



## Scottish Independence: some questions from the Institute and Faculty of Actuaries

This document sets out questions from the Institute and Faculty of Actuaries on the subject of the referendum on Scottish Independence to be held in September 2014. It has been prepared by our Scottish Board as a discussion document.

The question of constitutional change is a critical one and one that the Actuarial Profession believes is the preserve of the electorate.

The Institute and Faculty of Actuaries is willing to work with Government whatever the outcome of the independence referendum. As a representative professional body, we reserve the right to raise questions that we believe are pertinent for users of actuarial services and indeed for actuaries themselves.

Given the importance of the issue, the Actuarial Profession's view is that the public interest is best served by having an electorate that is fully informed on all the relevant cross border and Scottish issues including insurance, pensions, financial regulation and future economic growth. The Actuarial Profession is looking forward to help inform these future debates.

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## Executive Summary

The Institute and Faculty of Actuaries is a professional membership organisation. It is not our place to tell our members, clients or customers how they should vote in any referendum on Scottish independence. As a result, we do not side with any political group on this (or any other) political question. As a profession we do however have a role in serving the public interest. What we will do therefore is highlight issues on this subject that might affect our members, the sectors they work in and their clients and customers.

Our Scottish Board has considered the wide range of areas that we feel need attention in the independence debate and we recognise this list will grow as the debate evolves. We also recognise that this means that politicians on both sides cannot yet answer all the questions we have at this stage.

However, the key areas that we feel need to be addressed are as follows:

- **Single market** – what will happen to the UK's current single market for financial services in an independent Scotland?
- **Regulation** - what regulation and protection schemes will there be for policyholders and other stakeholders in financial services in an independent Scotland?
- **Taxation** – how different would taxation be in an independent Scotland and what impact would this have on the pensions, insurance and investment markets?
- **Public sector pensions, state pensions and other social security benefits** – what will these look like and how will these be financed in an independent Scotland?
- **Europe** – EU-driven legislation is widespread in the pensions, insurance and investment markets with more in the pipeline. The future status of an independent Scotland in Europe is therefore key to the operation of these markets in Scotland.

We know other groups have already asked about wider issues such as the economic position, currency, central bank, constitution and transition to an independent Scotland. These are all relevant issues for the work of actuaries too but we intend to highlight issues in our areas of professional expertise.

As a result, we want to discuss with our members the key areas and the questions they have about the independence debate. We are also keen to host a public debate, with political representatives, on the same issues.

In this way, we will help our members (and the clients and customers they serve) to go to the polls fully informed on key issues that will affect their financial future.



## Questions

As a professional membership organisation, the Institute and Faculty of Actuaries sees the question of constitutional change as a critical one for actuaries and the markets they work in. However, our position on the referendum itself is quite clear - this is a matter for the electorate to decide.

As a profession we do however have a role in serving the public interest. Given the importance of the issue to the financial services sector, our view is that the public interest is best served by having an electorate that is fully informed on all the relevant cross border and Scottish issues including those affecting insurance, pensions and investments. The Institute and Faculty of Actuaries looks forward to helping inform future debates about them.

This note therefore sets out a series of issues with important questions in these areas that we believe need answered. Inevitably, there are wider issues such as questions on the economic position, currency, central bank, EU membership, taxation, single market, constitution and transition to an Independent Scotland that will affect the work of actuaries. We are aware, however, that other representative organisations are raising these issues and we have deliberately focused on our areas of professional expertise.

### **Occupational Pension Provision**

The UK has a complex private sector pensions regime with tax privileges through income tax and tax relief for investments. Protections for pension scheme members also exist in legislation and there is a comprehensive regulatory regime overseen by the Pensions Regulator. Defined benefit provision has protection through the Pension Protection Fund and defined contribution arrangements are generally protected via financial services regulation and protection schemes.

Actuaries are involved in providing a whole range of advice to trustees, corporate sponsors and, in some cases, individual members of pension schemes.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- Whether the existing system of tax reliefs/privileges will continue
- How regulatory oversight will be organised
- The protections that will be provided for pension scheme members.

### **Cross border pensions**

Existing pension schemes may be based in Scotland or the rest of the UK but have UK-wide membership. Particular funding issues will arise in private sector defined benefit schemes if Scotland and the rest of the UK are regarded as separate EU states and this may have a significant impact on the location and funding of defined benefit schemes.



## Insurance

Scotland has a number of major insurance companies that are key to the Scottish economy and are major employers. Actuaries are involved in the risk control, solvency and regulation of these entities.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- Regulation and risk control of these entities in the short and longer-terms – including whether the FSA (or successor bodies) will still regulate solvency
- Taxation as it relates to insurance companies and for individuals in terms of tax relief on insurance products and taxation of individuals' benefit payments from such policies and investments
- EU membership of an independent Scotland - an important question given that much insurance legislation and regulation is EU-driven.

## Banking and investments

Scotland also has a number of major banks and investment managers that are key to the Scottish economy and are major employers. Actuaries are also involved in the risk control, solvency and regulation of these entities.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- Central bank functions - whether an independent Scotland would leave setting of interest rates, quantitative easing, etc to the Bank of England as has been suggested
- Whether separate capital markets would need to develop in an independent Scotland including distinct Scottish government bonds
- How the complex banking and investments system will be regulated (noting ongoing reforms) in an independent Scotland
- With potentially different taxation systems, many questions and complications would arise in banking and investments. For example, Scottish balances and investments might be treated differently from those which are non-Scottish.
- Whether an independent Scotland would back both the Scottish and non-Scottish balances in its banks
- The share of the taxpayer ownership of the two major Scottish banks that Scotland would take over
- Regulation and risk control of banks and investment managers in the short and longer-terms – including whether the Bank of England and FSA (or successor bodies) will still regulate financial services provided to retail customers.

Currency would also become a big issue throughout the financial services sector if Scotland ceased to use Sterling.



## Public sector pensions

Public sector pensions in Scotland are already covered under separate Scottish regulations. Some of these arrangements exist as funded arrangements whereas others are un-funded.

Actuaries provide advice to the bodies responsible for these schemes in a range of areas including benefit design, costs and reserving, investment and operational aspects. Particular pension complexities arise from public-sector outsourcing.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- How the structure of current public sector schemes will be preserved or alternatively reformed
- How the existing pension promises of Scottish public servants will be financed and the associated risks managed
- How Scotland's ability to meet its public sector pension obligations post independence can be demonstrated to be at least as good if not better than at present.

## State pensions and other social security benefits

Our National Insurance system is responsible for providing a range of State benefits including, for example, the Basic State Pension. Contributions are paid by individuals (and their employers) depending on how much they earn and whether they are employed or self-employed.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- How such benefits (and financing existing promises) would be provided after independence
- Whether announced reforms to introduce a single tier pension system would still be followed
- The practical arrangements to collect contributions, record, assess and calculate entitlements and make payments after independence.

## Workplace Pensions Reform

The pension savings gap that automatic enrolment starts to address will continue to exist whether Scotland is independent or not.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- Whether the roll-out of automatic enrolment would continue
- If not, how the pension savings gap will be addressed in Scotland
- If yes, how automatic enrolment would operate practically in an independent Scotland.



## Regulation of Actuaries

At present actuaries working in the UK follow a number of standards which are set by the Institute and Faculty of Actuaries (ethical standards) and the Financial Reporting Council (technical standards). The technical standards do not apply to work carried out outside the UK. The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment and carries out a similar standard setting role for the UK accounting profession.

Some key issues that therefore arise for an independent Scotland are how the following are to be dealt with:

- The choice of a body to perform the FRC's standard-setting and oversight role in an independent Scotland
- If a Scottish FRC is not set up and the UK FRC's standards are used how standards are maintained with evolving Scottish and UK legislation.

## Next steps

We welcome comments on this note from actuaries and other interested parties. We intend to discuss these issues at a number of member events in the run-up to autumn 2014. We would welcome your ideas and any offers of help to organise and run these activities.

Any questions, comments and press enquiries should be addressed to:

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*The Institute and Faculty of Actuaries (IFoA) is the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally.*

*We represent and regulate our members for the benefit of the outside world and oversee their education at all stages of qualification and development throughout their careers.*

*As a professional body we work with employers to encourage and develop their actuarial employees to better themselves, the employer and the financial sector.*