

# Treasury Committee

## Oral evidence: [Work of Government Actuary's Department](#), HC 949

Tuesday 3 November 2020

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Members present: Mel Stride (Chair); Rushanara Ali; Siobhain McDonagh; Alison Thewliss.

Questions 1 - 51

### Witnesses

I: Martin Clarke, Government Actuary, Government Actuary's Department; Geoffrey Podger, Non-Executive Director, Government Actuary's Department; Alison White, Non-Executive Director, Government Actuary's Department.



## Examination of witnesses

Witnesses: Martin Clarke, Geoffrey Podger and Alison White.

**Q1 Chair:** Good morning and welcome to the Treasury Select Committee inquiry and evidence session on the Government Actuary's Department. We have not seen the Government Actuary's Department since 2008 according to my records, which is an awfully long time. I do not know what the probability is of that having occurred, but I am sure you will be able to calculate it all in due course. You are nonetheless very welcome here this morning.

We have a slightly smaller Committee and I want to make it clear that that is not because there is any lack of interest in what you do; it is the fact that we have a number of Bill committees on at the moment. Members happen to be on those committees and are required to attend, so my apologies for that. We may have a slightly shorter session this morning than we would otherwise have had, but we do have lots of important questions for you. Could I ask each member of the panel to introduce themselves?

**Geoffrey Podger:** I am Geoffrey Podger. I am a non-executive director of GAD and I am the chair of the management board.

**Martin Clarke:** I am Martin Clarke. I have been a Government actuary since 2014, so this is my first time here.

**Alison White:** Good morning, everybody. My name is Alison White and I am also a non-executive director. I chair the audit and risk assurance committee for the Government Actuary's Department.

**Q2 Chair:** A big welcome to all of you, and thank you for joining us. The questions will generally be directed at one or more of you. If you are not invited to contribute and you wish to, please put your hand up and I will endeavour to bring you in.

Martin, coronavirus has consumed virtually every element of Government at the moment, and I am sure it has also had a major impact on your organisation. I am thinking here about the work related to Covid that your organisation may have been doing for Government. I wondered if you would just set out for us what that particular work has been, please.

**Martin Clarke:** I broadly categorise it into several different areas. Primarily, we advise a lot of pension schemes and Government Departments. As the virus got to grips, those various Departments and schemes wanted to know from us what the effects were. In terms of our existing clients throughout Government, we were brought in to give advice. Included in that were various Government indemnity schemes such as the academy risk protection arrangement and the NHS Resolution clinical indemnity schemes. All our pension schemes would want to know what the effects were.



Secondly, we picked up a number of special assignments related to GAD from clients old and new. In particular, we were providing technical advice to the Treasury for the business interruption indemnity that the Treasury put together where the insurance market was unable to carry that cover in the event. We also worked on the scheme for TV and film production guarantees that the Treasury and the Department for Digital, Culture, Media and Sport put together. There may be others.

Lastly, we made ourselves available. We collaborated with the Cabinet Office and the analysis function that were co-ordinating analytical resources across Government in the attempt to deliver at speed and produce work quickly. We offer our staff secondments. We were able to quickly mobilise and get up to somewhere in the region of 15 secondees to work at various Departments: the Department of Health and Social Care, the Department for Work and Pensions, the Ministry of Justice and so on. Some of those secondments are still ongoing and that is roughly 10% of our professional workforce.

There are three different areas of involvement. In the first, it is business as usual and our clients are just asking us what the latest means for them. Secondly, there are some specific projects related to the pandemic. Thirdly, there is general mobilisation of civil service resources, and particularly specialist resources like ours.

**Q3 Chair:** With the special assignments and so on, what are the more difficult, trickier areas for you? Are there any gaps that you are aware of where you think you should be involved and you are not? What other work is there out there that you think you should focus on?

**Martin Clarke:** That is a very difficult question to answer, if I may say so. One of the struggles of leadership in this area is going to bed every night and beating yourself up about what more you can do. The concern about how we keep our own ship afloat and how our personal families are coping with the virus is coupled with that latent feeling. It is our mission in life at the department to help Government make better financial decisions. But we cannot go marching around the corridors of power saying, "You should involve actuaries". We have to make ourselves available by whatever means we can.

Our particular skills are very specialist ones. They are very technical and professional, but they can help in areas where uncertainty is rife and quantification of risks is highly important. That is why we were brought in for the special schemes to try to quantify the unquantifiable where the insurance industry was not able to step in but Government were willing to do so.

It is up to others to judge where we can be of most use. We keep plugging away. We did get involved with some SAGE papers on calculating excess deaths or estimating them. We will continue to liaise with the analysts who work around that particular area. We are known to be available to help people as and when.



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Q4 **Chair:** You have touched on excess deaths. We have now gone into a second lockdown, which is very significant economically and a hugely significant thing to do. Does the excess death data bear out the assumptions within the SAGE model on the level of deaths that might be projected to occur in the absence of this second lockdown? That may or may not be a question you can answer, but I would be interested if you have thoughts on it.

**Martin Clarke:** Frankly speaking, I cannot answer that. Where we do get involved in calculating the excess deaths, or estimating them, is in taking the feed from the various models as to what the spread of the pandemic might be. It is the assumptions that go into that infectivity and the degree of spread of the virus, which is epidemiological. Where our particular skills come in would be in working through the consequences of that, such as the degree of hospitalisation, the mortality rates at various ages and the various other factors that come into it. It would be taking the feed from models such as that rather than reviewing them.

Q5 **Chair:** You mentioned the mortality rate, et cetera. Do you have any sense from your standpoint as to what is happening, for example, with the ratio of those becoming infected who go on to become hospitalised, and then the ratio of those who sadly become fatalities, compared with the first wave? Do you have any thoughts on that?

**Martin Clarke:** The broad picture in the first wave was that hospitalisation led to death in, roughly speaking, 50% of cases. From what I have seen subsequently, there has been a reduction in that rate in the intervening period through the various treatments and so on. I may be blindsided on all the data that is available, but I had a feeling that it was now down to about 30%.

Q6 **Chair:** What would the impact of that be, if that were the case, on the demand for beds? Could it increase the demand for beds because more people were in the beds for longer? How would that work?

**Martin Clarke:** You would have to ask a clinician or an ITU specialist exactly what that would be. That is the harsh reality of mortality statistics, not what happens beforehand, sorry.

Q7 **Chair:** No, that is perfectly reasonable. I am skating well beyond the boundaries of what you are focused on, I suspect. Let me just persist on one final question because I am extremely interested in this area and you may be able to give me something on it. Do you have any data to hand on the average time spent in beds for somebody who is hospitalised at the moment compared to the first wave?

**Martin Clarke:** Not at all, no, sorry.

Q8 **Chair:** Thank you very much, Martin. Did the other two panellists wish to contribute on the general point about what areas the actuary's department might look at, the tougher areas, the gaps, or anything else that has been raised so far?



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**Geoffrey Podger:** I have noticed that, over the five years I have been at GAD, it has moved out of simply, as people would see it, dealing with pensions and pension-related issues. It has moved into all sorts of policy areas that perhaps were not anticipated several years ago. There has been a quite marked trend.

As Martin says, the key thing for us is that we can keep more and more contacts in Whitehall so that people have a better idea of what we can do. I am rather ashamed to say that, when I was in the Civil Service for 38 years, I associated GAD purely with pensions and nothing else. Now we are helping the DHSC. We are helping the space programme. We are all over the place. The more we can spread the news about what we can do to help people, for example through secondments, the better for the British Government.

Q9 **Chair:** Are you satisfied that GAD is sufficiently proactive with Departments in suggesting where they might best use you? I have a slight sense from what Martin was saying that you are there as a resort, and Government can reach in and pull you out when they need you.

**Geoffrey Podger:** That may historically have been the case, but it has not been the case in the last five years. GAD has invested a lot in developing client relations. Without engaging in the actuarial equivalent of ambulance chasing, we have made a lot of efforts to help where we can. Martin has achieved a lot in this area but, as he was implying, there is always more to do.

**Alison White:** The changes that the staff of the department have been making in the ways that they approach their relationships with clients have particularly impressed me. An investment has been made in standardisation and the use of new technology to provide more professional services. We should take a good deal of ambition for that in the future.

Q10 **Chair:** Do you feel overall that GAD is sufficiently resourced for all this work now that 10% of your workforce is seconded? There is a lot to do. Covid has come along. Do you feel you have the resources to do what is required?

**Geoffrey Podger:** We are essentially resourced on the basis of the work that we do and our income has increased over the last five years for the reason I have mentioned. We have been doing more. The difficulty that GAD has, although colleagues have managed this very well up until now, is that predicting the demand is not easy. As you will know, Chair, the Government are a somewhat unpredictable client.

It is not always easy to know precisely what we will be required to do in any given year. We are subject to annualities, so quite tricky judgments have to be made about how many staff to recruit. Obviously, we have to recruit and train people before they can provide a service to clients. We have to try to anticipate that, but that is not easy. Our system of finance



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causes us difficulties in meeting annuality requirements, but it does at least mean that we get paid for the work we do.

Q11 **Siobhain McDonagh:** I would just like to start by asking a personal question. Martin, are you a Catholic? You have a very Catholic sense of guilt about things.

**Martin Clarke:** I was brought up by my mother to always do my best. While that might sound very encouraging, it carried a slight threat behind it all the time. Perhaps that is where I get my guilt from.

Q12 **Siobhain McDonagh:** More prosaically, I would like to ask you some questions about the Ogden discount rate. At present, the Ogden rate is negative in England, Wales and Scotland. Can you explain why this is the case?

**Martin Clarke:** The Ogden rate is named after the chair of some committee way back in the 1980s who developed some of the methodology in this area, but it is the discount rate used to calculate personal injury lump sums. It is a real rate of interest, so it is the rate of interest net of the inflation of damages awards.

A negative rate of interest means that the assumed investment rate of interest for this purpose does not meet the assumed rate of future damages inflation, so it becomes negative. The more negative a rate is, or the lower a rate is, the larger the lump sum award is. That is the mathematics of it. It is a factor related to current market conditions, which are very low interest rates and negative real rates of interest.

Q13 **Siobhain McDonagh:** Is it possible at present to invest a lump sum on a low-risk strategy and achieve a return in line with inflation?

**Martin Clarke:** It is, by taking risk. If your question was whether it is possible to do it on a low-risk basis, the chances are that it would not be. As part of the process of advising Governments on setting these rates, we took evidence from participants in the market as to what these lump sums were invested in. We had a sample of portfolios. Working through those portfolios, applying expenses to the management and projecting what we thought the best returns would be, it is most unlikely that you would get returns in excess of damages inflation, which is higher than consumer prices inflation. Therefore, we ended up with the negative rates that we have.

Q14 **Siobhain McDonagh:** What would need to exist in the financial markets for the rate to go positive again?

**Martin Clarke:** Effectively, we would have to have an end to the current projection of low and negative rates of interest. This all stems back to 2008, when presumably my predecessor was last here in front of the Committee. In response to the global financial crisis, Governments across the world locked down on their interest rates and pursued policies of quantitative easing. That has persisted. In many ways, as you possibly



know, the long-term rates of interest have fallen in recent years, particularly since this particular crisis. Prospects for when that will emerge out of it are anybody's guess. It looks to be getting longer and longer, if you want my opinion.

**Q15 Siobhain McDonagh:** Does the Bank of England monetary policy, as you have already suggested, contribute to low discount rates and Ogden rates?

**Martin Clarke:** Yes. This is a concerted policy by central banks and Governments across the world that is lowering the risk-free rates as part of economic stimulus measures. In a sense, it is trying to get people to invest because the price of not investing is quite high. People looking for safe investments tend to follow these rates down. That means you will end up with these very conservative portfolios aiming to produce very modest rates of interest because the investors do not want to take those very large risks with their future wellbeing.

**Q16 Siobhain McDonagh:** In July last year, the England and Wales Ogden rate was moved from minus 0.75% to minus 0.25%. The insurance industry thought it would go positive. Why did it not?

**Martin Clarke:** In a sense, I have answered that a bit. You will have to ask the insurance industry what it may or may not have wanted or expected. The process it goes through is that I and my department advise the Lord Chancellor, who sets the rate.

I already alluded to the fact that, as part of that process, we take evidence on what people actually invest in. We assembled a lot of evidence about what a representative portfolio and a representative investor would look like, and framed our advice around that. That is in terms of the portfolio that would be representative of such an investor; the length of time a typical award would be, because some of these are very long term; and the tax and expenses that would go within that portfolio. Using our professional judgment and calculations, we worked out what our best estimate of future return would be.

We presented this to the Lord Chancellor along with a framework for him to take that on and make a subsequent decision as to what the discount rate should be. That framework is that, while that is the best estimate of what the future return would look like, that means that 50% will get that return and 50% will not.

The judgment that is also applied here is a political judgment by Ministers. It is the extent to which you want to reflect that balance of risk that, from a claimant point of view, the money will exhaust itself before they do, and the risk that the body making the payment of damages is effectively being overcharged for the compensation, which is much too generous. That is a judgment that, frankly, the Governments must make. We present a basis and a way of helping them frame that judgment, but it is theirs at the end of the day.



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This whole process as far as England and Wales is concerned was done publicly in the sense that the Ministry of Justice invited evidence from participants: claimants, insurers and others in the market. The methodology my department would use to advise the Lord Chancellor was also published in a technical memorandum. Quite a lot of visibility about how the decision was going to be made was available in the public domain while this process was going on. It would enable participants in the market to form some sort of judgment as to the way the Lord Chancellor would go with his decision, but obviously not the complete answer. He would have to weigh up various factors before making that decision.

That is what has effectively happened. I cannot speak for the outside world on whether that was in line with what was expected based on market conditions at the time. There were certainly plenty of opportunities to engage with the process and see which way the decision was likely to be made because of the visibility with which the analysis was conducted.

**Alison Thewliss:** I would like to ask some questions about the changes in mortality rates. In July, GAD published actuarial tables for personal injuries and fatal accidents. In that document, you said that mortality rates had worsened. Is it your feeling that people are dying younger?

**Martin Clarke:** They are probably dying a little younger than we expected a few years ago. If you look back over a century, you can almost project a straight line in the way the rate of mortality had been improving over 100 years up until around 2011 when that long-term trend stopped going. Since then, it has effectively plateaued to a close approximation. Any expectation about future improvements that was based on the continuation of that trend progressively will be unwound. Cohort life expectancy, in the technical jargon, is life expectancy built on the assumption that improvements will carry on in future at some rate. As those improvements in the intervening time have not happened, life expectancy on that basis has been coming down.

Every two years, the Office for National Statistics produces population projections based on expectations of future mortality improvement. The ones produced effective at 2014, 2016 and 2018 show a decrease in life expectancy at birth of roughly one or one and a half years every two years that the ONS has been doing the projections. We just have not been catching up on those projections.

The reasons why they have stalled are still being analysed. A lot of the trends in mortality improvements are obviously health-related. In that 100-year track record of improvement, what tends to happen is that one driver of improvement wanes and another one comes to the fore. We have had the waning of deaths caused by cardiovascular, circulatory, stroke and that sort of disease. Those have declined over the years but are not now further declining as much. Similarly, lung cancers have been a big contributing factor in previous decades but those have now



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exhausted themselves and, so far, nothing is really taking over. We have also had some pushbacks the other way. Some lifestyle factors have tended to come to the fore, as well as things like obesity and substance abuse, and, to a certain extent, dementia and Alzheimer's. In a sense, we are waiting for the next thing to come along to kick-start it and start that trend up again.

**Q17 Alison Thewliss:** Are you expecting the current pandemic to have any impact on life expectancy, given that some of the conditions would appear to be long-lasting?

**Martin Clarke:** It is very early to pronounce judgment on that. Covid has so far been a very sharp shock over a short period. It is about what the enduring impacts will be. Looking to the future, you would have to make a judgment about the extent to which we have been storing up potential earlier deaths from factors such as people not seeking preventive medicines or tests and shying away from hospitals. This is also possible if there are some long Covid effects.

Pushing the other way, people who have sadly died as a result of the virus this year obviously will not be in future statistics. You have to weigh up these two effects of a compression of deaths among what often are the most vulnerable parts of the community plus any potential long-term effects, whether they be economic or medical, coming from the virus. It is much too early to say. We will be studying it intensely over the next year or so.

**Q18 Alison Thewliss:** Is there a differential impact between women and men?

**Martin Clarke:** That trend of slowing down applies equally to men and women. It also applies in very many developed economies. This is not a UK-only trend.

Where it does differ within the UK is in relation to socioeconomic factors. There is some evidence that the life expectancy differential gap depending on the socioeconomic factors is widening in recent times. The slowing down has not been quite so noticeable in the more well-to-do or the higher end of the socioeconomic scale whereas it has been an effect in the other areas. Again, that is very similar to some of the experience with Covid.

**Q19 Alison Thewliss:** We took evidence in a previous Committee about the gap between Blackpool and Westminster. The gap between my own constituency and East Renfrewshire is well known as well. How do you feel that that unfairness can be addressed? There are people in Glasgow who might not survive to their state pension age but some people in a leafy suburb might do.

**Martin Clarke:** At one level, it shows that it is possible to have better health outcomes for all those environmental factors. How one gets there is another matter altogether. I am not particularly a big fan of relating it



to geography because geographical areas themselves are quite heterogeneous. I love the Tube maps of London that map life expectancy depending on where you happen to get off at any one point in time when, in actual fact, this is all about your lifestyle, your wealth, your education and the medical services that you obtain. There is a whole pile of ingredients that go into affecting the quality of life, the quality of healthcare and the quality of living that people enjoy. It is not simply a matter of geography.

**Alison White:** One of the challenges of being a non-executive, and as somebody who is not an actuary, is being able to add value to the sorts of issues that Martin is describing. A key role that both the board and the audit committee have is to look at the sorts of areas where we can add value, for example training, leadership, communication and resourcing. All of those are key issues for us, to make sure that the actuaries who work for the department are in a proper position to do the sort of very technical work that Martin is describing. It is our role to make sure that all of those resources are in place so that work can continue.

**Q20 Alison Thewliss:** Does the slightly perverse and sinister effect of this mortality rate mean that things like state pensions are becoming more affordable?

**Martin Clarke:** At one level, yes. The projected increases in life expectancy will mean long-term future expenditure increases on state pensions would not be quite as high as the original projections. We will see that progressively over time. Pensions in general are, other things being equal, cheaper to provide. You are seeing that in the private sector and the funded schemes too.

**Q21 Alison Thewliss:** Does that call into question the logic of increasing the state pension age?

**Martin Clarke:** You have to take a long-term view on this. I think there will be another review coming up in a year or so. In the advice I gave five years ago to the Government when the last review was taking place, I focused on the different outcomes that you would get from this varying life expectancy as the mortality improvement curve stalls. I made it clear at the time that setting a basis that was too firmly linked to the latest statistics would end up with a challenge insofar as you might have to revisit that calculation.

In the end, the Government are very cautious of making these changes to the state pension age and they are not necessarily predicting too far ahead what might happen. Certainly, if this trend continues, the next state pension age increase will not be quite as soon as might have originally been predicted.

**Q22 Alison Thewliss:** Can I ask you some questions about the consequences and purposes of having different Ogden rates in different parts of the UK? Can you tell me more about why that is in the first place and what effect



it has?

**Martin Clarke:** This is a matter for the devolved Administrations. As with many things, if they have their own options, they may end up with different outcomes. Specifically between Scotland and England and Wales, they are dealing with the same principle. Both countries are moving towards a basis of setting this rate that is fixed on the investment expectations of a low-risk investor. I spoke about collecting all the evidence on what those investors actually do, what the experience is likely to be and some of the costs associated with it, and that final part of the judgment where you want to set a balance between the risks of overcompensating people, and therefore charging the indemnifiers more, and the risks of undercompensating them where they do not have enough money to last a lifetime. All those judgments are taken separately by England and Wales and by Scotland. In the event, they came to a different conclusion.

Starting with the same problem, the Governments took different decisions. We were advising both Scotland and England and Wales. We were consistent with the advice, approach and methodology being used but, quite clearly, they ended up with slightly different views of their capacity to make decisions. There was also a slight timing difference. Markets had moved at the time the two rates were set.

Q23 **Alison Thewliss:** Does that mean that, for example, car insurance might be more expensive in different parts of the UK as a result?

**Martin Clarke:** Other things being equal, yes. A lower discount rate in Scotland means that lump sum awards would be higher for the same future damages. I do not know whether that is cross-border arbitrage because I am not a practising lawyer. I have heard lawyers argue it both ways on that one.

Q24 **Alison Thewliss:** The table publication suggests that the Northern Irish Ogden rate does not get reviewed. Is that correct? It seems to be significantly higher than the other two.

**Martin Clarke:** The Northern Ireland rate is still 2.5%, which was last set in 2001. That was co-ordinated across all four countries at the time. The situation in Northern Ireland is that they have not been able to make a decision since then to change it. But they are consulting at present with a view to adopting a new methodology, possibly one similar to the Scottish methodology.

Q25 **Alison Thewliss:** 2001 is quite a long time for that to be set at the same rate. A lot has changed in the world since then.

**Martin Clarke:** Yes, if you are trying to reflect market conditions. The decision-making of the Governments concerned, I am afraid, will be a matter for them.

Q26 **Alison Thewliss:** Does that mean that, for example, victims of injuries



in Northern Ireland are being short-changed in this system?

**Martin Clarke:** Other things being equal, you will get a lower lump sum settlement for the same future damages as you would in other parts of the UK.

Q27 **Alison Thewliss:** Do you think people know about this?

**Martin Clarke:** Yes. I could not possibly tell you how many people.

Q28 **Alison Thewliss:** It seems to me that the mechanisms behind all this are perhaps not publicly well known. Unless you knew somebody who had been affected by a similar accident in England, Scotland or Northern Ireland, you would not necessarily know that you were getting short-changed. Could more be done to let people understand this process a bit better?

**Martin Clarke:** That may well be the case. There are a couple of points to mention. I certainly would not want to put myself in the role of defending the Government because that is not my job. First, these rates are not necessarily what actually gets used by the claimants and the people they are pursuing. The rates are set for those cases that end up being settled by a court. To a certain extent, they are guidance but they are not necessarily what happens in the negotiations between the two parties. There is scope in any territory to depart from what is effectively the rate of last resort.

Another point to mention is that, even in England and Wales, the rate was at 2.5% until not too long ago when it moved down to minus 0.75%. That stimulated this change of approach in setting the rate. All through that period, there was considerable pressure both ways, to keep the rate and to institute a further review. Within the community of practitioners, the fact that there was a potential misalignment of the rate with what could be a much more up-to-date market rate was well known. There was a lot of debate and discussion by those representing the claimants—personal injury lawyers and so on—and the insurance community over whether a review ought to take place. Eventually, the Government settled on a review under the old rules and switched the rate to minus 0.75%. At that point, they said, “We will review the basis on which this has been set”. That led to the second part of the Civil Liability Act, which brought in this new system.

Q29 **Alison Thewliss:** In that the rate is set by the Lord Chancellor, is there a risk of the politicisation of this process?

**Martin Clarke:** It is a ministerial decision so, by definition, it is. There is not a right answer. I restricted my advice to the mathematics and to the areas where I have professional skills and judgment. But the Lord Chancellor, in England and Wales, has the say. As I have tried to explain, he has to weigh the effect of these rates on all parties. In some sense, it is a very difficult job to find something that pleases everybody. You will always get the pressure that claimants feel they ought to be paid more



and that the insurers and other compensating bodies feel they are being overly charged for the responsibilities they have. There is not going to be a perfect answer to this.

**Q30 Alison Thewliss:** Can you tell me a bit more about how the consultation works in the Scottish Government and Scottish Parliament?

**Martin Clarke:** The Scottish Government chose a slightly different route to England and Wales for the analysis of the representative portfolio, the expenses, tax and so on, and any margin that you might want to have to tilt that balance between the insurer and the claimant. Rather than consider it all in the round at the end of the process, they enshrine that in their legislation at the start of the process. They set the portfolio. They set some of the expenses. They set the margins. Then the actual review itself is a very simple process of asking, "What do you think the long-term return on this portfolio will be?" That would then become the discount rate without any further Government involvement.

My role in Scotland, once this review was set, was to work with the parameters that were enshrined in Scottish legislation and do my professional job, and then that would be the rate that was set. In England and Wales, the process was almost the opposite way round in the sense that all the analysis done was presented in a report to the Lord Chancellor, who weighed it all up and took his own judgment.

**Q31 Alison Thewliss:** It is really interesting to see the difference between the two there.

Alison White, given your role as the chair of the audit and risk committee, can I ask you this? The first risk listed in the GAD annual report is the risk that GAD's reputation for providing high-quality advice to clients effectively and efficiently is damaged. Does the audit committee take a view on the political and reputational risk around setting Ogden rates?

**Alison White:** No. The sorts of issues that the audit committee looks at are the quality assurance processes. We have looked at how the quality of the work that is undertaken by actuaries is assured in order that that kind of risk can be mitigated and minimised. The nature of that advice is not something that the audit committee would get involved with.

**Q32 Siobhain McDonagh:** I want to look at how coronavirus has affected the way that GAD works. How has working from home impacted upon your work?

**Martin Clarke:** Physically, we have largely been working from home since March, supported by technology and working around that. It has not had a damaging effect, as far as I can see, on productivity. In fact, partly because of the extra work we are doing with the virus, we are ahead of our original expectations for the year. Some of our clients are working from home too, so we are not necessarily in great demand to appear in person.



It is fair to say that people react differently to this sort of arrangement. It suits some, who find it easy to work alone and weigh up the risks of stepping on public transport, whereas others much prefer the community angle and the spontaneity that you get from interactions. Some find it quite difficult to be alone. By and large, the majority are quite happy doing what they are doing. Physically, we are able to do our work very effectively. There is a very small minority that we have to be particularly careful about.

Over the long term, I do worry that this method of working is going to lead to our muscles atrophying on the basis that we are not exercising some of our social skills. We are not exercising all our networks except in a virtual space. Learning jobs and working collaboratively is not quite as easy, so one has to be concerned with the long term.

As an experience, most people would say that it has gone reasonably well. We have embraced the technology, using webinars, using video conferences for our staff meetings and looking out for each other as colleagues. We have a very active set of volunteers on wellbeing—wellbeing champions—who have sorted us out with exercise routines, yoga, cake-baking lessons and all sorts of diversions to keep us connected and plugged into one another.

**Geoffrey Podger:** To confirm what Martin has said, the management board takes monthly reports on how we have done in the management of our own staff in relation to Covid-19. We talk to the executive colleagues who are in charge of this. I have to say genuinely that GAD has done very well indeed in making the transition to home-working and, as Martin was saying, in trying to provide a level of personal support to people that goes beyond just the work, recognising that not everybody is in a favourable situation as a result of home-working. As Martin said, it suits some people but it does not suit others.

As the chair of the board, I rather share Martin's fears as to what may happen over time, the longer this goes on. I am connected with other public bodies that have exactly the same fears. People gain an enormous amount from just being in the office, talking to other people and even just overhearing conversations that other people have. That is a potential loss to us, as it would be to other organisations.

The relationship with clients is currently good and a lot of effort has been put into it but, over time, people move jobs, new people turn up and they will not necessarily understand what GAD does. There are risks to us as this continues, but everything that can be done by GAD is being done.

Q33 **Siobhain McDonagh:** Will you allow staff to work from home once the pandemic has passed?

**Martin Clarke:** We were working from home before the pandemic started, but the result of it was that we shifted to virtually 100% working from home. It has brought about some realisation that we can make this



thing work. The revelation has been the power of technology to network virtually and it has equalled things out. There is that deep suspicion that, if you are not in the office, you are somehow not part of the gang that is doing the real work. That has been removed as a result of this experience. It would be wrong not to consider continuing with that degree of inclusivity.

We have to work out what that means. Geoffrey and I have already mentioned that we need to incorporate in our way of working some degree of collaborative working. We need to bring people on board better than we can in a virtual space, but we want to have the best of the other world that we are enjoying at the present time. We need to work out what that hybrid world means, and not be too quick to jump to either side of a particular fence.

It will be different and it will be excitingly different. We have already seen that we can recruit people who are not necessarily based around our two centres of Edinburgh and London, which could make us more attractive to people and more flexible in the way we work.

**Q34 Siobhain McDonagh:** Your annual report states that the ramifications of the pandemic will be wide ranging and its impact on your business plan is highly uncertain. What ramifications were you thinking of?

**Martin Clarke:** At the time of writing the report, we were about two months into what was going to happen. It felt a little strange to be writing an annual report for the year ended 31 March 2020 when we were not sure what was going to happen on 1 April and thereafter. The world is changing. We are seeing that every day, in the impact on our economy, the impact on people's health, the realisation of some of the things that run through our population and our citizens, and the differences in experiences and expectations as a result of going through this crisis. The world may change, and it will affect the work we do and the work the Government require us to do.

**Q35 Siobhain McDonagh:** Both you and Geoffrey have made some points about it, but I am not sure whether you would want to add anything as to how you have monitored staff's mental health and wellbeing during the lockdown.

**Martin Clarke:** We have done surveys to test the overall temperature throughout. We have an employee assistance programme that staff can use, although that is confidential. We have, as I said before, a wellbeing network of champions who are very sensitive to all the issues of mental health. They provide a forum and are on the lookout. Line managers are in daily contact with people.

Some people do not want to talk about these kinds of things, so we have to respect that, but we need to provide the options and the space for them to help themselves and for others to help them as well.

**Q36 Rushanara Ali:** I have two sets of questions. The first are following on



from Siobhain about internal workings and staffing. Can you say, Mr Clarke, a bit about the pay differences between men and women in the organisation? Some of the information we have looked at suggests that men could be doing fewer hours and being paid more, or is it a case of the women in the organisation doing more hours and being paid less?

**Martin Clarke:** It is more to do with the distribution of males and females, or men and women, between the various grades in the department. We typically have more junior roles filled by women and typically more senior roles filled by men. That tends to be reflected in the gender pay gap that we have: the difference at the mean level. It is not all quite that stark but there is a general rule that, the further up the organisation you go, the more men and fewer women you tend to find. But it is changing.

Q37 **Rushanara Ali:** Could you say something more about how you are addressing that? How are you trying to build a pipeline so that women can find their way into senior positions? Obviously, the pipeline is critical.

**Martin Clarke:** Indeed, and this is not unique to the Government Actuary's Department. This is a very typical experience across the whole country. In actual fact, we have proportionally more female actuaries than the country as a whole.

Q38 **Rushanara Ali:** Yes, that is very positive. It is well over half. The issue, as you pointed out, is around seniority. You are right that this is a widespread problem in our society, but 75% of your trainees are men. How will you create a pipeline that addresses the point we talked about earlier around going up the food chain so that the pay gap is addressed? Can you speak to what you are doing internally, practically and tangibly, in terms of recruitment and reaching out? I appreciate that there are societal issues. Where does the education system come in and how do we address some of those issues?

**Martin Clarke:** They are very fair questions. As far as our strategy is concerned, we are very firmly embracing inclusivity and diversity. We are building programmes to address many of these issues. The focus we have, and my focus as the leader, is to encourage the best careers possible for all people and staff but, in particular, for those who historically have perhaps had fewer advantages than others.

Specifically on gender and women, we have created a gender diversity programme. So far this year, we have had female groups of people to express their own views as to what the experience is, what their challenges are and what the management can do better. That has been fed back to me and my executive colleagues. We are taking many of these points on board.

The formal appointment process is all done with very diverse panels. We recruit blind. We are very particular about that, but it is the informal things. It is the treatment of women who are returning to work from maternity leave, although increasingly there is paternity leave as well.



There is a higher proportion of part-timers among female staff and sometimes that can work against you because you may not be there when something is needed. That unconscious bias can hamper somebody's career and provide a bit of resentment and discouragement. We are trying to tackle those things. We are trying to tackle that by training male leaders and all our staff, and raising awareness of it.

We are very concerned to make sure that the recruitment into the organisation is evenly divided. You have referenced the fact that, at the moment, our trainees have a male bias. That is in part compensated for by recruitment at actuary level where the opposite is the case. We have family-friendly policies and we have flexible working, which has proved very attractive to women returning from a career break with a private sector firm to join us at GAD. As I mentioned, we have a slight overrepresentation of female actuaries.

**Q39 Rushanara Ali:** What do you think is going on with the 75% at entry level? That is pretty staggering, with respect. You are doing well on some indicators, but in this day and age 75% being men versus women is shocking. It is even slightly worse than Parliament, by the way, and we are pretty bad in our representation of Members of Parliament.

**Martin Clarke:** I do not know the answer to that. We are looking at it and reviewing all our processes around recruitment to make sure that we are not inadvertently discouraging female applicants. We have been looking at the way we present ourselves. I have described our diversity policies. There is no shortage of us, in our limited resources, reaching out to universities and talking to people about careers.

**Q40 Rushanara Ali:** Do you think young people do not know much about who you are? Are you not a sexy or attractive enough organisation to get into? Could it be about image? I know you have spent some money on building image. No disrespect, but could there be something in that? You are talking about the entry level. Is it sexy for men but not for women?

**Martin Clarke:** I hope we are not presenting a male perspective, but I am very sensitive to that. There is a lot of evidence that applicants to jobs now look at the organisation from those kinds of perspectives. I am very conscious of it. In trying to research and present ourselves in the best possible way for these purposes, those are the sorts of things that we are looking at. We want to be genuine.

You say it is unacceptable. It is an area that we want to work on. We want to make sure that entry into the organisation is, as far as we can manage it, 50/50 and reflects the population. It is a question of finding out what levers to pull and pulling them.

**Q41 Rushanara Ali:** Alison White, you wanted to come in. Can I just add one question for you? There are only three women on the leadership team. Obviously, that is a responsibility for Government but what do you think should be done on that?



**Alison White:** To add to what Martin is saying, this is a critical issue for the board as well. We spent some time discussing it to see whether we are doing enough of the right things and the sort of positive action that we can take that would make a substantive difference. Martin has given you a whole tranche of things there. The board is constantly examining the strategic plan that we have in order to make a difference in this area. I would like to assure you that we are taking this very seriously.

To go back to a previous question, it seems to me that this is a real challenge for us in the current circumstances in terms of the sophistication of our leadership. There is absolutely no point in thinking about diversity from the point of view of treating everybody exactly the same because that simply is not going to work in the current circumstances. Around the boardroom table, we are trying to think about the differential ways in which we might work with different groups of staff to make a difference for them and to present an image of an organisation that younger people in particular might want to be associated with. We particularly want to focus on the branding issue.

Q42 **Rushanara Ali:** I have a couple of final questions on this section. Of the 18 leadership team members, 14 are male. We touched on it in Martin's answers. That is pretty worrying if you take that number along with the 75% entry. I wonder if you could do more work on the recruitment side. I know that the barriers can come in at the recruitment agency side if you are using a recruitment agency. Some are more in tune with what is going on and where to go to look for more women, and minorities as well, which I will come on to. We did an inquiry into women in finance last year and a lot of those issues around unconscious bias and so on came up. This is more of a suggestion but, if you want to come back to it, please do.

There is no data on black, Asian and minority ethnic recruits in one of the tables I looked at. You may have other data. Could you say something about the level of representation of BAME groups in your organisation, the barriers you have come across in recruiting and what you intend to do to address them?

**Alison White:** Generally speaking, the organisation has good positive action processes in place. It undertakes blind recruitment. Anything that indicates either the gender or the race of applicants is removed from the application. That is particularly helpful. Those who do the interviewing have been given training within the past year on unconscious bias. We have set strategic targets. The board constantly measures the progress that is being made and we are absolutely determined to drive up those numbers, as Martin was saying earlier.

You and your colleagues mentioned earlier the issue about developing the pipeline of talent. It is about being given interesting projects to undertake and making sure that there is a fair representation of those interesting projects, in order that a range of diverse members of the team can get



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different experiences, different secondments, interesting projects and so on.

**Q43 Rushanara Ali:** Martin, do you have numbers on BAME recruits within the organisation? On the pay gap between BAME members of staff and their white counterparts, do you collect the data? If you do not, could you write in and send them to us, please?

**Martin Clarke:** On the data, bear in mind that it is a very small department with 200 people in total.

**Q44 Rushanara Ali:** So it should not be difficult to do.

**Martin Clarke:** No, I am just saying that, in terms of interpreting the data, there are fluctuations. Some 26% of our staff are from BAME backgrounds so there is high representation.

**Rushanara Ali:** That is very good.

**Martin Clarke:** The distribution of them, though, is very skewed towards the junior level.

**Q45 Rushanara Ali:** So it is quite similar to the point about women being distributed in that way.

**Martin Clarke:** From a career progression aspect, yes. In a sense, it is not as well developed as women. There is a very strong clustering in the most junior levels. Recruitment has not been a problem so it is a slightly different situation. That clustering at the very junior level means that, if we were to publish a pay gap based on BAME, it would not look particularly attractive. I have a figure somewhere that says that, at the mean level, it would be 38%, which is not reliable as such because it is a small sample. Not everybody declares their ethnicity as well so it may be even smaller. It is not a surprising figure when you think that they are all still very much clustered at the junior level.

We have some talent among that community in the same sense that we have some talent among the women in the organisation. As Alison said, it is a question of nurturing that talent, providing opportunities for them and creating role models. We have some very good ones from the black and minority ethnic community but not enough. It will take time.

**Q46 Rushanara Ali:** It is a very familiar story, sadly. Let me go on to a different set of questions, around GAD's private sector work. I am going to bring in Geoffrey, as I have not got you in yet. But do come in on any other points from the previous section if you feel particularly strongly about the other questions. Your annual report states that your organisation earned £4.6 million from selling services externally. How much of this was generated from the private sector or non-Government clients?

**Geoffrey Podger:** Sorry, I am just looking up the figures, which I think I have here.



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**Alison White:** It is about £1 million, Geoffrey.

**Geoffrey Podger:** Yes, it is indeed. It is just over £1 million. We are expecting total income for this year of £22 million so, as you will appreciate, it is not a very high proportion of our work.

Q47 **Rushanara Ali:** Martin, can you say more about the nature of this private sector work? Is there a benefit to taxpayers over and above it generating revenue for GAD?

**Martin Clarke:** Generally speaking, doing a greater variety of work nurtures our talent. It gives us better experiences and so on. It also reduces our overhead. Specifically on what we label as private sector work, almost exclusively—maybe even entirely exclusively—these are organisations that used to be part of the public sector. It would typically be a pension scheme for an employer that moved out of the public sector into the private sector but wants to retain the connections, because it likes us, for whatever reason. It is largely pension scheme work for organisations that were previously in the public sector but want to retain the connection and knowledge of Government. Indeed, I found out yesterday that one of them is returning to Government.

Q48 **Rushanara Ali:** Yes, so you would say that that is a really important area of work and should be nurtured and supported.

**Martin Clarke:** We are prepared to do so as long as we have the resources to do it. As a professional commitment, we cannot do something that we are not qualified to do. We would only do work where we have the competence to do so. My general point was that, the greater the variety, scope and scale of our work, the better we are for it and the better the service we can provide to Government.

Q49 **Rushanara Ali:** Out of interest, do you do much to help build capacity in other countries? I know other parts of our Government are encouraged or invited by foreign Governments to share our expertise. We are quite unique in terms of some organisations. There are lots of negative things that are said about this country but lots of very positive things about our institutions. How much work is international and does that help, going back to the earlier point, the attractiveness of the mix of things you do as an organisation?

**Martin Clarke:** We do not do as much as we used to do but, again, we are willing to support that where it is congruent with the skills we have that apply in the UK and where it is consistent with Foreign, Commonwealth and Development Office policy guidelines. It is a small amount but not a great deal.

Excitingly from the point of view of bridging the skills gap, we have in recent years made a large impact in working, initially with DFID and the newly created Centre for Disaster Protection, on the risk schemes. This has led to some overseas work but it is largely UK-based. Again, it is part of the country's development initiatives and it is an area where actuaries



have skills to offer, understanding risks and risk protection schemes. We still work with DFID. We have done some work on this with the World Bank and, occasionally, with foreign territories, but it is principally London-based with the Centre for Disaster Protection.

**Q50 Rushanara Ali:** You are saying that you do less of that. It seems like really important work. Obviously it is not core business, but it is important in terms of our positive footprint in other parts of the world and our wider agenda of creating less reliance on overseas aid in those countries by building their infrastructure. Why is that? Is there a case for broadening your resource base through additional funding from FCDO and so on, or joint working, to encourage that rather than have a contraction in that area of work?

**Martin Clarke:** It is largely demand led. Historically, a lot of the work we did was in setting up social security schemes for developing countries that have initially looked to countries such as the UK for experience and guidance, which in a sense is not necessarily ongoing work. We still get a bit of that. We occasionally get inquiries, but less so now than would have been the case 10 years or more ago. In fact, our social security work generally is not as great as it was, so there is less of an argument for reinforcing UK experience with overseas work. As I say, it is demand led. It would be interesting to see what Geoffrey and Alison think the potential might be.

**Alison White:** It is not an area of strategic focus for the board. As Martin says, it is something the board would do if there was demand for it.

**Geoffrey Podger:** We are reasonably constrained by the Treasury not to do anything that impairs our ability to work for the UK Government. As you rightly said earlier, there is a way around that, if somebody wants to give us more money to do work. I agree with Martin that the demand for this has not really materialised. The very good work that GAD has done on global issues about disaster prevention, forecasting and so on may be the most useful way of helping our friends overseas, rather than necessarily explaining to people how to set up a Government actuary's department. That is probably a heresy and Martin will tell me off for saying that.

**Q51 Rushanara Ali:** That is really interesting. It is a good moment to focus on what we could recommend to Government as areas of expertise that could be beneficial to the agendas of other Government Departments in the UK, such as the Foreign, Commonwealth and Development Office. Would you say that that is an area that should be expanded, obviously within the bounds of sticking to your core business and priorities, because it is important in promoting global Britain and reducing our expenditure in dealing with emergencies, because you are dealing with preventive work?

**Geoffrey Podger:** Yes, and it is an area where we have had some success.



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**Rushanara Ali:** That is one for our Chair to take forward when we come to any recommendations we make to Government.

**Alison White:** I have a thought, not specifically on the subject of overseas development. At the moment, the department has to work on a level basis in terms of where it ends up at the end of the year. Any additional funds have to be put into the consolidated fund. One of the issues for the future is that, if there were more opportunities to invest, we could do more, particularly in terms of investment in the analytical function that actuaries undertake.

**Rushanara Ali:** I have learned a lot from this session. I did not come into this session thinking that I would learn about your work on disasters. It is really interesting and I hope that some of the young people you recruit might take an interest because of the broader agendas you have played a part in already.

**Chair:** That brings us to the end of this particular session. As Rushanara just suggested, this has been a very interesting session. Some of those who will have been viewing might not have expected it to be quite as interesting as it has been. It has been good to give you the opportunity to join us today in that respect. You are not one of the highest-profile organisations but, in an increasingly uncertain world, you are one of the more important. We thank you for all the good work that you have been doing and that you have been able to discuss with us today.

Rushanara also questioned whether you were sexy enough. I am not sure whether you answered that question one way or another, but it has been very interesting and you have answered our questions very cogently with great diligence. We thank you very much for that. I am pretty certain that we will not be waiting another 12 years before we ask you to appear before us. Thank you once again for your time today. It has been a great pleasure to have had you before our Committee. That brings us to the end of this session.