

Letters to the editor

Better routes to redress

Guy Thomas's article in the October 2005 issue describes the paper, 'The cost of compensation culture', as 'a transparently political attack on accident victims which has no prospect of objective justification' and concluded that the working party implied 'there is something blameworthy about injured individuals seeking compensation for negligence'. I thought I would put finger to keyboard to put the record straight.

First, can I position Guy's comments in the context of his strident views about the profession. Guy's website sets out his views on the profession. His public submission to the Morris review describes how 'The profession's governing Council... and the editorial policies of its various journals are all dominated by commercial interests'. In a public letter to Chris Daykin, Guy notes that he is sorry to see 'the Institute fomenting hostility and prejudice against disabled people'. According to Guy 'the spurious veneer of professional independence cannot conceal that the campaigns originate from and are motivated by commercial interests represented on the profession's Council'. So I took heart from the fact that our working party had not been singled out for condemnation. Apparently the entire apparatus of the profession, including our government actuary, is engaged in thoroughly unprofessional behaviour as part of a "campaign" on these issues (compensation and disability).

Second, can I wave a flag on behalf of the working party. Guy observed that the paper was commended by Institute Council. It was also awarded the Brian Hey prize for the best paper presented at the October 2002 GIRO conference, when it was presented as the backdrop to a debate entitled 'This house believes Compensation Culture is a good thing for society'. The paper and the debate were quoted extensively in the national press, and I must have taken part in dozens of radio debates/features about compensation based on the paper. I've taken part in numerous discussions with members of the government and the legal profession subsequently on the subject of compensation on behalf of the profession. All this at a time when actuaries weren't exactly having the greatest of press on other issues.

So what of the Better Routes to Redress publication (BRR) to which Guy refers? It undoubtedly makes some sensible suggestions, many of them mirroring the suggestions

made by the working party. Personally I thought it contained a number of contradictions. The sentiment of the paper that Guy quoted was that the problem with compensation is perception rather than reality. Yet the BRR goes on to say 'some people may be persuaded by... claims management companies to look for compensation where none is available'. The BRR notes that: 'Local authorities are spending a great amount of money dealing with all the claims they receive. Every claim made, however frivolous or vexatious... has to be handled.' And quantifying this: 'One large local authority we met estimated that, for highway liability claims alone, it will have spent over £2m.... Multiply this by the 409 local authorities... it comes to a staggering figure.' On claims management companies more generally the BRR observes: 'There is little doubt that claims management companies... fed an enormous number of claims into the system' and that 'Much of the advertising of claims management companies is aimed at the less well-off people and holds out the promise of great riches. One advertisement that we heard about featured a young woman looking at a sports car and saying "I've always wanted one of these and now I have had an accident I can have one".' The money that the BRR describes being spent by local authorities is real. The claims that the BRR describes being fed into the system are real. The adverts that the BRR describes promising untold riches if you're lucky enough to have an accident are real. That sounds like reality to me, not perception.

What conclusions did the Cost of Compensation Culture (CCC) Working Party make? We observed in our executive summary that 'Over a third of the total amount [of compensation, totalling £10bn per year] is legal and administrative expenses. This seems a fundamentally inefficient way of delivering compensation' and that 'the way the current compensation regime is being allowed to develop is deeply unsatisfactory. There is no central focus... within government on the cost of compensation to society or how the compensation regime should work.... This creates delays and uncertainty for compensators and accident victims alike and serves the interests of no one'. In positioning the role of compensation in society in the paper (the CCC paper was intended to stimulate a debate at GIRO) we commented that 'We believe that compensation culture has been causing changes in most walks of life, some good,

some arguably not'. And went on to describe both the costs, financial and non-financial, and the benefits of compensation.

What have other commentators made of the compensation culture debate? Earlier this year Tony Blair said he 'had been struck as he travelled the country by the number of people raising concerns about the "compensation culture"'. Mr Blair said 'I was shocked to be told by people who were running a nursery that they were worried about letting kids out into the playground when it was wet, in case one of them slipped and fell and they ended up having a legal case'. In one of the first speeches of his new term of office, which I was invited to attend by the Institute of Public Policy Research, Tony Blair spoke on the subject of compensation culture. He stated that 'we are in danger of having a wholly disproportionate attitude to the risks we should expect to run as a normal part of life'.

Prince Charles, in an open letter to the Lord Chancellor commented that 'I and countless others dread the very real and growing prospect of an American-style, personal injury culture becoming more prevalent in this country'. The Lord Chancellor in turn observed at the legal services reform conference earlier this year: 'There has been a lot of concern recently about claims-management companies. My distaste for the practices of some claims-management companies is well known.' David Davis MP wrote in the *Spectator* last year that 'the fear of litigation is leading to the loss of the most attractive aspects of parks and public spaces because they are too risky', and earlier this year that 'The conditional fee arrangement... has also led to a rush of spurious claims by people who have nothing to lose by launching an action' (David Davis quoted the CCC paper and the £10bn figure we derived for the cost of compensation culture). So, our prime minister, our future king, the Lord Chancellor, and perhaps our future prime minister, all seem to think there is a 'compensation culture', with some very real problems that need addressing. The good news is that some of the problems are being addressed, echoing the suggestions in the CCC paper. The government is introducing a Compensation Bill ('The government is committed to tackling the compensation culture, resisting invalid claims but improving the compensation system...') and the Lord Chancellor is setting up a Legal Services Board which will look particularly at the regulation of claims-management companies.

In summary, though I say so myself, the paper has contributed greatly to the profession's obligation to serve the public >>>

> interest 'by informed contribution to debate on matters of public interest' (to quote from section 2 of our Professional Conduct Standards, which Guy might like to peruse). I'm enormously proud, personally and professionally, of the paper and the contribution it has made to 'authoritative and objective input to public debate' (to quote from our Vision and Values paper). Incidentally, the working party donated the £1,000 Brian Hey prize to the Association of Children's Hospices, so the paper benefited the public in a fairly direct fashion too.

*Julian Lowe, chairman, Cost of Compensation Culture Working Party
11 October 2005*

Ouch

I am writing in response to Alan Frost's recent criticism of Shane Warne's autobiography, ghost-written by Richard Hobson. I also own a copy of this book and disagree that it lacks soul. The book provides a colourful picture of Warne's life both in and around cricket. What's more, it reads fluently. I wonder whether Alan Frost, as a regular writer in *The Actuary*, truly believes that he succeeds in injecting life into his descriptive theatrical reviews. Of course a written version of events will never fully reflect the character of a person or of a performance. I'm pleased to say that Richard's book reached the top of the non-fiction best sellers in the year it was published. When Alan Frost manages to produce a best seller, please let me know!

*Anna Bishop
13 October 2005*

Paying for better pensions

Clifford Sharp is absolutely right to point out that we haven't yet had a public debate on whether people would be willing to pay extra for a better state pension (Letters, September 2005). Partly this is because of the difficulties of calculating the costs of reform, and also in understanding the likely distributional impact on people in different age cohorts and income groups.

But help is at hand. The Pensions Policy Institute (PPI) has developed a set of economic models to do such calculations. We will be publishing technical details shortly. You can see the results in reports published recently by the EEF and, at the end of September, by the NAFI.

The short answer is that 'the basic state

pension at a level sufficient to eliminate most means-testing' could be brought in immediately with no extra financing. It could be afforded over the long term by a combination of an increase in National Insurance contributions of something like the recent increase for NHS reforms, and a small rise in state pension age.

*Alison O'Connell, director, PPI
16 September 2005*

Hand-wringing dullards

The reputation of our profession was dealt another blow in September, at least in deepest parts of the West Country, when 'top' BBC Radio Bristol DJ John Turner chose to speak his mind in the *Western Daily Press* newspaper (see www.westpress.co.uk).

Following news from the CMI regarding improved life expectancy, Mr Turner was moved to fill his weekly column with some alternative descriptions of actuaries. He started off with 'hand-wringing dullards' who have got their sums wrong, moved on to 'morbid little people', and finished with 'leaving the actuaries to worry themselves silly in the corner'. This enlightened piece successfully reinforces the perception of the profession as living sheltered lives working in darkened rooms. Apparently anyone could have seen the rapid improvement in life expectancy coming, as blame culture swings into action once more, albeit only a local DJ with a few column inches to fill. Still, at least I now have a new chat-up line to use on the unsuspecting: 'I continuously investigate when people are going to die' is far superior than any reference to the intangible world of risk management, or modelling future assets and liabilities.

*Robin Ackroyd
12 October 2005*

Distributions of infinite variance

I read with interest David Nutting's comments on distributions with infinite variance (Letters, October 2005). This would imply, for practical models, that the underlying distributions have infinite support with heavy tails. Since actuarial work is focused on modelling financial quantities, there is a bound on the upper – or for that matter – lower support of realisations that can occur. For example, a loss could never exceed the world GDP. Therefore distributions with infinite variance, and by

implication, infinite support are unrealistic representations of the risks that we analyse. However, this flaw is also present in finite variance distributions, such as the ubiquitous normal distribution.

*Ravi Kalia
12 October 2005*

St Michael the Archangel

My wife (who is not normally a great reader of *The Actuary*) spotted St Michael the Archangel on the cover of the October issue and asked me, 'Where's that to be seen, then?' I wonder whether any of your readers can help? And is the painting really by Raphael, as attributed on page 1? We don't think so.

*Adrian Williams
10 October 2005*

Mutual recognition in the EU

I refer to the letters from Rob Lynch and Debra Evans in April 2005 concerning the mutual recognition of actuaries from the European Union states.

I agree that it is beneficial for all parties to allow EU actuaries to work in the UK and to gain membership to the Institute by working for three years under an FIA.

Having just qualified after many years of struggling with the exams, I would strongly object to the granting of the status FIA to an actuary from another system without having the same level of knowledge and skills as an actuary who has completed the UK exams. It should be noted that most FIAs have completed the exams after having obtained a university degree, compared with some of the EU actuaries who only have a university degree in actuarial science.

After working for a year and a half on the continent, I am continually amazed by the lack of knowledge of basic actuarial principles (not to mention the wider analysis skills that are examined in the later subjects) in the actuaries working around me in the pension fields.

Therefore, I would urge the profession to consider putting in place a more rigorous process in granting FIA status to an actuary from another system in order to protect and to maintain the profession's reputation. The value of an FIA status will be considerably diminished by the admission of actuaries who do not have the same level of expertise as that required of an FIA.

*Mai Lam
5 October 2005*

The editorial team welcomes readers' letters, but reserves the right to edit them for publication – please send your letter to the editor, Timothy Bramham, at the address on p3 or to letters@the-actuary.org.uk