

Institute and Faculty of Actuaries

Regulatory Board

Steer report

Subject	Board's Horizon Scanning Register
Regulatory Board meeting	8 February 2022
Previous Board Steer	The Board are provided with the HSR for noting at every meeting. The last review was carried out by the Board for the November 2021 meeting.
International issues considered?	Primarily related to the UK, but also does consider the international context.
Author	IFoA Executive
Purpose	Steer

1. Executive Summary

- 1.1 This paper provides an update on the ongoing risks within the Regulatory Board's ('the Board') Horizon Scan Register (HSR). While the risks on the register have been updated, the format and style of the register remain unchanged and have not been considered for scope in this review.
- 1.2 An updated copy of the Board's HSR can be found at **Appendix A**.
- 1.3 This paper also provides recommendations for the Board to consider and requests a steer on recent developments within risks around fairness in general insurance pricing and CDC Schemes. There are also two new risks for the Board's consideration, namely (1) the actuarial aspects of insurance entity audits at **Appendix B** and (2) the risk of inflation at **Appendix C**.
- 1.4 It also invites the Board to identify topics for risk deep dives from the HSR for 2022.

2. Discussion

Updated risks

- 2.1 The changes made to the HSR since the last Board meeting in November 2021 are set out in the table below:

Risk	Change
HS04 – DB funding	The existing risk rating will be maintained and reviewed in autumn 2022 after publication of the Pension Regulator's DB funding code. The Executive will then engage with the IFoA Pensions Board on any actions (as detailed in the Board's ongoing action list).

HS05 – DB-DC transfers	Impact is moderate and likelihood is possible, which should give this an overall status medium rather than high.
HS06 - Brexit	There has been to a change to the wording of risk, and to keep the same likelihood in place. Review in autumn 2022 with a view of taking this risk off as there should not be any new significant policy developments - this will then be Business as usual.
HS12: Master Trusts	Impact is moderate and likelihood is likely which should give overall status high rather than medium.
HS14: Covid-19	Existing risk rating maintained but review in autumn 2022 to reflect the current nature of COVID-19. There is also a question about the suitability of year end reserving assumptions for a range of reasons and for a range of business areas; e.g. mortality/ morbidity/ longevity in the light of Covid-19, inflation assumptions, investment assumptions, etc. Review in autumn 2022.

Further actions on noted risks

2.2 Following consideration of the HSR and latest updates above, the Board is required to provide a steer on whether any regulatory action or further steps are required on any particular risk. Please find three highlighted risks in particular below which the Board can consider:

HS08 – Fairness in general insurance pricing

2.2.1 This risk is framed around the FCA/ CMA work on GI pricing on motor/ home insurance. Due to the FCA's current focus, it could be broadened to consider not just pricing but product value/ fair treatment to vulnerable customers and meeting new consumer duty obligations.

2.2.2 There is another question around whether actuaries would be concerned about how employers are interpreting and implementing new regulations, and whether this may lead to actuaries' considering speaking up or whistleblowing¹.

HS09 – GI reserving

2.2.3 There is a question about how broad or narrow should these risks be, in particular should they include life as well as GI. This points to a wider question of whether the risk register should be big picture in scope (which could lose focus), or target known hot spot/ trouble areas (which might neglect the bigger picture)).

2.2.4 The JFAR risk hotspot also highlights undue commercial pressure when setting reserves. A copy of the report is available [here](#).

HS10 – CDC Schemes

¹ Please see recent case-studies for members published on Speaking Up and fairness within pricing [here](#).

2.2.5 There has been no change made to this existing risk at present. There are positive indicators, e.g. the CDC Regulations have been published which adds further certainty for future CDC schemes. Furthermore, there is clear intent from DWP on establishing multi-employer schemes.

Bank of England's Insurance Supervision

2.2.6 The Board should note the Bank of England's Insurance Supervision: 2020 Priorities publication. To note, part four of this letter deals exclusively with regulatory change (**Appendix E**).

2.2.7 The executive will review the publication, and consider the impact on our existing risks, taking into account any steer from and whether they feel any existing risks should be updated as a result.

New risks

3.1. The Board is asked to consider the addition to the HSR of the following risks:

New Risk	Reasons for being included
Actuarial aspects of insurance entity audits	<p>Please find attached at Appendix B, which is a publication from the FRC dated 10th September 2021.</p> <p>The letter picks up on three areas where further attention may be needed. These are data, judgement and assumptions, and modelling. We would like your steer about whether there are any other areas which improvement may be needed.</p>
The risk of inflation	<p>There has been concern over high inflation because rising prices have been affecting general insurance reserving. After years of benign inflation in many classes, intrinsically projected forward by chain-ladder based techniques. It has been argued that the switch to high inflation is something that actuaries should be acutely aware of this year.</p> <p>Appendix C contains information on this proposed risk from the IFoA's GI Board.</p>

Deep dives

The Board is invited to identify topics for risk deep dives from the HSR for 2022. It is suggested that the following topics are covered:

- **Risk HS15: Perceived conflicts of interest and the availability of independent experts for Part VII transfers** is scheduled for the April Board meeting – dependent on the outcome of discussions with the PRA in February.

- **Risk HS01: Choice of models including the use of AI/machine learning.** The HSR details all previous actions and mitigations taken for this risk. The residual risk status remains high and the Board could consider if any further steps can be taken to reduce this.

Next steps

In addition to the HSR being periodically updated for every meeting of the Board, it is proposed that a full review be taken in the autumn, which will link into the publication of the JFAR updated Risk Perspective in the summer.

Conclusions

The Board is asked to note this update and provide a steer on:

- a) possible regulatory action required for ongoing risks;
- b) the proposed new risks for inclusion, and
- c) future deep dives, as well as which risks the Board would like to focus on over the coming year, in addition to deep dives.

Appendices

Appendix A: The Board's Horizon Scanning register

Appendix B: The actuarial aspects of insurance entity audits.

Appendix C: The risk of inflation.

Appendix D: HSR definition and process document.

Appendix E: The Bank of England's Insurance Supervision: 2020 Priorities letter.