

UNITED KINGDOM – NATIONAL REPORT

After a long period of intense pressure caused by continuing changes to the legislative and fiscal framework the two years from February 1978 have been a slight respite. During this period there has been no fresh legislation in the field of pensions although there have been several developments of interest.

Association of Consulting Actuaries

As at 1st February 1980 the Association of Consulting Actuaries number 143 Full Members and 43 Associate Members i.e. actuaries employed by Full Members, compared with 126 and 42 respectively as at 1st February 1978. While this represents a healthy growth in the Association's membership it is suspected that figures for actuaries employed in consulting work in the field of pension and life assurance by commercial organisations who are not members of the Association showed even greater growth. No accurate figures for this latter category are, unfortunately, available.

Social Security Pensions Act 1975

The Social Security Pensions Act 1975 provided for an earnings related Social Security pension (additional to the flat rate, basic pension) to commence to accrue from 6th April 1978. Those employers with pension arrangements providing benefits which exceeded certain prescribed minima were given the opportunity to "contract out" of the earnings related component and hence contribute to the State Pension arrangements at a lower rate.

The task of advising individually the many thousands of pension arrangements in the U.K. as to their decision to contract out or not was a major one. The fact that all but a very small majority of those who eventually contracted out were able to do so from the initial starting date in April 1978 reflects well on the organisation of the private pensions industry in the U.K. and their advisers. It also says something for the skill and flexibility of the Government body (The Occupational Pension Board) set up to oversee the operation.

Member Participation in scheme management

Following the general election held in May 1979 the Government changed and with it many of the attitudes which affect the political climate in which pension schemes evolve. Whereas the move towards greater member participation is still progressing the emphasis on formal trades union involvement has diminished. It is, however, quite likely to return should the next election again result in a change of Government.

The demand for more information to be made public about pension schemes and their workings continues to be made. This applies both to members of schemes receiving further information about their entitlements by way, inter alia, of personal benefit statements and also to the financial press who continue to ask for more publicly available information about investments etc.

Portfolio Performance Measurement

Very little, if any, progress has been made towards consolidating the investment performance measurement activities of consulting actuarial firms and, in reality, it is possible that little future progress will be made. In the

meantime the measurement services offered by organisations other than firms of actuaries continue to grow and attract a large share of the public's awareness of these services.

The Wilson Committee

A Committee chaired by Sir Harold Wilson (The Wilson Committee) had been appointed by the Government in 1977 to review the functioning of financial institutions. Evidence had been submitted to this Committee by the Association of Consulting Actuaries in July 1977 and at their request further evidence was submitted in December 1978. The Wilson Committee has yet to report but its deliberations may be available in the next few months.

Exchange Controls

Although it is early days the recent restriction of virtually all exchange controls in the U.K. for the first time in some forty odd years is bound to result in U.K. pension funds and life insurance companies viewing the prospects for world wide investment more favourably.

E.R.I.S.A.

In spite of vigorous representation it now seems clear that few U.K. based actuaries will receive enrolment under E.R.I.S.A. except by completion of the required examinations.

"Small Self-administered" Pension Schemes

An interesting area of activity has arisen in the field of "small self-administered" pension schemes. In 1973 legislation changed to permit controlling directors and others to set up non insured pension arrangements. Thus a whole new sector of the insurance market came under the attention of consulting actuaries. The growth of this intrinsically superior product has been quite marked and if it continues it will begin to constitute a significant part of the portfolio of some firms of consulting actuaries.

Computing Power

The availability of cheaper computing power has now resulted in most of the major firms of actuaries acquiring their own computers. There would seem to be no common approach beyond this point and various methods are being utilised to bring the computing power to bear on the question of valuations etc. Some firms of consulting actuaries offer either directly or through wholly owned companies, to maintain pension records and carry out pension calculations at retirement etc. The relatively complex calculations required to be carried out in connection with a member who has been "contracted-out" of the earnings related social security benefits on leaving service at retirement or otherwise have added to the attractions of computer based systems. Some firms of actuaries are offering efficient batch operations with speedy turnround while others are offering an "on-line" approach with instant access to records and calculation results. This entails maintaining records on a computer sited in the Actuary's premises which may be accessed by means of terminals sited in clients' offices. With the decreasing cost of computer

hardware generally and the introduction of micro-computers this is clearly going to be an area of growing interest to firms of Actuaries in the U.K.

Regulation of Life Assurance Liability Valuation

The Regulations for the valuation of long term assurance liabilities have still not been published in their final, legal, form. In spite of this the general content is known and is being acted on although this is unsatisfactory.

The E.E.C. Life Directive

The last two years have seen the effect of the United Kingdom's entry into the Common Market beginning to be felt in the life assurance area. In particular the E.E.C. Life Directive has been published. In fact, consulting actuaries or even U.K. Actuaries as a whole had little influence on the form of the Life Directive which has now come into being. It is hoped that legislation will bring it into effect in the 1980/81 parliamentary session.

Consultation

As regards life insurance legislation generally, the major consultation takes place between the Government and the Life Offices Association representing the Industry on the one hand and the Government and the Professional Bodies on strictly professional matters on the other. There remain, however, certain matters which are of particular concern to consulting actuaries as advisers to the smaller, newer and more specialised companies about which consulting actuaries make their own representations to the Government.

The Policyholders' Protection Act

The Association is likely to become involved towards the end of 1980 with the statutory 5 year review of the working of the controversial Policyholders Protection Act which was enacted in the face of sustained opposition from the insurance industry.

Accountants

The question of the relationship between accountants and actuaries in the field of life assurance has been examined again recently and this resulted in the publication of a set of Guidance Notes issued by both Professional Bodies. One possible outcome is that auditors may, in the future, seek independent actuarial advice regarding the actuarial basis being used for the valuation of a life

office. Following the recent exchanges between the two professional bodies there does seem to be emerging a clearer recognition by accountants of the professional dangers to themselves in forming judgements on actuarial matters.

It is common ground between Actuaries and auditors that some statement as to the actuarial position of a life insurance fund should be available for the shareholders (or policyholders in the case of a mutual company). It is possible that in the United Kingdom there will be a move towards the actuary having a duty of full disclosure to the directors and for the directors and auditors to then decide on the form of statement to be given to the shareholders (or policyholders). This would involve an extension in the role of the actuary.

Independence

The Accountancy profession maintains strict ethical standards of independence which, for example, prohibit auditors from having a financial interest in the affairs of a company to which they are the appointed auditors. Actuaries have always maintained that in the area of life assurance their professional integrity is unaffected by the manner of their remuneration be it by salary or fee. However, questions are being raised about possible conflicts of interest where the appointed actuary to a life insurance company has a financial interest in that company. Whilst consulting actuaries are likely to have few qualms about an ethical code similar to that practised by auditors the position of the employed actuary is more open to doubt.

Professional Conduct

There are several areas where the Institute of Actuaries' current code of Professional Conduct might be reviewed both in the area of life assurance and also the area of pension scheme practice. The widespread growth in the actuarial services provided by commercial companies in the field of pension consulting together with the proliferation of non actuarial services offered by firms of consulting actuaries is making it more difficult in the eyes of the public to differentiate between them. The question of the relative constraints imposed upon the professional firms by the Institute of Actuaries' code of conduct in the field of pensions and the question of independence in the field of life insurance are both due for a public airing which could well have taken place before June 1980.