

IAA Online Joint Section Colloquium 2021 - IACA

"Out on their own" - Actuaries looking after individuals

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INTRODUCTION

- Actuaries historically have advised large groups or institutions
- You can apply statistics to large groups – but not individuals
- Increasingly everyone is “out on their own” in providing for the future
- Choices need to be made between spending and saving in a world where the future is unclear
- Individuals need desperately the advice, which actuaries are the best qualified – but not necessarily trained – to provide.

WHAT IS NEEDED TO HELP INDIVIDUALS

- Basic actuarial task is to make financial provision for uncertain events in the future.
- Process involves
 - determining when events might occur in future
 - quantifying what might be needed at each possible future event
 - assigning probabilities to each potential event actually occurring
 - putting aside and investing money for these and providing for disaster
- New knowledge skills
- The ability to communicate easily and affordably

LIFE STAGES AND EVENTS

Individuals will have varying objectives at different stages in their lifetime, and need to consider:

- Insurance
- Retirement funding
- Long term care
- Divorce
- Disability
- Family and other crises
- Death

SPECIFIC RISKS

- Assume that a problem will occur without warning
- Define the risks
- Collate data on when and where the risks can happen
- Balance of probabilities
- Build up new risk tables
- Look at uses and research applications of chaos theory
- More difficult for families to help out when spread out, other structures needed
- New risks of climate change and increasing mechanisation
- Investment risks
- Backup planning strategy for disaster

BALANCING SAVING AND SPENDING

- Non-level cashflows
- What is wanted may simply be unaffordable
- For example, a 60 year old may need to save a fund equal to 30-40 times annual income to provide lifetime inflation linked income
- Pension actuaries are no longer confined to pension schemes
- Actuaries need to look at every cupboard of wealth
- Split monies across accessible structures

SOLUTIONS

- Developing the right structure
- Pooling risk
- Longevity insurance
- Insurance solutions
- Deferred annuities
- Employer responsibility
- Clubs or friendly societies – particularly in less developed territories
- Alert government
- Investment management
- Family assistance, communes/long house

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INVESTMENT

- Diversification
- Matching
- Advising (but cost effectively)
- Can't just be critical, need to get involved

AFFORDABILITY OF ADVICE

- Need to advise efficiently and cost effectively
- Take account of the nature of individual clients
- Take account of where individuals are and will be based
- Unless affordable, clientele limited to middles class and well off
- Solutions to provide advice to groups spread by workplace, location or social

ACTUARIES VS OTHERS

- Education and training
- Qualification
- Unique position
- Establish a level of trust
- Managing expectations
- Helping the State

COMMUNICATION

- Actuaries often stigmatized as people who found accountancy too exciting, so we've got to learn to be natural and come out of the “back room”
- Advising an individual is probably the most fraught relationship as you are not talking to one person about someone else money
- Encourage the uniqueness of actuaries
- Speak in their language
- Offer menus of choice

“Making certainty out of uncertainty” is the core actuarial function but too few actuaries are trained or are able to apply this to individuals.

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