge** Each different disease or latent claim type has quite different characteristics, and each should be treated differently. Understanding the historical drivers of the claims, the ways in which those claims might develop in the future and the current legal, social and political factors that may influence that development is fundamental to properly managing them.
- **Identify potential latent diseases early** The earlier potentially harmful environments can be identified the less damage may ultimately occur. For example, identifying that a large population working at desks may lead to increased back problems may result in occupational health interventions to mitigate the damage.

“..there are some potential solutions to the problems above and strategies for trying to avoid them in the future”

While industrial diseases and other latent claims can be difficult to prevent, identify or quantify, specialist analysis and interpretation of past experience can help the quantification and management of these claims, and inform identification and prevention of potential future issues arising.

GAD has experience in analysing and quantifying latent claims. Examples of our work include:

- The valuation of future claims for accounting purposes for a large portfolio of public sector employers' and public liability insurance coverage.
- The provision of insight into claims trends and support in developing claims management strategies through data analysis.
- The development of a model to quantify the financial impact of latent third party liability claims arising from a hypothetical disaster and assist in assessing the pricing of insurance that might cover those claims.

We would be happy to discuss any of the issues raised in this article. For further information, please contact [Philip Jacob](#).

THE STANDARDS REQUIRED OF YOUR ACTUARY

As actuaries, we are required to comply with rigorous professional standards when carrying out our work.

In this article we take a closer look at the benefits of actuarial standards and provide an update on new requirements coming into force on 1 July 2017.



Joanne Meusz

One of the benefits of employing a member of a profession, for example a doctor, lawyer or actuary, is that professional parameters exist which, in part, determine how they work. Professions support their members to help ensure their skillset includes not only technical competency but also the judgement and integrity to apply their skills to the challenges presented. In short, professions promote the provision of high quality, reliable advice.

As actuaries, we are subject to the codes and responsibilities of our profession throughout our professional lives. These include ethical and conduct standards set by the Institute and Faculty of Actuaries (IFoA) and Technical Actuarial Standards (TASs) set independently by the Financial Reporting Council (FRC).

Institute and Faculty of Actuaries (IFoA)

The IFoA is the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally. Under the IFoA's Royal Charter, which dates from 1884, members have a duty to put the public interest first. All of GAD's actuaries and trainee actuaries are members of the IFoA and Colin Wilson, the Deputy Government Actuary, has just come to the end of a year's term as IFoA President.

The Actuaries' Code

The standards set by the IFoA include an overarching code of practice, the [Actuaries' Code](#), which aims to give users of actuarial advice confidence in our work. This is a set of principles by which actuaries operate, both within and outside our professional lives. The Code applies to all members, including students, and requires us to:

- act with integrity
- perform our professional duties with competence and care
- understand and deal with bias and conflicts
- comply with all relevant legal, regulatory and professional requirements
- communicate clearly and effectively

As civil servants, GAD's staff are also subject to the [Civil Service Code](#) which contains some similar provisions, albeit written in more general terms.

“..professions promote the provision of high quality, reliable advice”

Keeping up to date

One of the principles in the Actuaries' Code requires members to keep their competence up to date. In common with many other professions, actuaries undergo rigorous initial training (including formal exams) and on qualification must make sure they keep up with a changing world. The IFoA's Continuous Professional Development scheme sets out a framework to assist members in complying with this obligation. Most actuaries must complete at least 15 hours of technical and professional training each year, including 5 hours outside their own organisation.

Work review

The Actuaries' Code is underpinned by additional professional [standards](#), setting out mandatory requirements for certain areas of work. One such standard concerns how actuarial work is reviewed. This standard requires us to consider the extent to which it is appropriate and proportionate to have work reviewed and whether that review should take the form of independent peer review.

There are many benefits to getting work reviewed, not least that it helps to reduce the risk that users make poor decisions as a consequence of poor advice. Work review reduces the risk of errors slipping through and also helps to ensure more robust advice. By reviewing each other's work, actuarial advice is subject to challenge and scrutiny before it is issued to the client.

This process also helps to broaden actuaries' experience, equipping them to provide deeper insights to their clients in future. Within GAD we have additional internal guidance that reflects GAD specific considerations and supports our

THE STANDARDS REQUIRED OF YOUR ACTUARY

commitment to quality. Our internal requirement that all substantive actuarial work is subject to peer review is an example of this.

Financial Reporting Council

The FRC provides independent oversight of the regulation of actuaries by the IFoA and sets Technical Actuarial Standards (TASs). It seeks to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession – to the benefit of all who rely on actuarial advice.

The FRC is seeking to ensure that the quality of actuarial information provided to users enables them to make well-informed decisions, as illustrated by their Reliability Objective:

Users for whom actuarial work is created should be able to place a high degree of reliance on that information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

“The FRC is seeking to ensure that the quality of actuarial information provided to users enables them to make well-informed decisions”

Technical Actuarial Standards

The FRC first issued TASs in 2009. With effect from 1 July 2017, all of the existing TASs will be replaced by four [new standards](#):

- TAS 100: Principles for Technical Actuarial Work is a generic standard applying to all Technical Actuarial Work.
- TAS 200, 300 and 400: Three separate standards, the Specific TASs, will apply to certain areas of work within the sectors of insurance, pensions and funeral plan trusts respectively.

The new TAS standards are accompanied by a framework document and a glossary.

The revised standards are more principles-based and outcome-orientated than previous versions. TAS 100 covers judgement, data, assumptions, models, communications and documentation. As an example, the overriding provision for data is:

Data used in technical actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information.

This is common sense and good practice. We support the FRC's move towards principles-based regulation - this reflects the way we operate and allows us to make appropriate decisions in the context of the work undertaken.

The scope of TAS 100 is broad, rather than focused on specified types of advice, bringing much of GAD's work formally within scope for the first time. However, there will be little change in the way GAD operates.

The revised TASs are essentially good practice, which GAD already strives to follow. As such, we do not anticipate these new standards will add to the cost of our advice or materially change its contents. In many cases, the only difference our clients will notice will be to the compliance statements included where appropriate. We have already been early-adopting the revised TASs for some work over the past few months.

“there will be little change in the way GAD operates”

Summary

Users of actuarial information rely on their actuaries to help them make good decisions. Throughout their professional lives, actuaries are required to comply with a range of professional and ethical standards, which promote and support good practice. This article highlights just a few examples of how these standards support the provision of high quality actuarial advice at GAD. If you'd like to know more about the standards we apply to our work, further information is available on our [website](#) or speak to your usual contact at GAD.

GAD EVENTS - SHARING KNOWLEDGE AND INSIGHTS

GAD recently hosted two seminars: one to discuss issues of common interest to the four UK Parliamentary Pension Schemes, and a second on Health Data Visualisation.

On 3 April, GAD hosted a seminar for the four parliamentary pension schemes - for Westminster MPs and UK Government ministers, and the schemes for members of the Scottish Parliament, Northern Ireland Assembly and National Assembly for Wales - to discuss issues of common interest.

The parliamentary pension schemes are somewhat unique. Unlike the majority of the large public service pension schemes, which are unfunded schemes, the parliamentary schemes are funded pension schemes run by trustees. However they are not subject to the same regulatory requirements that apply to private sector defined benefit pension schemes.

The four UK parliamentary schemes face a range of similar issues, and the seminar gave the schemes' representatives an opportunity to share thoughts and experiences. The seminar was attended by all four schemes, including representatives from the schemes' secretariats, trustees, administrators and other stakeholders, including Cabinet Office.

In addition to presentations from GAD staff on valuations, cost capping and investment issues, there was also an open forum, facilitating more in-depth discussion and topics to be raised by the schemes' representatives.

As the seminar was hosted at GAD, it also allowed the schemes' representatives to meet staff from a number of GAD teams, including those in the Funded Pension Schemes team and the Insurance & Investment team, as well as senior management.

The seminar was very well received, with the schemes' representatives feeding back their appreciation for the opportunity to meet and discuss issues with their counterparts in other schemes, as well as the input from a range of GAD staff.

For further information about the event or the issues involved, please contact [Daniel Selby](mailto:Daniel.Selby@gad.gov.uk).

The seminar on Health Data Visualisation on 17 May attracted attendees from a range of public sector departments and private sector organisations. Colin Wilson (GAD) opened the seminar and Philip Jacob (GAD) provided an overview of the Health Data Visualisation work carried out by GAD.

Lucy Elliss-Brookes from the National Cancer Registration and Analysis Service at Public Health England presented her work on Routes to Diagnosis, which investigates the different stages of diagnosis among cancer patients, and the differences in survival between those diagnosed through different pathways. Lucy displayed an array of effective data visualisations which communicate the complex data and results of the study clearly and concisely.

Andrew Harley and Rachael McNaughton from Willis Towers Watson followed with a presentation on the importance and usefulness of good data visualisation. They discussed the wealth of publicly available health data and the potential for this to be utilised.

A very impressive live demonstration, using a very large health dataset, showed the ease with which data analysis tools can transform and visualise big sets of data. They also highlighted the barriers that exist to implementing data visualisation techniques and the factors required to embed visualisation into organisations effectively.

A lively Q&A discussion followed, facilitated by a panel comprising Michael Cooney (Barnett-Waddingham), Louisa Nolan (ONS Data Science Campus) and Nigel Wright (Aviva), and chaired by Colin Wilson. This identified the need for expert judgement when implementing visualisation techniques and the benefits of successful visualisation techniques at both the data analysis stage and when communicating results.

For further information about the event or the issues involved, please contact [Jeanette Johnson](mailto:Jeanette.Johnson@gad.gov.uk).

GAD is keen to facilitate similar future events that provide our clients with insightful presentations and opportunities for wider discussion. To find out more or suggest future topics, please contact [Ian Rogers](mailto:Ian.Rogers@gad.gov.uk).

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For details of our management team and office address please visit:

<https://www.gov.uk/gad#people>

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