

Definition of Key Risk: A regulatory risk which has the potential to impact on the public interest, as relevant to actuaries and their work

Movement: ↓ likelihood is reducing
 ↑ likelihood is increasing
 ↔ No change in likelihood

Ref No.	Key Risk	Description of risk	Practice area	Source	Impact (minor / moderate / major)	Likelihood (unlikely / possible / likely)	Overall risk Status (H/M/L)	Movement	Likely Timescale	Suggested action/mitigation	Residual Risk Status	Responsibility for Action/mitigation	Comments
HS01	Actuarial Regulation Review (post Kingman)	Uncertainty over future actuarial regulation arrangements - concern that complexities are overlooked and arrangements do not deliver optimum regulatory regime for the public and actuarial profession	All	Regulation Team	Major	Possible	High	↔ No change in likelihood	0-2 years	Continued engagement with HMT to input into the review and respond to the consultation when published.	High	Chair, General Counsel, Steering Group	Likely delay to consultation on proposals due to Covid-19
HS02	Regulatory uncertainty arising out of Brexit	Potential for divergence from EU rules leading to uncertainty in terms of impact on broader regulatory framework as it relates to actuarial work, particularly for insurance.	All	Policy Team	Major	Possible	High	↔ No change in likelihood	0-5 years	Scrutiny of Brexit related issues and implications for members/public by Policy Team. Regulation Team continue to monitor changes to Regulatory framework. Respond to consultations as appropriate. Continue to monitor and review.	High	RB, Policy Team, Regulation Team	
HS03	Impact of Covid-19 and related measures taken by UK Government	Potential impact upon regulatory compliance by actuaries in all practice areas during pandemic (due to lack of capacity, pressures on resource, financial pressures, lack of access to CPD, illness) // poor or no contingency planning by actuaries in reserved and other critical roles to cover periods of unexpected illness.	All	Regulation Team	Major	Likely	High	↑ likelihood is increasing	Ongoing	Risk alert and member communication issued to address issues of regulatory compliance & contingency planning. Scrutiny of Covid related issues and implications for members by IFoA generally. Links to IFoA Covid 19 Task Force.	High	RB	Communities and policy teams coordinating IFoA Covid-19 Action Taskforce (ICAT) including work streams covering pricing/modelling/investments.
HS08	Impact on DB actuaries if any more major employers enter the Pension Protection Fund	Impact on consumers if any more large scale employers become insolvent or are unable to meet their pension promises in the short term // Risk to actuaries if consumers look to them in terms of their role in assuring solvency of Scheme sponsors. Risk relates to actuaries only insofar as they may be involved in those schemes.	Pensions	Policy Team	Major	Possible	High	↔ No change in likelihood	0-5		High	RB with support from Pensions Board	
HS10	Actuaries taking into account Climate Change risks	Lack of awareness and/or absence of information about appropriate approaches means actuaries are not able appropriately account for, or communicate clearly, the impact of long term exposure to climate related risks in their work, leading to poor outcomes for users/the public and criticism/reputational issues for actuaries	All	Policy Team	Major	Likely	High	↔ No change in likelihood	Ongoing	Scrutiny of climate change issues by JFAR. Risk Alert issued on climate related risks (2017). Council task force looking at climate change and IFoA conducting researching in this area. Regulation Board scheduled deep dive for November. IFoA signatory to Green Finance Education Charter (including regulatory aspect). Possible future guidance.	High	RB with support from R&E Board	

HS15	AI/machine learning	The pace of development and novelty of AI/ML techniques mean that actuaries are not able to use them appropriately and/or misunderstand customer behavioural impacts, resulting in public interest detriment. <u>Example:</u> underwriting/pricing that inadvertently discriminates by sex/race/etc.	Risk Management Life GI Investment	Risk Management Board	Major	Possible	High	↑ likelihood is increasing	Now and ongoing		High	RB	
HS14	Choice of models	Actuaries failing to use appropriately validated models, or adequately consider alternatives, contributing to errors or sub-optimal strategies/actions. <u>Example:</u> investment advice using only backward-looking risk models, given that all climate scenarios are different from the past	Risk Management Life Pensions Investment	Risk Management Board	Major	Possible	High	↔ No change in likelihood	2022-2025		High	RB	
HS09	TPR proposed 'fast-track' DB scheme funding route	Proposed fast-track funding basis is inappropriate for certain schemes but increased competition/fee pressure reduces opportunities for actuaries (applying professional judgment) to devise bespoke methodologies for their clients.	Pensions	R&E Board	Major	Possible	High	↑ likelihood is increasing	Ongoing	Work with TPR/Pensions Board to highlight issue and find ways to address professional judgement within a fast-track framework.	Medium	RB with support from Pensions Board	Aim of fast track funding is to create a single basis for a majority of schemes. Not clear how risks such as climate change and the specific circumstances of individual schemes can be allowed for in such a basis. Creates a risk that the more challenging elements of risk to codify get ignored although the risks remain.
HS04	DB to DC transfers	Risk of poor outcomes for scheme members making DB > DC transfers // risks around actuaries role in providing advice/communications that members have regard to in making those decisions	Pensions	Regulation Board	Moderate	Possible	Medium	↑ likelihood is increasing	0-5 years	Board looked at issue through regulatory risk deep dive and is developing position paper articulating potential risks to individuals and highlighting the key considerations to be mindful of.	Medium	RB with support from Pensions Board	Increased focus by trustees and sponsors on reducing risk may lead to more actuaries advising on scheme-wide transfer offers, with the potential for member detriment.
HS05	Equity release mortgages	Role of actuaries in advising on ERM product design and/or key very long-term assumptions/modelling (e.g. longevity, no negative equity guarantees). This could lead to poor pricing outcomes for consumers and/or poor economic outcomes for product providers	Life	Policy Team	Moderate	Possible	Medium	↔ No change in likelihood	0-5 years	Discussed by Board in May 2019 facilitated by member of the Life Board. Working Party to share outcomes of its research spring/summer 2020 and will feed back any issues to the Board for consideration. IFoA's ongoing dialogue with PRA.	Medium	RB with support from Life Board	
HS06	Fairness in general insurance pricing	Role of actuaries in pricing of GI products and related public interest issues including loyalty penalties, ethical use of data etc.	GI	Regulation Board	Moderate	Possible	Medium	↑ likelihood is increasing	0-5 years	CMA proposals to combat issues of loyalty penalties. Area of focus for industry regulators including FCA. Standards Framework in particular Actuaries' Code which requires members to act with integrity. On agenda for Board 'risk deep dive' in July	Medium	RB with support from GI Board	Policy Team conducting project on fairness in pricing which Board should be kept apprised of.
HS07	Introduction of CDC Pension Schemes	New form of scheme being implemented. Consumer impact if any issues arise with the implementation of CDC schemes.	Pensions	Policy Team	Moderate	Possible	Medium	↔ No change in likelihood	0-5	Actuaries on DWP group advising on legislation. IFoA Regulatory Working Party looking at legislation and role of actuaries/potential risks, including possible PCs and standards. Will help to inform Board's work in this area.	Medium	RB with support from Pensions Board	Likelihood depends on uptake of CDC Schemes. Currently Royal Mail is only employer to be adopting this type of Scheme.

HS11	Climate Change disclosures	UK Govt considering introducing legislating requiring reporting against TCFD mandatory for most insurers and pension funds by 2022. Risk Actuar ies do not adequately prepare for actuarial aspects of reporting requirements.	All	Policy Team / R&E Board	Moderate	Possible	Medium	↑ likelihood is increasing	Ongoing	Scrutiny of climate change issues by JFAR. Risk Alert issued on climate related risks. Council task force looking at climate change and IFoA conducting research in this area to explore ways to develop the profession's understanding of the implications of emerging regulation in this field	Medium	RB with support from R&E Board	
HS12	Regulatory changes impacting the level of sophistication in underwriting decisions	Regulatory changes that impact the ability to underwrite risk through restrictions on data that can be used and questions that can be asked. Restricted underwriting data could lead to higher prices for consumers, and/or lower profitability for firms, where less sophisticated risk assessment leads to higher uncertainty margins or increased selection risk.	GI/Life	H&C Board	Moderate	Possible	Medium	↑ likelihood is increasing	Ongoing		Medium	RB with support from H&C Board	Examples: • Failure of regulation to keep pace with developments in genomic testing leading to asymmetry of information. • Limitation on ability to ask for family history for underwriting purposes • Developments in GDPR leading to greater restrictions on availability of and permitted uses of data. Potentially less granular data and fewer ratings
HS13	Claims decisions	Regulatory changes that result in claims being paid at a different rate to that which was initially assumed, e.g. • changes along the lines of TCF that impact on historic and future claims decisions (e.g. on terminal illness, TPD, etc.) • Introduction of non-contestability clauses • Regulation that overrides application of policy exclusions e.g. biological war risks, Coronavirus	GI/Life	Risk Management Board	Moderate	Possible	Medium	↔ No change in likelihood	Now and ongoing		Medium	RB	
HS16	Scenario analysis	Actuaries may not use scenarios that are diverse enough, downplaying "extreme" outcomes and contributing to inadequate risk controls/mitigations. Examples: climate change, UK/EU relationship, macroeconomics, demography, epidemics, pension scheme discontinuance	Risk Management Life Pensions Investment GI Health	Risk Management Board	Moderate	Unlikely	Low	↑ likelihood is increasing	Now and ongoing		Low	RB	