



Institute  
and Faculty  
of Actuaries

**P**olicy &  
Public Affairs

# Inclusive insurance bulletin



## Responding to change

The Future  
of Insurance

Informing the debate

April 2021

Bulletin 2

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# Introduction

David Heath, Chair of the IFoA Policy and Public Affairs Board



Insurance offers protection to individuals and businesses in our society, playing an important role in economic development and supporting wider societal needs – at least in theory. However, as with many aspects of life today, the insurance world is in the midst of a technological revolution, with the digital footprint becoming ever more pervasive. While this is not new, the evolving Covid-19 crisis has pushed society further along a digital trajectory. Against this backdrop, it is important to consider whether this technological driver will lead to greater inclusion, or instead risk further exclusion in insurance; and if the latter, what can be done to tackle such insurance access inequalities?

In this, our second bulletin on Inclusive Insurance, we consider how the wider insurance world is responding to this technological change. While digital technology can offer significant benefits, it is important to take a broad perspective on the impact on insurance inclusion, including ongoing access and, where necessary, to develop access to insurance for those who need it most. We also explore inter-related themes including concerns over unethical approaches or bias in the use of consumer data, and the importance of diversity in tackling such concerns. As experience in the light of Covid-19 demonstrates, rebuilding and maintaining customer trust in insurance – and recognising its value to society – is important in developing customer engagement, and hence building inclusion.

As with our first bulletin, we have invited a range of contributions from actuaries and those outside the profession, to provide both complementary and varying perspectives on the impact of technology on insurance inclusion. As well as considering impacts, the articles also look at the insurance response to date, and further action that could be taken to increase inclusion. Among others, we have included contributions from a consumer and insurance supervisor's perspective, as well as looking at work the Institute and Faculty of Actuaries is undertaking to keep financial inclusion on the agenda.

We hope you enjoy this second bulletin in our inclusive insurance series, and that it gives you useful food for thought. We would be delighted to receive your feedback.

Insurance offers protection to individuals and businesses in our society, playing an important role in economic development and supporting wider societal needs – at least in theory.

# Pricing technology delivers inclusion and exclusion

John Taylor, Past President of the Institute and Faculty of Actuaries



The insurance industry is in the midst of a technological revolution, promising a world where premiums are hyper-personalised, matching risk precisely; where home sensors identify a leaking pipe before it causes too much damage; where fitness devices identify health problems before more obvious symptoms become apparent; where claims are assessed and paid instantly. All these things are happening now and becoming more pervasive. However, such positive developments may widen societal inequalities by excluding vulnerable groups from insurance.

The risk of exclusion stems from pricing. Driven by data and technology, risks that were once grouped together can now be subdivided into ever-smaller groups. This 'atomisation' of risk enables insurers to use their detailed understanding of each risk to calculate a bespoke price. Instead of charging an average price to a group of consumers, insurers can offer very low premiums to some individuals while offering much higher premiums to others. In some cases, insurance may not be offered at all. This is an issue that should concern us.

Given the unprecedented nature of this development, where can we look for lessons? The 'price walking' practice in personal lines insurance is insightful. Price walking describes the practice of attracting new customers with a low price, then stepping up the price at successive annual renewals until the contract becomes highly profitable. Last September the Financial Conduct Authority (FCA – the UK's conduct regulator) decided to ban this practice given the extent of consumer detriment.

As crude as this pricing strategy may have been, its implementation was often quite sophisticated. Using a range of factors, including the customer's age, gender, communication preferences (paper/email) and how they had responded to previous increases, a provider could infer how likely the person was to shop around. If the provider thought a particular customer was unlikely to shop around, then their premium would rise significantly.

What may have been a triumph in the application of data science in maximising profit was a disaster in customer treatment. Often those least likely to shop around were those whom regulators now term 'vulnerable customers'. Those lacking confidence in financial matters and/or without digital skills would see their premiums increase substantially each year. Some were ultimately paying three to four times more than if they had shopped around.

This strategy is not unique to general insurance pricing. Markets for energy supply, banking, mobile phones and broadband all exhibit this practice. And it's possible to argue that there's nothing inherently unfair with such a practice. If all consumers are fully informed, then perhaps some will consciously choose to pay the 'loyalty penalty' for the convenience of not shopping around. It is doubtful, however, that anyone would defend the practice where it delivers such large loyalty penalties for vulnerable customers.

Those lacking confidence in financial matters and/or without digital skills would see their premiums increase substantially each year.

One reason prices became so iniquitous was that some pricing algorithms were designed to prioritise profit, with insufficient consideration given to the treatment of vulnerable groups. Eventually, fairness considerations moderated the excesses of price walking: some algorithms limited annual increases and/or prevented the renewal premium rising above a specified multiple of the new business premium. However, for the FCA this was too little, too late.

But why didn't individual companies change their ways before the regulator intervened? A story from the UK mortgage market is illuminating. A leading bank decided to end the practice of loyalty penalties; unlike their competitors, they would offer similar mortgage interest rates to both new and existing customers. Once implemented, it didn't take long for their new business and share price to slump as new customers chose their competitors' discounted rates. After a few months, the company reintroduced the loyalty penalty.

With unilateral action carrying so much risk, the alternative is collective action. However, anti-trust authorities would take a dim view of an industry collaborating to create price controls. So a change to pricing strategy, whether unilaterally or in unison, was too difficult and the practice persisted.

Just as competitive forces pushed the market towards price walking, so too competition encourages greater subdivision of risk.

Here is an example of subdividing risk to illustrate the market mechanism. Once upon a time, insurers of home buildings and contents didn't care about the age of their policyholders. There was a one-size-fits-all approach and everyone paid the same premium. Then one company decided to offer cheaper insurance to customers over 60 because they posed a lower risk. As a result, older people flocked to this company. Other providers were left with younger, riskier policyholders but were charging them average rates. This unprofitable position forced these other providers to also offer lower prices to the over 60s. After that, another company saw the opportunity to price by individual age rather than age bands and once again the combination of innovation by one company together with market forces caused the whole market to change.

The extension of this phenomena to a world of proliferating data is profound. With unprecedented and growing volumes of data, it's possible to take into account many more factors when pricing insurance. Competitive advantage will be gained by those providers that can utilise data to understand and price risks more granularly. And the market dynamic will drive towards increasing precision.

In motor insurance, not only do we know so much more about the individual but telematics enables the industry to price policies based on how far, how safely, and when policyholders drive. With health insurance, data from wearable devices is being used to identify healthy lives and offer them low insurance rates. The increasing availability of genetic information may transform life insurance markets.

'Atomisation' is a double-edged sword. On the beneficial side, those who can demonstrate that they are less risky than their peers benefit from lower prices: the young driver who drives only infrequently and slowly; the fitness fanatic, etc. The flipside, of course, is that others have to pay more: the less careful driver; the unfit.... Some might take the view that such consequences are acceptable because those individuals can (most of the time anyway) modify their behaviour to access the lower rates. But what about those who can't, those whose DNA means life and health insurance is prohibitively expensive or where flood risk means owners can't insure or sell their homes? In fact, with innovation accelerating, we're likely to see more individuals missing out on affordable insurance.

Policy interventions are needed to avoid this outcome. Indeed, there have been some notable interventions already, not least Flood Re in the UK, giving many homeowners exposed to flood risk access to affordable home insurance. The European Union outlawed the use of gender in insurance pricing nearly a decade ago. In the US, the Affordable Care Act (Obamacare) enables those with pre-existing conditions to secure cover at an acceptable cost.

We will need other policy interventions to avoid significant detriment. Fortunately, organisations such as the Centre for Data Ethics and Innovation are already considering how the market will evolve ([www.gov.uk/government/publications/cdei-publishes-its-first-series-of-three-snapshot-papers-ethical-issues-in-ai/snapshot-paper-ai-and-personal-insurance](https://www.gov.uk/government/publications/cdei-publishes-its-first-series-of-three-snapshot-papers-ethical-issues-in-ai/snapshot-paper-ai-and-personal-insurance)).

Market participants are also a source of insight, as they anticipate how to gain competitive advantage through new data and technology. Academics have a contribution to make to both technological evolution and interventions. Furnished with these perspectives, policymakers will be better placed to understand likely outcomes, determine which are undesirable and design appropriate interventions.

There's a lot at stake here. Early policy interventions can help realise the more utopian version of future insurance. Without timely interventions, we will be failing in our collective responsibility to ensure the most vulnerable retain access to insurance.

# Pricing, personalisation and trust in insurance

Paddy Greene, Head of Money and Consumer Rights Policy at *Which?*

How should firms price insurance? This question has provoked widespread debate over the past few years. Before coronavirus, the discussion largely revolved around the loyalty penalty: a phenomenon whereby loyal customers end up paying more than new ones as insurance companies ramp up prices for less engaged customers.

However, the troubles in insurance pricing run far deeper than the loyalty penalty: there are other questionable practices going on that affect all consumers. At *Which?* we are particularly alarmed by the ways insurers are using personal data to optimise profit margins. In its **interim report on general insurance pricing practices**, the Financial Conduct Authority (FCA) shone a light on how, in some cases, firms are using over 400 factors in their pricing models. These factors include a wide range of non-risk factors, such as your preferred internet browser, where you shop, and what time of day you buy your policy. These non-risk factors are used to optimise the final price for customers' insurance, meaning that you may end up with a different insurance price if you buy it over Chrome rather than Internet Explorer.

So far, the insurance industry has escaped public scrutiny of these pricing practices. However, the intense public focus on the use of personal data in other industries, such as targeted advertising, means that insurers will need to address this issue soon. There needs to be a much wider debate about the ethics of using personal data in margin optimisation. Of course it is necessary for insurers to use some consumer data to price their products. However, digitalisation has greatly increased the scope for this, allowing insurers to personalise insurance prices to a far greater degree than before.

With this comes a greater risk of bad outcomes for customers. Personalisation of insurance prices increases the risk of indirect discrimination at the hands of pricing algorithms. The more personalised prices are, the more complex the pricing algorithms used to produce them become. This makes it difficult to pinpoint what exactly is driving prices for a particular consumer, with decisions being made in a 'black box'. Without being able to open this box up, it is difficult to tell if an algorithm is unfairly discriminating against a consumer. This could be bad news for vulnerable people and those with protected characteristics.

The over-personalisation of insurance pricing does not only risk harming consumers – it also risks eroding their trust in insurance. Maintaining consumer trust in insurance is important, especially at a time when trust has been rocked by the coronavirus pandemic. When we look at consumer attitudes towards data and insurance, we find that customers are already concerned with the ways their personal data is being used. A report by **BritainThinks and the ABI**, published before lockdown, found that only 13% of consumers had a high level of trust in their insurers to use their data in their best interest, placing them far below more trusted institutions, such as the NHS at 51% and banks at 31%.



The over-personalisation of insurance pricing does not only risk harming consumers – it also risks eroding their trust in insurance.

Transparency is clearly part of the solution: people need to know how their insurance price is determined, so that they can feel in control of their data and their insurance.

These findings are unsurprising. In our report **Control, Alt or Delete? The future of consumer data** we found that consumers are concerned about the way their personal data is being used. In particular, consumers are worried that computer-driven algorithms are making inferences about them based on their data, while failing to recognise the nuance and subtlety of their personal situation. Consumers value control over how their personal data is used, but the way it is processed across the insurance industry means that they don't have control. Instead of being able to influence their insurance prices through good behaviour or to push back if a decision is unfair, consumers have no control and are left at the whims of the pricing algorithm.

While the FCA work on the fair treatment of vulnerable consumers is welcome, *Which?* is disappointed that, in our view, the FCA has shied away from addressing the use of data in margin optimisation in the **final report of its market study**. The FCA and insurers must act to prevent the worst harms from personalised pricing. Transparency is clearly part of the solution: people need to know how their insurance price is determined, so that they can feel in control of their data and their insurance. However, we need to go further than that. Pricing models are inevitably complicated, so it will be difficult for consumers to engage with information about their insurance prices, regardless of the level of transparency. Furthermore, transparency alone does not resolve the risk of personalised pricing leading to bad outcomes for consumers.

This is why *Which?* called on the FCA to restrict the use of non-risk factors in insurance pricing. It is doubtful that some non-risk factors could be used fairly in insurance pricing. For example, can it be fair for two people with similar risk profiles but different preferences for internet browsers to pay different prices? It seems unlikely. As a first step, the FCA must start a conversation about what factors society considers acceptable for optimising price margins.

One thing is clear – this is not an issue that is going away anytime soon. As the data and technology available to firms evolve, the issue of personalised pricing will become greater. Coronavirus has already strained the trust that consumers place on insurers to treat them fairly. Industry and regulators alike must act now or face losing the trust of their customers.

# The role for Insurance Supervisors in enhancing financial inclusion

## The Access to Insurance Initiative (A2ii)

The Covid-19 pandemic has exposed the fact that many people and businesses live and operate without the security of insurance. When a crisis strikes, such as the one we are living through, there is the potential risk that development efforts will be dismantled and the near poor will be pulled back into poverty. In a recent Working Paper, the United Nations University World Institute for Development Economics Research estimated that almost a decade of progress in global poverty reduction may be reversed due to Covid-19. They modelled the potential short-term economic impact of Covid-19 on global monetary poverty through contractions in per capita household income or consumption. They predicted that globally, in comparison to 2018 figures, the number of poor could increase by as much as 280 million if an income or consumption contraction of 10% is experienced. This could increase by as much as 580 million in case of a 20% income or consumption contraction. If there had been higher levels of insurance penetration at the outset, it is fair to assume much of this could have been avoided.

Insurance protects against unforeseen losses and financial vulnerability and so improves people's resilience to unexpected events. However, insurance providers may not see a compelling business case to offer products to lower-income populations. The challenges of inclusive insurance markets range from data collection and size of insurance premiums, to the regulatory

environment. Insurance supervisors play an essential role in overcoming these barriers and in encouraging private and public stakeholders to work together to enhance access to insurance for all. However, this requires specific skills that many supervisory authorities in developing countries lack.

The Access to Insurance Initiative (A2ii) is a unique global partnership between the international standard-setter for the insurance industry – the International Association of Insurance Supervisors (IAIS) – donors and development agencies. Its mission is to inspire and support supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability. The core fields covered by the A2ii are knowledge generation on topics of relevance to insurance supervisors, supervisory capacity building, and advocacy. Due to its unique position as the implementation partner of the IAIS, the A2ii feeds its learnings into the development of new supervisory materials by the IAIS, which supervisors refer to when developing new regulations, thereby making the learnings sustainable and ensuring that the IAIS's Insurance Core Principles and supervisory guidance are appropriate and meet the needs of all supervisors globally.

To achieve its mission, the A2ii supports supervisors in implementing inclusion-friendly regulatory frameworks through a process that follows a learning curve and involves multiple complementary interventions.

A2ii's mission is to inspire and support supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability.



## Stages of the learning curve

The various stages of the learning curve build on each other:

**Stage 1: Awareness** – Supervisors know about inclusive insurance, A2ii services and where/how to access them.

**Stage 2: Knowledge** – A2ii provides the relevant knowledge supervisors need to ‘supervise for inclusion’. Supervisors access the knowledge.

**Stage 3: Skills** – Supervisors have both technical and ‘soft’ skills. They need to be able to apply the knowledge obtained. In addition to the technical knowledge, this often requires project management, team working, and communication and negotiation skills (eg when supervisors seek the support of their superiors for a new concept or idea).

**Stage 4: Behaviour** – Knowledge and skills translate into action. Supervisors create an enabling framework for access to insurance (eg by improving regulatory frameworks for inclusive insurance, creating initiatives for market development, etc.).



The A2ii’s capacity-building activities complement each other and support supervisory authorities to move along the learning curve. An example here is Costa Rica, SUGESE (Superintendencia General de Seguros de Costa Rica). The supervisory authority did not initially have a policy in place to support greater financial inclusion. Following SUGESE’s engagement in A2ii webinars and regional multi-stakeholder dialogue events, the authority conducted a country diagnostic using the A2ii toolkit to better understand the specific needs of low income and other vulnerable consumer groups in their market. In 2019 regional supervisory training was then organised in Costa Rica by the A2ii on the supervisor’s role in building a supportive environment for greater financial inclusion. Guided by an action plan developed as part of the training and informed by the country diagnostic, SUGESE started working on an Inclusive Insurance Regulation. Following careful local stakeholder consultation, and expert input from the A2ii, the regulation was finally published in October 2020.

Another example of an A2ii approach that moves stakeholders along the learning curve is the Inclusive Insurance Innovation Lab. This is a multi-stakeholder initiative with four different country teams, led by their insurance supervisor. The teams first examine why insurance penetration rates are so low in their jurisdiction and then work collaboratively to develop innovations to address this. The process takes 18 months and

is based on a series of national and international workshops using design thinking methodologies. The Kenyan Insurance and Regulatory Authorities regulatory sandbox (Bima Box), the index insurance product to protect against hailstorms in Albania, and the legislative change to allow e-signatures in Mongolia are all outcomes of the first Lab. However, arguably the biggest success is the multi-stakeholder groups brought together by the Lab who have remained in close contact following the Lab’s official closing and who continue to work together to support the growth of the inclusive insurance sector in their countries.

## Ten years of A2ii – a stock-taking exercise and way forward

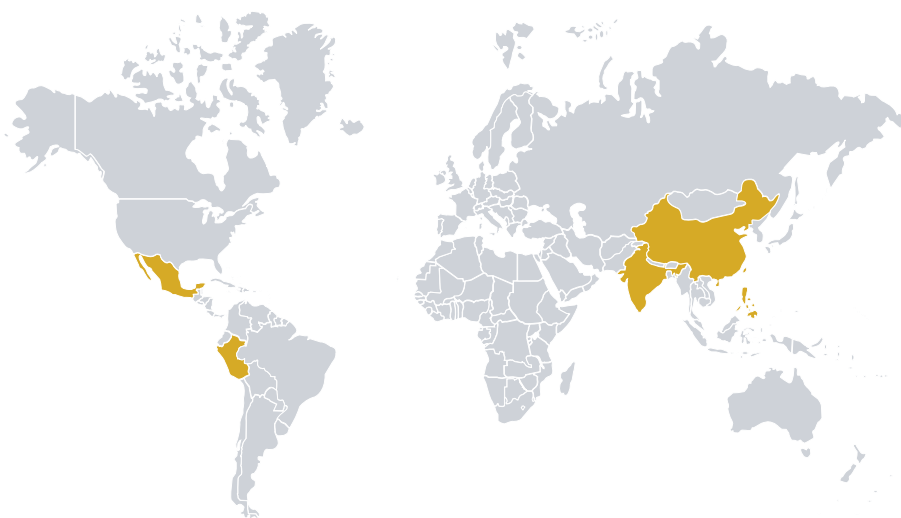
A2ii celebrated its 10th anniversary in 2019. This milestone was a chance to reflect on what we have achieved in terms of building a more enabling environment for financial inclusion so far, as well as to explore the opportunities ahead of us. Supervisors have taken leadership in recent years and crafted specific regulations to facilitate greater financial inclusion. As a result, the number of countries with inclusive regulatory frameworks has grown from six in 2009, when the A2ii was first established, to 26 in 2020. There are also a further 22 countries in the process of developing their frameworks.

## Inclusive insurance regulation in 2009

**6 Implemented**

**Latin America and The Caribbean**  
Peru  
Mexico

**Asia**  
India  
China  
Philippines  
Chinese Taipei



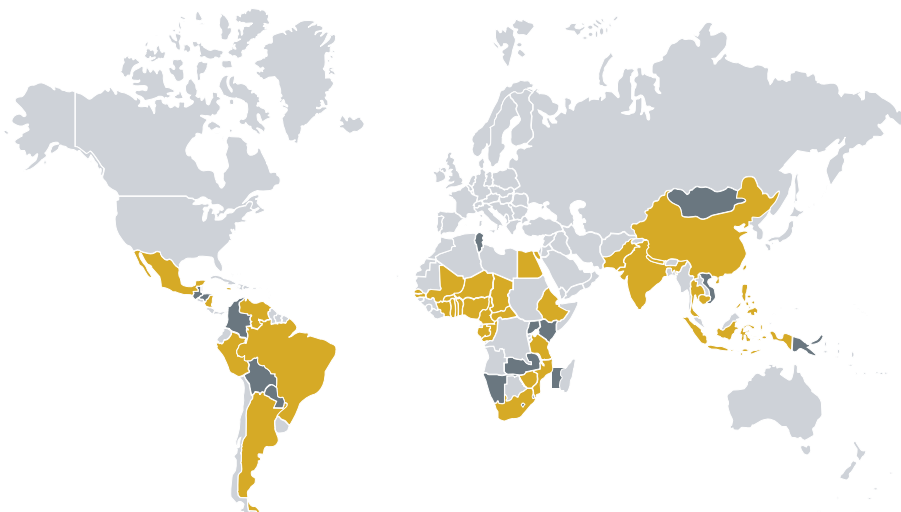
## Inclusive insurance regulation in 2020

**26 Implemented**

<b>Africa</b>	<b>Asia</b>
CIMA*	Cambodia
Egypt	China
Ethiopia	Chinese Taipei
Ghana	India
Mozambique	Indonesia
Nigeria	Nepal
Rwanda	Pakistan
South Africa	Philippines
Tanzania	Thailand
Zimbabwe	

**Latin America and The Caribbean**  
Argentina  
Brazil  
Coata Rica  
Mexico  
Nicaragua  
Peru  
Venezuela

\*Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal, Togo.



**22 Under development**

<b>Africa</b>	<b>Latin America</b>	<b>Asia</b>	<b>Pacific</b>
Kenya	Belize	Bangladesh	Fiji
Malawi	Bolivia	Mongolia	Papua New Guinea
Lesotho	Colombia	Sri Lanka	
Namabia	El Salvador	Vietnam	
Swaziland	Guatamala		
Tunisia	Honduras		
Uganda	Jamaica		
Zambia	Paraguay		

## Considerable progress has been made

To enable the A2ii and insurance supervisors to build on this progress, seven key messages were identified at the A2ii's anniversary conference in Frankfurt in 2019:

- **Inclusive insurance matters**

Insurance directly contributes to SDG 1 (End Poverty), SDG 2 (End Hunger), SDG 3 (Good Health and Well-Being), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth) and SDG 13 (Climate Action). Indirectly, even more SDGs benefit from insurance. Yet the role of insurance largely remains unrecognised and untapped by policymakers.

In Costa Rica there are ongoing government initiatives targeting some of the SDGs, but national development plans do not place much emphasis on financial inclusion. Yet experience has shown that there is a clear gap for insurance to fill. In 2016 a hurricane impacted 50,000 people in Costa Rica, affecting infrastructure and economic activities. Only 3% of the total losses were insured.

A study by the Cambridge Institute for Sustainability Leadership found that mutual microinsurance, enabled by adequate regulation, can contribute to the SDGs by increasing the protection and resilience of low-income communities. This study illustrates the link between insurance and the SDGs, and is an example of how this link can be articulated to policymakers.

Insurance supervisors can – and should – pursue inclusive insurance development and engage with policymakers, using the SDGs as a basis for discussion.

- **Lead by example**

There is a clear role for supervisors in leading financial inclusion and market development efforts. Depending on the market context, supervisors can issue supportive regulation, bring together relevant stakeholders or put in place key infrastructure. An explicit market development mandate can be helpful in this regard.

- **Do not reinvent the wheel, but do not copy and paste**

Over the past decade, many supervisors have gained experience in inclusive insurance regulation and this collective knowledge can be leveraged. However, it is important to take different stages of market development and the market context into account. Simply replicating other countries' regulations may not work.

- **Listen before regulating**

Insurance supervisors need to have an open and constructive dialogue with the industry to keep pace with innovation. Several supervisors who have seen significant progress in their inclusive insurance markets engaged with the private sector from the beginning. In Ghana and the Philippines, supervisors spent time understanding market developments and business models and consulting with the industry prior to issuing binding rules. Efforts were also made to ensure the industry appreciates the supervisors' concerns, particularly in relation to consumer protection issues. Both of these countries have dynamic inclusive insurance ecosystems. However, it is important to strike a balance between regulatory certainty and flexibility.

- **Co-ordination is key**

Supervisors need to co-ordinate with other supervisory authorities and public bodies with different responsibilities and skillsets. This is particularly key in the face of changing insurance business models due to digitalisation and cross-cutting policy challenges such as climate change.

- **Measure impact but optimise**

Understanding what has or has not worked in the past is essential to guide future regulatory measures. Documenting these lessons will also enable countries to learn from the experiences of one another. To measure impact, data is paramount. However, it is important to ensure that the data is meaningfully utilised, and that data collection does not disproportionately burden the industry.

Insurance supervisors can – and should – pursue inclusive insurance development and engage with policymakers, using the SDGs as a basis for discussion.

- **Be prepared for future supervisory developments**

Supervisory work will become more complicated due to technological developments. This is an opportunity for inclusion, but it also brings exclusion risks and consumer protection challenges. Regulations may also become obsolete as new business models emerge. Supervisors will need to adapt their regulations and processes, as well as build capacity.

When developing inclusive insurance regulations, supervisors seek to strike a delicate balance between establishing an enabling business environment and ensuring vulnerable consumers are protected. On the one hand, consumer protection must be adequate for a customer base with limited experience with insurance. This is particularly important as the customer's profile is such that they are typically less financially aware and, consequently, more vulnerable. As such, the need for insurance to provide value-for-money and engender trust becomes paramount. On the other hand, supervisors recognise that insurers need a regulatory environment that provides adequate flexibility and opportunities to operate in a commercially sustainable manner. Inclusive insurance customers in many cases are geographically more challenging to reach, and often too costly for traditional distribution channels. Many companies have experienced difficulty reaching the economies of scale needed to achieve business viability.

The complex global challenges of climate and disaster risk and now the Covid-19 pandemic will require stakeholders to have a sharper focus on creating supportive regulatory policies to close the protection gap and build greater resilience of the world's most vulnerable. The A2ii, supported by its funders the German and Dutch ministries, will continue to work with insurance supervisors to address these new challenges to support the growth of more inclusive financial markets.

### **About the A2ii**

Questions over insurance inclusion and increasing insurance coverage to lower income groups are global in nature. In helping to encourage greater financial inclusion via insurance, insurance regulators also have a key role to play. Global partnership, A2ii, are building solutions to suit the idiosyncrasies of the local market, while balancing increased inclusion with insurers' scope to innovate.

# Supporting customers in their Moments That Matter and why inclusive insurance matters even more post Covid-19

Jane Portas, Co-founder Insuring Women's Futures and creator of the 6 Moments That Matter in financial life

This article focuses on the diversity of financial life journeys of people in the UK, and how Covid-19 has reinforced the link between financial and wider wellness. It puts forward the insurance industry's role in supporting society's risks in life being even greater post COVID-19, and how insurance professionals and firms can better serve customers through embedding inclusion as part of environmental, social and governance (ESG) including practical actions.

## **'Risks in life' and the diversity of financial life journeys**

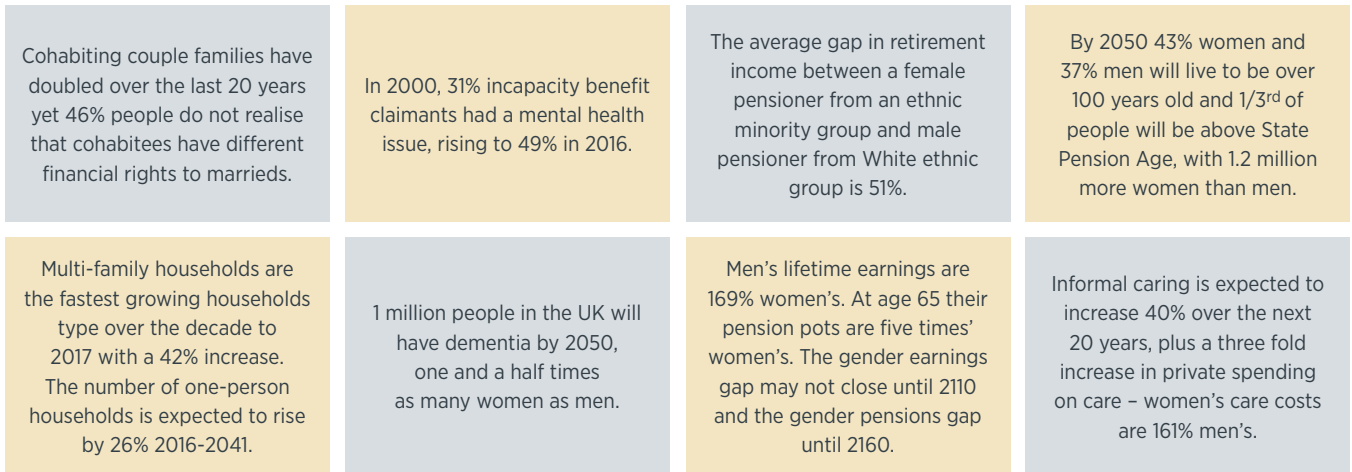
Even before Covid-19, life in Britain had changed dramatically over the last few decades, and for many people financial life has become increasingly complex. The diversity of cultures, lifestyles and circumstances, combined with changes in workplaces and families, as well as developments in legal and social care systems, means that people today experience a myriad of 'risks in life'. Opportunities and challenges throughout life are experienced variously by intersections of society: access to skills and employment, the structure of relationships and family life, enjoyment of healthy wellbeing and ageing. Collectively they shape people's financial life journeys.

My 'Risks in life' report series, authored for Insuring Women's Futures<sup>1</sup>, including a recent Covid-19 update, analyses financial risks experienced by men and women through the life course. It highlights gender differences in financial life journeys – including earnings, savings, debt and pensions gaps – and the underlying life circumstances, decisions and events that contribute to these at different life stages. The series evidences women's relative lifelong lack of financial resilience (compared to men's), and identifies patterns in how financial risks in life interact and accumulate. This not only leads to a significant gender pension gap but also a retirement deficit when compared to women's greater later life and care needs. Consistent with the Black Lives Matter movement, the approach and analysis points to even greater financial gaps for Black women (and Black men) and people with different cultural backgrounds and disabilities, as well as specific challenges faced by girls and women in low-income households.

The median pension wealth of a 65 year old woman is one fifth that of a 65 year old man. Only 31% of annuities are joint life.<sup>1</sup>

1 | Unless stated otherwise, all data referenced is sourced from the following reports © Jane Portas (author and creator or the 6 Moments that Matter, *Financial Life Journey* and *Inclusive Customer Financial Wellbeing Frameworks*) Chartered Insurance Institute (publisher): 'Securing the financial future of the next generation – the Moments that Matter in the lives of young British women', 'Solving Women's pension deficit to improve retirement outcomes for all' and 'Living a resilient financial life in the UK – 6 Moments that Matter in improving women's and all of our financial futures', a ten-point manifesto for change incorporating the work of a 150-strong Market Task Force, and 'Living a financially resilient life beyond Covid-19 – 6 Moments that Matter for building back financially fairer'. [www.insuringwomensfutures.co.uk](http://www.insuringwomensfutures.co.uk).

**Figure 1: Trends in risks in life highlighting gender differences<sup>2</sup>**



### Financial complexities and the implications for customers

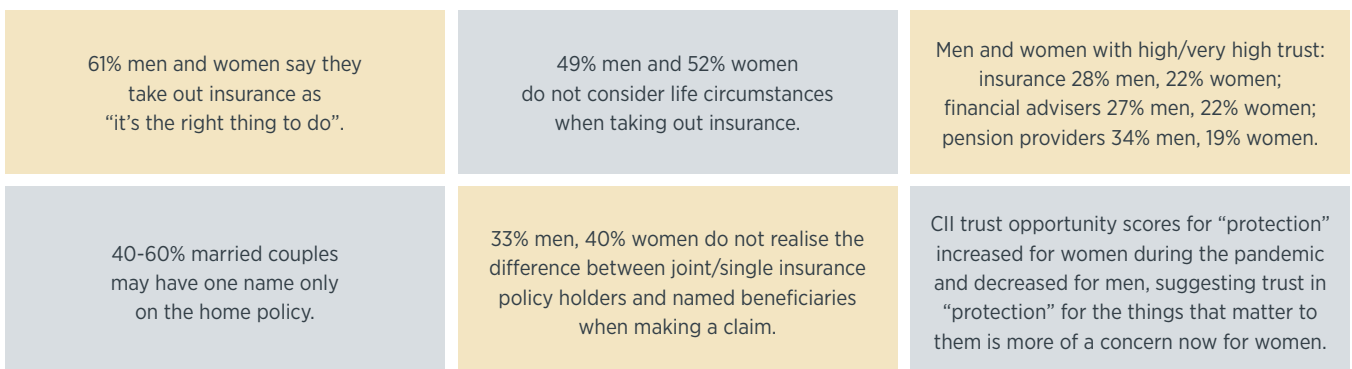
Alongside changes in society, new ways of managing money and developments in financial systems mean that insurance and financial products continue to evolve too. With so many different risks to protect, new and innovative de-risking solutions, and opportunities to save and invest (both efficiently and also environmentally), as well as the ability to pay and borrow in many forms, means there is much for consumers to consider.

While life is changing at pace, our attitudes and traditions continue to shape not only men's and women's roles at work and home, but also their respective relationships with money and finance. This is felt through their experience of financial engagement, different financial information and guidance needs (reflecting, in particular, women's less linear life journeys), as well as their respective trust in insurance and pensions. At the same time, the need for people to manage

their own financial lives, and to consider how their financial affairs and insurance protections are impacted by their life circumstances, means there is much to get to grips with, alongside even greater personal responsibility for financial decisions.

Such risks are flagged by a survey for Insuring Women's Futures: almost half of married and cohabiting men and women said they did not consider their relationship situation when taking out personal lines products, nor realise the implications of joint and single policies. This is notwithstanding stark legal differences in financial rights for marrieds and cohabittees, with the Office for National Statistics (ONS) reporting that 46% of people are unaware of this. A similar picture emerges for pensions, resulting in higher financial risks facing women who separate from partners and pension dependent widows (explained later).

**Figure 2: Men's and women's relationship with insurance**



What is clear is that, as a society, and within relationships especially, we don't talk to each other enough about money. Also, roles and experience in managing, protecting and investing remain highly gendered. But this isn't just an issue between women and men. A drive towards more balanced relationships with money matters requires financial services firms and guidance organisations, as well as policymakers and employers, to acknowledge diversity in life journeys and to design inclusive approaches to improve financial wellbeing. Data analysis by gender (and other intersections) will be essential in informing these.

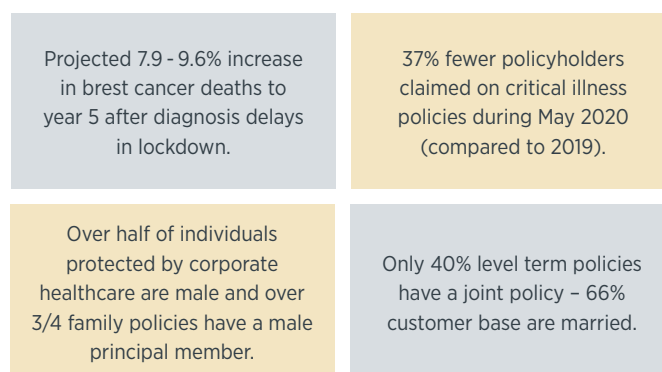
### Covid-19 impact on wellbeing and changing 'risks in life'

Covid-19 continues to impact the financial life journeys of men and women of all ages and has brought into sharp focus the relationship between financial, healthy and work-life wellbeing. My new research report into the risks in life following Covid-19 (*Living a financially resilient life in the UK beyond Covid-19*) highlights profound gender and intersectional impacts for men and women of all ages. It also provides insights into men and women's respective relationship with the insurance profession through Covid-19, and the opportunity for the sector to play a role in building back financially fairer.

Men – in particular those in later life and from Black and other ethnic minority backgrounds – have experienced the greatest physical health risks and loss of life. Financially however, since men's pension wealth is as much as five times that of women's (the gap widening with age, over 65 years) and 69% of annuities are single life only, there is a risk older widows are not only having to cope with the loss of their loved one, but to deal with money worries too. Of working age people, women (particularly young women, single mums, Black and ethnic minority women and older female workers) are also more impacted through their heightened exposure as key workers and, financially, due to their predominance in lower paid sectors – such as retail and hospitality – most affected by Covid-19 shutdowns, compounded by a lack of childcare and imbalances of responsibilities at home. The combined effects risk extending the closure of the gender lifetime earnings gap – currently 41% – to 2110, meaning that the gender pension gap may not close until 2160, for an 18 year old woman starting work in 2110 (assuming a retirement age of 68 years).

During the height of the pandemic last summer, indications from the Chartered Insurance Institute trust opportunity scores relating to the 'speed of claim' increased most for women (compared to 'claims respect' for men), while the 'protection' score increased for women and decreased for men (suggesting trust in protection, and this meeting their needs, is more of a concern now for women).<sup>3</sup> These measures are consistent with women's lower financial resilience and, taken with wider insights on trust and sentiment, of the opportunity to consider the different risks women face and how best to protect them.

**Figure 3: Risks in life are changing through the pandemic impacting insurance considerations**



Life in lockdown continues to create mental health and anxiety issues for many people, and is often exacerbated by their life circumstances. During the first lockdown, couples (especially with children) reported the largest – 20% – rise in anxiety levels. Distress calls to domestic abuse helplines have escalated (by 77% in June 2020) and divorce enquiries reportedly increased by 42% (in the first lockdown alone). With just a quarter of divorcing couples discussing pensions and only 14% of divorces with pensions resulting in pension sharing, many divorcees struggle to recover financially (the average pension pot at retirement of a divorcee is £26,100), and the risk is potentially even greater post Covid-19. At the opposite end of the spectrum, 45% of weddings are estimated to have been cancelled during 2020 – almost three quarters uninsured – leaving many needing to consider how to balance their financial relationships, including the implications for insurance and pensions.

April 2020 saw an 83% increase in life insurance claims year on year. 31% related to Covid-19 deaths, the average age of claimants was 64 and 80% were male. Aegon, May 2020

3 | Chartered Insurance Institute trust index: protection is a measure of how appropriate the cover is to an individual, providing cover for the things that matter to them, and giving them the option to remove cover for what is not important to them.

More broadly the pandemic has accelerated shifts in how we will work and live in the future. For many people, increasing automation and the digitalisation of work, job loss and job creation, overlays our transitioning to more flexible working and career patterns as we prepare for a 100-year life. Taken with emerging health risks and pre-existing trends in families and household formations, life is becoming a riskier business. What it means is that it's not just women whose lives will be non-linear in the future, all of our lives will be less linear, requiring legal, social and financial systems, and insurance, to adapt to cater to people's new needs.

### **Inclusive insurance as part of environmental, social and governance strategies**

Both the Financial Conduct Authority (FCA) and the insurance industry have responded proactively to support customers through the pandemic. Prior to Covid-19, the FCA had identified that up to half of consumers may be 'vulnerable', and put forward (and has since finalised) guidance for firms to ensure all customers secure good and fair outcomes.<sup>4</sup> This, together with its Covid-19 updates, sets expectations for firms to identify customers experiencing a range of vulnerabilities and to embed approaches to address these through product design and customer journeys. Its recent Financial Lives Survey 2020 goes one step further and includes gender (and ethnic minority) analysis, highlighting gender gaps and specific vulnerabilities facing women (and ethnic minorities). More broadly, insurance firms play a valuable role in ensuring products are designed to reflect developments in society and evolving life circumstances. Customer journeys may also proactively embed financial wellbeing to improve financial capability and help inform better product decisions.

The pandemic, and other events, including raised awareness of Black lives, have created a heightened need to address fairness and inclusion across the whole of society. At the same time, environmental, social and governance developments mean that regulators, like shareholders, are increasingly expecting businesses to ensure their approaches are responsible and purposeful. For proactive businesses, this means considering what fairness and inclusion mean to the organisation and

its corporate purpose, and how to embed these themes holistically across the business model. Business leaders will wish to consider how inclusion relates to the customer (and employee) value proposition and strategies. This in turn will prompt consideration of its overlay on to target customer audiences (and the profile of the workforce), the product suite (and workforce policies, reward and benefits structures) and customer (employee) journeys, as well as how such approaches are adopted operationally, and as part of governance, risk appetite and risk management, and embedded in the corporate culture and mindset.

As people's money and life become riskier, the role of insurance in our society is increasingly relevant. What is key is for approaches to reflect the diversity of people's risks in life, to be relatable to their financial life journeys, and simultaneously to deliver good and fair outcomes.

### **6 Moments That Matter to help build fairer financial futures**

My 'Risks in life' analysis identified '6 Moments That Matter' that are relevant to all of us – men and women, employers and financial services firms, regulators and policymakers, and the third sector. As individuals, thinking through the Moments That Matter can help us to bring together our money and our life, to contemplate our risks in life and financial life journeys, to inform our decisions. For firms, they help to ensure solutions are designed to respond not only to customers' financial risks, but also their life risks, and to help customers to ensure they enter into solutions in a way that reflects their life circumstances. One example might be an income protection product that builds in a childcare allowance for job interviews and provides for skills development. Another might be a home, health or life product customer journey that prompts people to think about their life stage, relationship status and family situation to make informed decisions concerning who is named on, and covered by, the policy. Such approaches create the potential for improved satisfaction and better outcomes. These types of interventions can also help to pre-empt vulnerabilities, as well as mitigating risks in life, while aiding financial wellbeing and improving financial futures.

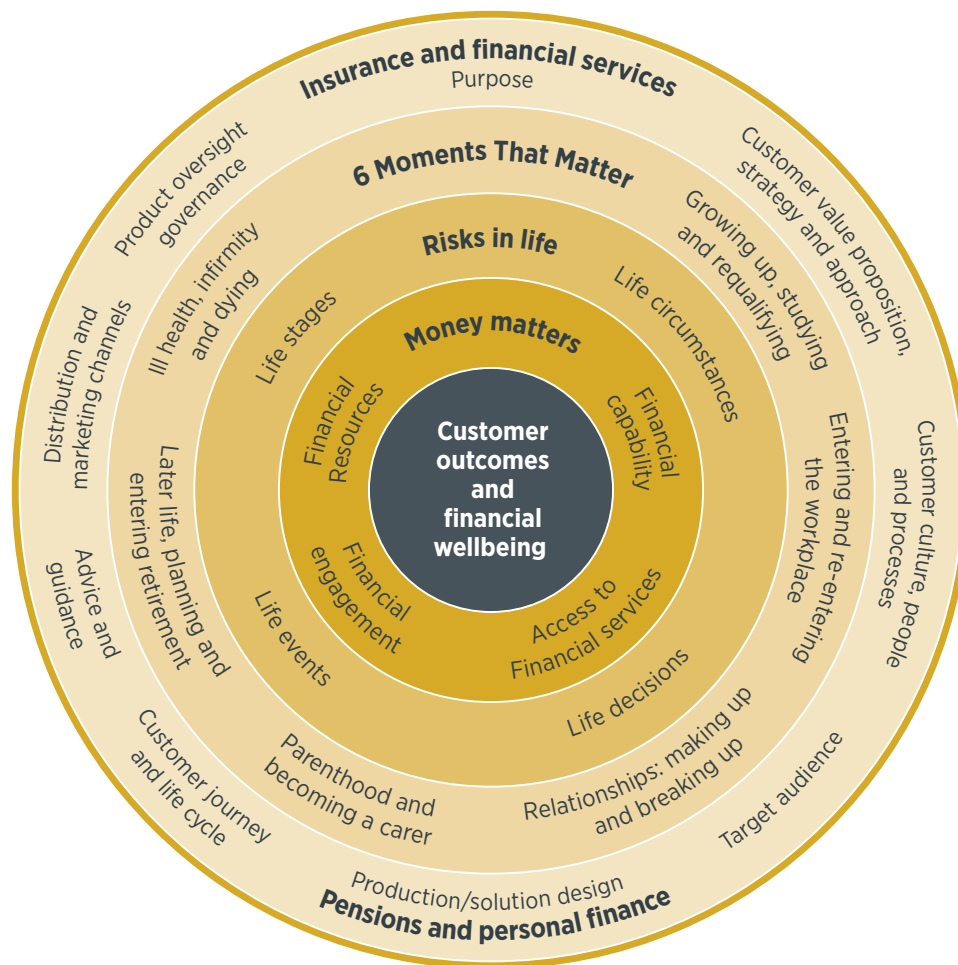
12 million people in the UK have low financial resilience, meaning they may struggle with bills or loan repayments. the data shows 2 million of those who are not financially resilient have become so since February 2020.

Financial Conduct Authority, October 2020

4 | Finalised Guidance, FG21/1 Guidance for firms on the fair treatment of vulnerable customers



Figure 4: Inclusive Customer Financial Wellbeing Framework



The gender insurance product and customer analysis developed by Market Task Force members supporting the Insuring Women’s Futures Manifesto, **Living a financially resilient life in the UK**, highlighted a range of risks and issues experienced by customers in a variety of relationship situations. These included specific vulnerable customer themes – such as considerations for supporting victims of domestic and economic abuse, and for couples at the beginning of, and in later life, relationships – as well as suggestions for proactive measures to enhance outcomes and financial wellbeing. Examples include raising awareness of matters to consider for joint and single policies, including reminders to update policies for changes in households and family structure, as well as divorce and later life considerations. A number of firms are supporting such approaches through an **Inclusive Customer Financial Lives Pledge**.

### Practical actions to support customers’ financial wellbeing

There are a variety of Moment That Matter opportunities for insurance businesses to enhance approaches to help customers better address their ‘risks in life’ including: improving customer engagement through relatable and relevant marketing and guidance reflecting a breadth of life journeys; incorporating financial wellbeing guidance and prompts within customer journeys to support protection and investment decisions; ensuring products are designed and distributed to reflect the diversity of target audiences; and enabling access for those with circumstances or vulnerabilities which may otherwise mean they experience barriers. Further details and examples may be found in the **Manifesto** (see pages 154 to 173, and 200 to 215) and in my latest report **‘Living a financially resilient life in the UK beyond Covid-19 – 6 Moments that Matter for building back fairer financial futures’**.

While legacy systems may prove challenging in some cases, new and innovative insurtech and robo advice approaches that embed customers’ Moments That Matter as part of customer strategies, in parallel with developments by providers, will be of value to both customers and firms.

**Figure 5: Practical steps to help improve customers' financial wellbeing - for firms and professionals**

#### **Product design and distribution**

- Reflecting as part of product innovation, both the trends and the diverse ways people in society are working, living and ageing.
- Considering non-linear life journeys and Moments That Matter when designing solutions, terms and conditions, distribution and marketing channels and customer journeys.

#### **Customer awareness, information, guidance, insurance policy material and customer journeys**

- 'Life circumstances' guidance – to help customers be better informed about life circumstances (such as marriage, cohabiting, co-living) that are relevant when taking out a product; for example, to consider the appropriateness of joint and single policies, named beneficiaries.
- 'Life events and life changes' guidance – to help mid-term when a life event arises such as a new baby, divorce, bereavement, and to prompt customers to ensure their arrangements are up-to-date.

#### **Wider support for customers and signposting resources**

- Supporting customers who pay for products using credit to manage their money through financial wellbeing budgeting tools and incentives for meeting payments on time.
- Signposting appropriate support and guidance beyond firms' own products and services – for information and help with issues such as divorce, abuse, disability. Examples include: Alzheimer's Society, Citizens Advice, The Money and Pensions Service, Relate, Surviving Economic Abuse.

#### **Group policies and employer financial wellbeing**

- Collaborating with employer clients to provide information and guidance on life circumstances and life events and life change considerations - as part of employer financial and pensions wellbeing strategies.

#### **Gaining insight, raising awareness internally and building an inclusive customer culture**

- Collaboration with the third sector, staff briefings on customers' life circumstances and life events' needs.

As we emerge from the pandemic, now is a moment that matters for the insurance industry. Embedding inclusion across the business model and developing solutions and approaches that aid access, improve relevance to changing lives, and enable customers' financial wellbeing (including those that incentivise and reward positive customer behaviour) are beneficial not only for customers, for business and for building trust in insurance too.

To improve financial wellbeing for women and wider society, Insuring Women's Futures is encouraging commitments by insurers, pensions, personal finance and wider financial services firms to the Inclusive Customer Financial Lives Pledge. Details of the Pledge together with guidance for firms may be found on pages 41 and 170 of the **Manifesto** and the brochure **here**. The impact report including details of firms who have pledged, Our Manifesto one year on, what's changed? may be found **here**.

#### **About the author**

Jane Portas has spent her career in big 4 professional services and until recently as a Partner advising insurance businesses, and is a co-founder of Insuring Women's Futures, a market-led programme bringing together industry professionals, policymakers and third sector organisations to tackle women's financial resilience gap. She is the author of the 'Risks in Life' report series which considers gender differences in financial life journeys, and the creator of the 6 Moments That Matter, Financial Life Journey and Inclusive Customer Frameworks and similar concepts aimed at improving women's and all of our financial futures.

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# When data meets society – managing data ethically

Philippa Kelly, Head of Financial Services at ICAEW

The Covid-19 pandemic and the Black Lives Matter movement have brought into sharp relief issues with our relationships to financial services and data. Financial services are essential to our everyday lives, and the collection and use of data is intrinsic to the sector. The essential and deeply personal nature of financial services means there is a conspicuous need for ethics among businesses applying data science to personal data to develop financial products.

Data challenges are borne out in the extension of payment holidays to retail, mortgage and other loan customers without banks needing to seek information about the reason for the holiday. Banks then have to look at new and alternative data they can use to get a clearer picture of which customers may simply be having a temporary liquidity problem versus those who are genuinely distressed. Banks must approach this carefully to avoid creating additional conduct risk and ensure customers are treated fairly in unprecedented circumstances.

At the same time the reduction in the use of cash due to coronavirus concerns has pushed many more consumers into digital transactions where they may previously not have had a footprint, providing firms with more data to analyse. This has helped economists, regulators and governments understand how Covid-19 and lockdown is affecting behaviour and sped up the shift to digital payments. In parallel, the Black Lives Matter movement has brought systemic racism to the forefront of minds and up the political agenda. Differentiating between different customers based on calculated risk is inherent in the business model of banks and insurers and is the reason people are charged different premiums and interest rates for the same or similar products.

Data demonstrates where business models are problematic, such as the analysis accompanying the Financial Conduct Authority's (FCA) 2018 consultation on overdrafts. Mick McAteer, Co-Director of the Financial Inclusion Centre sums it up: "People in the most deprived areas are 70% more likely to have to use an unarranged overdraft than those in the least deprived areas; they tend to be from Black, Asian and minority ethnic (BAME) communities and more likely to be financially vulnerable due to poor health or disability. The harm caused here is not a by-product of normal market competition, but an institutionalised form of financial discrimination against vulnerable consumers. Discrimination faced by many BAME households in other parts of their lives (education, housing and the labour market) means that they are more likely to be financially vulnerable."

As financial services businesses bring big data and algorithms into the decision-making process, the potential for harm increases. While this has been present in insurance for some time, as practices become more sophisticated and opacity increases faster than the understanding of those responsible for governance, the risk can become more prevalent. Discrimination on the basis of protected characteristics or uncontrollable factors that are explicitly or implicitly captured in the data may occur illegally or unfairly.

So what should banks and insurers do when data and societal challenges collide?

In its 2018 publication *Ethical use of big data in financial services* ICAEW looked at actions organisations can take, both at the senior level and in practical terms.<sup>i</sup>

Discrimination on the basis of protected characteristics or uncontrollable factors which are explicitly or implicitly captured in the data used may occur illegally or unfairly.

i | <https://www.icaew.com/technical/financial-services/inspiring-confidence-in-financial-services/ethical-use-of-big-data-in-financial-services-part-two>

### **Boards need to lead their businesses on the ‘right thing to do’**

in terms of the law, their regulatory responsibilities (ie the FCA’s six consumer outcomes that firms should strive to achieve to ensure fair treatment of consumers) and ethics.<sup>ii</sup> Actions should be rooted in the social purpose of the business. This may mean that products need to be reviewed in terms of inclusivity and with regard to whether there are barriers to inclusion inherent in the design or distribution of insurance products.

When shifting towards greater use of technology, banks, insurers and investment managers need to be conscious of the value of experience and emotion in decision making (the value of a local bank manager or a person’s financial planner) compared to data and algorithms. Board members, in particular non-executive directors, must be vocal when they do not understand, and take a long-term view on whether outcomes are acceptable or not. They should ask themselves if they would be comfortable with the decision over time, as we see what current trends in technology endure and what is a passing fad. In his book *Digital Minimalism* Cal Newport illustrates the need to anticipate changing norms. “You’re gonna look at allowing a 13-year-old to have a smartphone the same way that you would look at allowing your 13-year-old to smoke a cigarette.”

**Invest in and foster a diverse organisation.** Banking, insurance and investment management should serve all sections of society. As well as its intrinsic benefits for the business as a whole, diversity helps combat implicit bias in data and how it is used. This is essential at board level, but also among technical specialists, such as data scientists, and in the second and third lines of defence. Diversity in all its forms (gender, background, specialism, experience, etc) should be a board level objective. Diversity needs to be supported by competence, and organisations need to attract, train, develop and retain the right talent. In doing so, they will help to create and sustain an inclusive organisation that benefits the business, customers and society at large.

### **About the ICAEW**

The Institute of Chartered Accountants in England and Wales (ICAEW) is a professional membership organisation that promotes, develops and supports chartered accountants and students across the world.

ii | <https://www.fca.org.uk/firms/fair-treatment-customers#:~:text=There%20are%20six%20consumer%20outcomes,central%20to%20the%20corporate%20culture.>

# Supporting financial inclusion through the quality of actuarial work

## Alan Marshall, IFoA Review Actuary

In September 2019, following one of the largest response rates to a regulatory consultation, the IFoA introduced a new system for monitoring the work of actuaries. The Actuarial Monitoring Scheme (AMS) is designed to improve the effectiveness of actuarial regulation in the public interest, provide meaningful, credible, independent feedback to members and their employers, and promote ongoing reinforcement and continual improvement.

The AMS forms an important part of a professionalism framework designed, through carefully balanced interventions and support, to provide evidence of the quality of actuarial work and to promote best practice. In time, it will enable us to consider issues of relevance to members across the profession, wherever they are practising. One issue that should never be far from the mind of actuaries is that of financial inclusion, inextricably linked to the principle of acting in the public interest.

Following the consultation outcome, the IFoA's Regulation Board decided to proceed with the introduction of:

- Regular thematic reviews looking at particular topics, roles and/or areas of work relevant to actuaries
- Data-gathering activities on a scheduled and ad hoc thematic basis.

The outcome of these reviews and data gathering will be used to continually improve and, if necessary, adapt the AMS, to ensure that these forms of monitoring are working effectively.

The scheme is based on collaboration between the IFoA, our members, and the organisations for which they work. We have a dedicated Actuarial Review Team in place to undertake reviews on topics identified as having the potential to provide useful insight into the work of our members.

The scheme involves review of how work is carried out in practice by actuaries, including review of the work itself; this will allow the IFoA to share useful learning and good practice with members and their employers. The IFoA hopes that the benefits to organisations will include enhanced information about the quality of the actuarial work upon which they rely to make significant decisions.

The outputs of the reviews will be used by the IFoA to ensure that its standards, guidance, continuing professional development (CPD) events and education offerings are as effective and relevant as possible, helping it to safeguard the reputation of the profession and serve the wider public interest.



The thematic reviews will potentially apply to any area of actuarial work and themes will be identified using a range of sources, including:

- Ongoing risk analysis undertaken by the IFoA's Regulation Board
- The Risk Perspective document published by the Joint Forum on Actuarial Regulation
- Insights shared with the IFoA by fellow regulators including the Financial Conduct Authority (FCA), Financial Reporting Council, Prudential Regulation Authority, and The Pensions Regulator
- The IFoA's other regulatory activities (including its disciplinary process).

A key driver of potential themes is the public interest, which in turn is a key principle in the regulatory responsibility of the IFoA through its Royal Charter. A topic such as inclusive insurance falls squarely into this, and as such is likely to be one of the main focuses that emerges as the AMS develops.

An example of this is the current review being carried out on actuarial involvement in the pricing of UK home and motor insurance. This is, of course, not a new area of regulatory focus given recent Competition and Markets Authority and FCA interventions, including the recent publication by the FCA of its final report into home and motor pricing practices. However, given the key actuarial skills that have been utilised in this space, alongside the influential role of senior actuaries in the relevant firms, it is important that, as a regulated profession, we have an up-to-date view of the role of actuaries in this public interest field. Equally important is how current education, CPD and professional standards act to provide individual actuaries, and the firms that employ them, with the guidance and skills to carry out both technical and senior management roles. In all of this we need to remain mindful that other professionals and disciplines play an important role in this area of work.

A differentiator for actuaries can be the application of both technical and business acumen in the context of a customer fairness outlook. One possible definition of insurance inclusion might be seeking to provide a range of products to meet customer needs, while ensuring that pricing recognises individual risk in a fair and transparent manner.

At an individual customer level the benefit of insurance could be measured in two ways:

- **Peace of mind** – the knowledge that cover is in place for adverse life events
- **Claim payouts** – the crystallisation of insurance cover at the point of need.

Significant developments in the fields of data science and machine learning are introducing ever more complex pricing models, potentially stretching the concept of insurance pooling to the limit. It is incumbent on actuaries, through acting in the public interest, to balance the drive for profitable business with the inclusiveness required to ensure consumers as a whole are adequately protected. This is particularly critical when considering vulnerable customers, and helping to ensure that an ever more forensic assessment of underlying risk does not lead to potential exclusion, either through price or availability of insurance.

The original concept of insurance was based on the pooling of risk, enabling people to seek protection for them and their family from adverse events. Despite increasingly sophisticated underwriting and risk selection in the industry, this remains a key tenet for the sector. This quote from a Geneva Association paper in 2012, *The social and economic value of insurance*, highlights the importance of an inclusive insurance industry:

*“...by mitigating the effects of exogenous events over which we have no control— illness, accident, death, natural disasters— insurance allows individuals to recover from sudden misfortune by relieving or at least limiting the financial burden.”*

The intervention of the IFoA to bolster its regulatory offering through the Actuarial Monitoring Scheme is one part of the toolkit to help keep financial inclusion firmly on the agenda, and we hope that by working with our members we can help to ensure that the application of actuarial skill and judgement, in the public interest, is at the heart of this.



# Institute and Faculty of Actuaries

## About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues.

To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to government, policymakers, regulators and other stakeholders, in order to shape public policy. Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment.

Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long-term view is reflected in our approach to analysing policy developments.

A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

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