

RB REGULATORY HORIZON SCANNING REGISTER

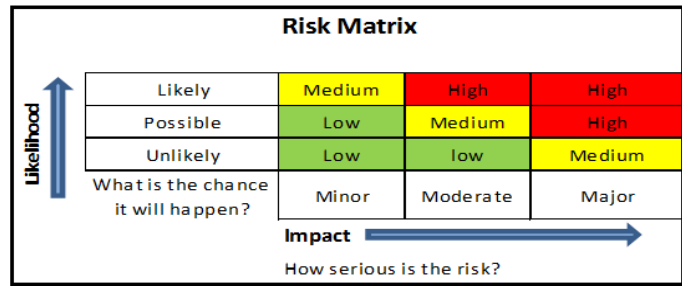
Definition of Key Risk: A regulatory risk which has the potential to impact on the public interest, as relevant to actuaries and their work

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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: Regulatory Board	Suggested action/mitigation: Other IFoA / External	Residual Risk Status	Responsibility for Action/mitigation	Comments	Recent changes/comments
HS01	Choice of models, including the use of AI/machine learning	Actuaries failing to use appropriately validated models, or adequately consider alternatives, contributing to errors or sub-optimal strategies/actions. The development and novelty of AI/ML techniques may lead to actuaries not being able to use them appropriately and/or misunderstanding customer behavioural impacts, resulting in public interest detriment. Additionally, actuaries may be responsible for appropriate and transparent choice of data, balancing customer fairness and commercial drivers. This will drive a need for appropriate communications to Boards, and ultimately regulators, as to the justification and validation of the data chosen. There is a risk that actuaries do not apply the right level of balance between customer and commercial elements.	Risk Management, Health and Care Life GI Pensions Investment	Risk Management Board,	Major	Possible	High	↔ No change in likelihood	Now and ongoing	RB issued joint guidance with the RSS on ethical use of data science to increase Member's understanding, including the ethics of using AI / IFoA specific data science guidance published Q1 2021 on Members' professional and regulatory obligations in relation to data science and working with AI models issued May 2019. GI Thematic Review report highlighted the risks around data science.	IFoA Lifelong learning offering certification in data science/scrutiny of issues by IFoA Data Science MIG (regulation and ethics workstream). GI Machine Learning in Reserving working party conducting research into this topic. FRC's TAS 100 requires models used in technical actuarial work to be fit for purpose & subject to sufficient controls and testing so that users can rely on the resulting actuarial information / TAS 200/Various ICAT workstreams looking at models. Active Data Science MIG and community. This area also includes Health and Care practice area.	Medium	RB	November 2022: A discussion paper was published on 11 Oct 2022 from HMT/PRA/FCA but not TPR). Available at: <a href="https://www.bankofengland.co.uk/prudential-regulation/publication/2022/october/artificial-intelligence">https://www.bankofengland.co.uk/prudential-regulation/publication/2022/october/artificial-intelligence</a> .	November 2022: Paper has now been received. We will consider looking at downgrading this risk next year.
HS02	Actuaries taking into account climate change risks, biodiversity and climate change disclosures	Actuaries fail to take appropriate account of (possibly through lack of knowledge of), 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. Includes in particular, actuarial input to TCFD disclosures for insurers and large pension schemes, investment decisions and catastrophe/weather modelling. Additionally, actuaries may fail to take appropriate account of the need to take into account the importance, perils and impacts of global biodiversity risks.	All	Policy Team, Sustainability Board	Major	Likely	High	↔ No change in likelihood	Ongoing	Risk alert published in April 2022. Further guidance on the Code to be developed by the Board (summer/autumn 2022) with expectations for actuaries to incorporate sustainability into their actuarial work / continued publication and highlighting of the expectations on actuaries around sustainability and climate change / working groups to support understanding of climate, biodiversity, nature-related risks alongside impact of climate commitments on actuarial work / incorporating sustainability within reflective practise / review of progress against Green Finance Education Charter expectations.	IFoA signatory to Green Finance Education Charter (including regulatory aspect) / Scrutiny of climate change issues by JFAR including highlight in JFAR Risk Perspective. Sustainability and Climate Risk course / Sustainability Board curated library and practical guides on climate change / sustainability Thought Leadership series of webinars / creation of Sustainability Research Thought Leadership Sub-committee and ambitious research agenda. Biodiversity and Natural Capital Working party established developing think pieces, webinars, blogs, case studies and other educational resources.	High	RB with support from Sustainability Board	Timescales both immediate (0-5 years) in regards to anticipating regulatory action, and long term (10, 20, 30+) in regards to real-world impacts.	November 2022: Work on non-mandatory guidance (including case studies) progressing with the aim of publication by February 2023.
HS03	UK Funeral Plan Trusts transitioning to FCA supervision	Potential risks in the transition to FCA supervision of UK pre-paid funeral plan trusts, actuaries having potentially been involved through pricing and/or valuation work. Some trust providers may fail to obtain FCA authorisation or may choose not to apply and in the transition period, seek to extract surplus funds from the Trusts. This could raise risks for the Trust members, and reputational risks for the actuarial profession.	UK Trust based pre-paid funeral plans	FRC/Funeral planning Member Interest Group (MIG)	Major	Possible	High	↔ No change in likelihood	2020-22	Discussions with FRC and Funeral Plans MIG. 2021 Risk alert issued regarding the concerns in the interim period before plans for FCA supervision take effect. 2021 Thematic Review published in early 2022.  Board to review and update current funeral plan standard/guidance now that FCA supervision is in place.	FRC's TAS 400 promotes high quality actuarial work in relation to funeral plan trusts - opportunity to feed into post-implementation consultation on TAS400 by July 2022 / FCA engaging in discussions about risks / issue raised in 2021 JFAR Risk Perspective/ FCA published final rules in July 2021 in light of feedback received/IFoA Funeral plan MIG organising a roundtable in 2021 to discuss issues of new FCA rules	Medium	RB	AMS Review now published. Safe Hands Fallings. FCA published a policy statement on 5 July 2021 setting out their final rules in this area. All firms need to be authorised by 29 July 2022. MIG planning a roundtable with actuaries involved in this work to discuss any practical issues with new FCA rules. Risk status to be updated once thematic review is completed and the FCA rules are fully implemented.	November 2022: Transitional period has now ended. We will consider removing this risk before the next meeting if no update in this area happens. FRC consultation expected Q1 2023.
HS04	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 which would be better for those clients/public interest, and/or actuaries do not appropriately highlight limitations where a fast-track approach is adopted.	Pensions	Policy Team	Major	Possible	High	↑ likelihood is increasing	2022-25	AMS Thematic review on corporate pensions advice will touch on this area. Initial findings to be presented to board at Nov 2022 meeting, full report at Feb 2023 meeting. RB deep dive on topic with TPR in attendance at November 2021 meeting.	IFoA Policy Team monitoring situation and awaiting outcome of TPR consultation on DB funding, expected in 2nd half of 2021/early 2022. RB to liaise with Pensions Board and policy team once TPR's final consultation is published	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 will be allowed for. Risk that the more challenging elements of risk to codify get ignored although the risks remain. RB could work with Taper/Pensions Board to highlight issue and find ways to address professional judgement within a fast-track framework. Risk status should be updated once TPR consultation outcome known.	
HS05	DB to DC transfers	Risk of poor outcomes for scheme members/public interest by consumers making inappropriate DB -> DC transfers Risks around actuaries' role in providing advice/communications (either to members themselves or to trustees or sponsors) that members have regard to in making those decisions.	pensions	Regulatory Board	Moderate	Possible	Medium	↔ No change in likelihood	0-5 years	Discussed by RB during deep dive in Feb 2020. RB Chair worked with IFoA Policy team on the published Great Risk Transfer document in 2021 which touches on this risk.	This is raised in the JFAR's latest Risk Perspective document, of which the IFoA is a signatory. Also significant amount of activity on the part of the regulators, including publication of further FCA guidance and joint guidance between the FCA and TPR	Medium	RB with support from Pensions Board / IFoA Policy Team	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. The IFoA Policy team have now published their Great Risk Transfer document, which touches upon some of these risks, but, more specifically, this is a topic that is raised in the JFAR's latest Risk Perspective document, of which the IFoA is a signatory. There has also been a significant amount of activity on the part of the regulators, including publication of further FCA guidance and joint guidance between the FCA and TPR. It therefore seems that there is (and continues to be) a lot of activity to raise awareness already and it isn't clear that there is a need for the Board, at this stage, to take any further steps. It will, however, continue to be monitored and will be captured on the horizon scanning register.	
HS06	Regulatory changes to the Financial Services Bill as a result of Brexit	Potential for divergence from EU rules leading to uncertainty in terms of the extent and nature of the regulatory framework as it relates to actuarial work, particularly for insurance. This could lead to a lessening of EU wide protections for the public. There is a risk that actuaries do not adequately engage in proposed regulatory changes, in particular to protect the public interest.	All	Policy team	Moderate	Possible	Medium	↔ No change in likelihood	0-5 years	Scrutiny of Brexit related issues and implications for the public interest by the RB.	IFoA Policy Team continue to monitor changes to Regulatory framework / respond to consultations as appropriate / continue to monitor and review.	Medium	RB, ICAT, Regulation Team	Financial Services and Markets Bill currently going through Parliament	November 2022: Suggest removal as organisations where actuaries work and IFoA have been responding to PRA consultations on this.
HS07	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 and climate risk). There is a risk of poor pricing outcomes for consumers and/or poor economic outcomes for product providers, as well as reputational risks for the profession.	Life	Policy Team	Moderate	Possible	Medium	↔ No change in likelihood	0-5 years	Discussed by RB in May 2019 (facilitated by member of the Life Board). Board conducted a deep dive on ERMs by RB in July 2021. Seeking update from the ERM working party on current active. EMS ERM Thematic Review is currently open.	Awaiting outcome of research conducted by Equity Release Mortgages Working Party / Ongoing dialogue with PRA (through Policy Team). Virtual meeting took place in spring where PRA was interested in WP's plans for future research/ERM WP issued a call for model outputs in June 2021/ risk highlighted in JFAR Risk Perspective 2021	Medium	RB with support from Life Board & IFoA Policy Team	AMS Review published	November 2022: the ERM report is due to be published on 7 December after the upcoming Reg Board discussion. There will also be a Reg Board paper at that meeting to consider what if anything to do in response to the report.
HS08	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, recent FCA report on GI Home and Motor pricing practices etc. There is a risk that actuaries have been a key element of historical pricing issues and that they are viewed as too slow to act in terms of changes to drive fairer outcomes. Proposed FCA changes may mean even more focus on traditional actuarial areas of data selection/analysis and modelling and there is a risk that there is insufficient balance between customer and commercial perspectives.	GI	Regulatory Board	Moderate	Possible	Medium	↔ No change in likelihood	0-5 years	Standards Framework (in particular Actuaries' Code which requires members to act with integrity) . Regulation Board conducted deep dive on this risk in 2021, with the FCA in attendance. AMS Thematic Review report published on GI Pricing for UK Home and Motor Insurance.	CMA proposals to combat issues of loyalty penalties / Area of focus for industry regulators including FCA (including report on GI Home and Motor pricing practices) / Policy Team conducting project on fairness in pricing / FCA published policy statement on GI pricing in May 2021	Medium	RB with support from GI Board / IFoA Policy Team	Risk is stabilising with all activities to mitigate against the risk progressing. Organisations will be in the process of implementing the FCA policy statement.	June 2022: FCA pricing intervention took effect early 2022. FCA likely to monitor impact of intervention in due course to understand if having intended consequences; impact not clear as at end Q2 2022.  Pricing rules changed from Jan 2022 (i.e. superseding CMA and FCA actions in col M).

HS09	GI reserving	Role of GI actuaries in relation to insurance firms' reserving policies. Concern raised by PRA in its Nov 2019 'Dear Chief Actuary' letter that firms could be taking an overly optimistic/biased view in relation to reserve assessments. Public interest risk in terms of reserving if undue commercial pressures are being brought to bear on actuaries.	GI	PRA	Moderate	Possible	Medium	↑ likelihood is increasing	0-5 years		GI Board & IFoA Policy Team to discuss reserving issues when they next meet with PRA (date TBC).	Medium	RB with support from GI Board / IFoA Policy Team	Current issues relating to reserving driven by concerns over inflation (with impacts arising from Brexit, covid-19 and more recently the war in Ukraine). Given uncertainty over future inflation, interest in reserving likely to be driven by setting of suitable future inflation assumptions/ consideration of inflation exposure. Former concerns over overly rosy/ commercial reserve setting now overshadowed by concerns over inflation uncertainty	November 2022: Suggested removal due to overlap with HS16.
HS10	Introduction of CDC Pension Schemes	New form of scheme being implemented with significant input from actuaries in scheme design, implementation and subsequent operation. Consumer impact if any issues arise with the implementation of CDC schemes.	Pensions	Policy Team	Moderate	Possible	Medium	↔ No change in likelihood	0-5	Consultation of regulatory changes concluded October 2022. Final approval for implementation at November 2022 Regulatory Board meeting. Launch of new pract cert, standards and APS P1 expected in early 2023. Reg board inputted into CDC code consultation in March 2022.	Actuaries on DWP group advising on legislation.	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.	November 2022: Final approval at November 2022 RB meeting of new practicing certificate, standards and APS P1.
HS12	Uncertainty around requirements for Scheme Actuary appointments to Master Trust schemes	Issues relate to uncertainty over whether more than one Scheme Actuary appointment should/can be made to a Master Trust and about whether there ought to be specific requirements applying to someone that is SA to a MT. Concerns also raised by the PCC about their capacity to make decisions on applications relating to new pensions arrangements like this and how it interacts with previous guidelines on volume of SA appointments.	Pensions	Regulatory Policy Team / individual pensions practitioners / PCC	Moderate	Likely	High	↑ likelihood is increasing	Ongoing	Consider as part of PC Scheme review / consider guidance for members advising Master Trusts / consider further changes to APS P1 to reflect new roles	TPR raised issue at JFAR / continue discussions with TPR and Pensions Board. Consultation on Master trusts, as part of CDC consultation, expected late 2022/early 2023	Medium	RB, Regulatory Policy Team, Pensions Board, JFAR	Board to consider any future look into this topic. This risk was combined with previous risk on complexities around Scheme Actuary appointments.	November 2022: CDC Master trusts consultation is still severely delayed. Most likely end 2022/early 2023
HS14	Risk of inaccurate pandemic modelling and future path of longevity as a result of the COVID-19 pandemic	Potential impact upon regulatory compliance by actuaries in all practice areas during and after the 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. Actuaries need to think about how to improve their pandemic modelling.	All	Regulation Team	Moderate	Unlikely	Low	↓ likelihood is decreasing	Ongoing	Regulatory Risk Alert and member communication issued to address issues of regulatory compliance & contingency planning.	Scrutiny of Covid related issues and implications by IFoA generally / consideration by Regulation Team and IFoA Covid 19 Task Force (ICAT) of whether there are public interest implications / Specific ICAT pensions workstream looking at contingency planning for Scheme Actuaries/ Free CPD webinars introduced for all IFoA members.	Low	RB, ICAT, Regulation Team	IFoA Communities Team coordinating ICAT including workstreams covering pricing/modelling/investments. Regulation exec reviewed scoping documents to identify workstreams of particular regulatory interest. ICAT is due to be closed as a separate project and active work being moved into practice areas. A handful of workstreams which do not fit within the practice areas are becoming ICAT version 2. Head of ICAT 2 volunteer to attend February meeting of the Board to discuss further.	November 2022: Suggested update in early 2023 when more knowledge is gained from Winter 2022/23.
HS15	Perceived conflicts of interest and the availability of independent experts for Part VII transfers	There has been concern raised by the PRA through the Joint Forum on Actuarial Regulation (JFAR), regarding the role of actuaries as Independent Experts in Part VII transfers. This is because of a lack of availability of experts in Part VII transfers, meaning an increased risk that conflicts of interest will arise and experts may be too conflicted to be instructed.	GI	JFAR/PRA	Moderate	Possible	Low	↔ No change in likelihood	Ongoing	Issue discussed at July meeting of the Reg Board. Action was to follow up with a meeting with PRA and find out what these issues are. While the IFoA cannot regulate further on this issue, it does concern actuaries professional reputation.	Meeting with PRA, FCA, FRC on 3rd March 2022. Discussed issues - next step is a proposed meeting with actuaries working in this field. Issue was discussed at April 2022 reg board meeting. Outcome was for more awareness by actuaries on perceived conflict of interests, through support and guidance by the PRA. IFoA being kept aware of activities in this area.	Low	RB, Regulatory Policy Team, Pensions Board, JFAR	Added to horizon scan in April 2022. Joint roundtable with PRA/FCA and IFoA held in June 2022 to address these perceived conflicts of interest and the availability of independent experts.	November 2022: Suggested removal due to Board and Exec activity on it this year
HS16	The impact of increasingly high inflation on GI reserving and the impact of consumers and market confidence because of external conditions.	Due to increasingly high inflation because of rising prices in the UK, there is a risk to general insurance reserving after years of benign inflation in many classes, as this is intrinsically projected forward by chain-ladder based techniques.	GI	Members of the GI board	Moderate	Possible	Medium	↑ likelihood is increasing	Ongoing	A member of the GI board was invited to present to Regulatory Board at the July 2022 meeting. Regulatory board agreed for the drafting of a cross-practice area risk alert including GI.	Discussion regarding economic uncertainty and LDI following September 2022, with separate risk alert being proposed by GI board. This was not taken forward by Regulatory Board. Issue is going to feature heavily in both the GI and Life conference in November 2022.	Medium	RB, GI, Life, board - requires ongoing engagement with board	Risk alert published in August 2022, with significant media interest at the time on the IFoA's response.	November 2022: Risk alert published by the board in August 2022.
HS17	The potential impact of economic uncertainty on Liability Driven Investment strategies used within pensions sector	The use of LDI in defined benefit pension schemes has come under scrutiny following recent market instability. Further consideration may be needed of the assessment and communication of risk by individual schemes: whether liquidity issues might have been avoided; and the matter of market concentration/aggregation	Pensions	Regulatory Team	Moderate	Possible	Medium	↑ likelihood is increasing	Ongoing	Risk alert was proposed by the GI board on this issue, but was not supported by the Life and Pensions Board. The board decided not to issue a risk alert. BK will outline IFoA recent activity in this area at the November 2022 meeting.	Matter has been raised with the Joint Forum on Actuarial Regulation and a joint discussion will take place. IFoA is responding to Select Committee inquiry. Discussions taking place with TPR and FRC. Depending on outcome of discussions, the Board may wish to revisit suitability of issuing a Risk Alert.	Medium	RB, Pensions board.	A statement was issued on 21 October 2022 on behalf of the IFoA, which set out the initial considerations by the IFoA. Further updates will be brought once the approach of other regulators becomes clear.	November 2022: New risk proposed for adding to the HSR



Likelihood Scale		
Frequency	Description	Measure
Likely	Higher than average chance it will occur	50% plus
Possible	Reasonable probability it will happen	11 - 50%
Unlikely	Unlikely, but not impossible to occur	0 - 10%

Impact Scale		
Frequency	Description	Measure
<b>Major</b>	Significant regulatory impact	<ul style="list-style-type: none"> <li>- Significant member/public/stakeholder concern</li> <li>- Significant impact on public trust in the profession</li> <li>- Significant impact on IFoA's ability to regulate in the public interest</li> </ul>
<b>Moderate</b>	Moderate level of regulatory impact	<ul style="list-style-type: none"> <li>- Moderate member/public/shareholder concern</li> <li>- Limited short term impact on public trust in the profession and reputation of IFoA</li> <li>- Limited short term impact on IFoA's ability to regulate in the public interest</li> </ul>
<b>Minor</b>	Minor or negligible regulatory impact	<ul style="list-style-type: none"> <li>- Minor or no member/public/shareholder concern</li> <li>- No impact on public trust in the profession</li> <li>- No impact on IFoA's ability to regulate in the public interest</li> </ul>