

Institute and Faculty of Actuaries

Regulatory Board

Noting report

Subject	New IFoA Strategic Risk Framework
Regulatory Board meeting	16 November 2022
International Issues considered?	Yes- this paper concerns the management of risk to the IFoA in its global role
Author	Ben Kemp, General Counsel
Reviewed by	Hannah Macleod, Senior Regulatory Lawyer
Purpose	Noting

A: INTRODUCTION

1. The Board is invited to note a new IFoA risk framework, which has been developed by the Executive and Management Board, with input and direction from Council and the Audit and Risk Committee. While risk was already being managed within the IFoA, there was an identified need, following an internal audit review in 2021, to put in place a more holistic and integrated risk framework, with better clarity as to roles, responsibilities, and associated processes to ensure that risk management within the IFoA operates more effectively and efficiently.
2. In particular, the Board is asked to note the intention that it will be responsible for monitoring regulatory risk within the overall IFoA risk framework, according to a risk appetite set by Council.
3. The Board is asked to consider how from a practical perspective it wishes to undertake this role, mindful that the purpose of the IFoA risk framework is to manage risks to the IFoA, as distinguished from the Board's existing work in horizon scanning risks to the public interest (although there may no doubt be some synergy between the two).

B. BACKGROUND: APPROACH TAKEN TO THE NEW RISK FRAMEWORK

4. In developing the new framework Council did not wish to lose sight of the fact that IFoA is a relatively small, service organisation that, overall, has a relatively low risk profile (as compared for example to an insurance company). Many of the IFoA's strategic risks relate to a potential impact on members/stakeholders' confidence, with a smaller number having direct financial impact. The framework deliberately does not therefore sit under or replicate the approach that might be more normal in financial services organisations.
5. The new framework had significant input from the IFoA's internal auditors, Crowe LLP, based on its experience with other similar bodies as an external benchmark for what might be suitable for IFoA. Council settled on using (adapting where necessary) the 'Orange Book' methodology, familiar to the Civil Service and many public sector organisations, upon the basis that it is a clearly accepted, established and integrated approach to risk management which is capable of withstanding most reasonable challenges.

6. The strategic risk register will sit on top of a pyramid of business area, operational and programme/project risks that will be actively managed by a new Executive Risk Committee with the support of a (new) Head of Risk. This will be subject to ongoing Management Board oversight and the effectiveness of it (and the implementation of the new framework) will be given regular consideration by the Audit and Risk Committee.
7. The new Risk Framework is intended to work as follows:



C: ROLE OF REGULATORY BOARD

8. Council has agreed 5 categories of risk for the purposes of the new framework, with each accompanied by a target risk appetite statement. The five categories are: -
 1. Strategic
 2. Reputational
 3. Operational
 4. **Regulatory**
 5. Membership
9. It is envisaged that Regulatory Board will be responsible for the identification and management of regulatory risk to the IFoA within the new framework: risk to the IFoA arising from or in connection with the IFoA's role as a regulator and the exercise of the IFoA's regulatory function.
10. In short, the role of the Board will be; -
 - (i) To identify regulatory risks to the IFoA which will help inform Council's overall assessment of strategic risk levels.
 - (ii) To identify and implement steps to mitigate identified regulatory risks, with a view to keeping the overall strategic risk level within agreed appetite.
11. **Appendix 1** is, for information, the latest version of the new IFoA strategic risk register, with each individual risk categorised according to the five risk categories. It will be seen that Risk 18 is the key one relevant to this Board, as follows:
12. *"IFoA fails to effectively undertake its public interest remit, including failure to regulate or anticipate potential risks in the work carried out by actuaries leading to a loss of confidence, stakeholder intervention etc."* The role of Regulatory Board is therefore expected to be (without reframing this identified strategic risk): to consider how it will address (and no doubt is to a considerable extent already addressing) this risk to the IFoA and, through its regulatory work, keep it within risk appetite.
13. **Appendix 2** sets out the provisionally agreed risk appetite statements, and their meaning (following so far as possible Orange Book nomenclature), from which it will be seen that the proposed target risk appetite in relation to regulatory risk is 'Open', which is described as:

“Appetite to take decisions with potential to expose organisation to additional scrutiny from the FRC/ARGA, but only where appropriate steps are taken to minimise exposure.”

D: ISSUES TO CONSIDER

14. The Board's role in and responsibility for identifying and managing regulatory risks will, of course, be limited to that within their remit, which is focused on the public-interest regulation of actuaries. It is also recognised that the Board has a strategic oversight focus and is not an executive board.
15. Therefore, there will be 'regulatory' risks to the IFoA that are not within its scope. This includes, for example:
 - Operational risks, which will be managed by the IFoA's Executive, subject to the oversight of Management Board.
 - Non-IFoA regulatory risks (for example risks to the IFoA or wider profession relating to proposed new industry regulation). These could be classified as 'membership' or 'reputational' risks depending on the circumstances.
16. The Board also delegates responsibility for oversight of certain regulatory functions to its Committees (such as QAS, DPB, Practising Certificates and Discipline). It may be worth considering whether any changes are appropriate to the way in which those Committees report to the Board in light of this role in relation to regulatory risk. For example, would it be appropriate for them to report more regulatory than through an annual report on any identified risks.
17. The Board already undertakes horizon scanning activity, and maintains a horizon scanning register, although the focus of this work is to identify and manage risks to the public interest arising from or related to actuarial work. It is quite conceivable that such risk to the public interest may in turn give rise to regulatory risks to the IFoA, but the two do need to be distinguished and to an appropriate extent considered separately.

E: CONCLUSION

18. Regulatory Board is asked at this stage: -
 1. To note the development of the new IFoA integrated risk framework.
 2. To note specifically the inclusion of regulatory risk as one of 5 categories of risk within the strategic risk register and the corresponding proposed target risk appetite; and
 3. To consider from a practical perspective the approach it takes to managing this part of the overall Risk framework, and to helping to ensure that regulatory risk remains within target risk appetite.