

Institute and Faculty of Actuaries

Regulation Board

Approval report

Subject	Horizon Scanning Register
Regulation Board meeting	2 February 2021
Previous Board Steer	The Board discussed the register at the November 2020 meeting and asked the Board's sub-group to make further changes to refine and prioritise the risks, subject to the Board giving final approval.
International Issues Considered	Yes
Author	IFoA Executive
Purpose	Approval

A: Executive summary

1. Summary

- 1.1 This paper provides an update on recent changes to the Regulation Board's (the Board's) Horizon Scanning Register (the Register).
- 1.2 The Board is invited to note the update and approve the format and content of the Register, to be kept updated and become a recurring standing item.

B: Background

2. Horizon Scanning Register

- 2.1 A sub-group of the Board (the Chair, Nicola Bevan, Frank Devlin and Marcia Cantor-Grable) and the Executive met virtually in January to discuss the Register, in particular whether the ratings for each of the existing risks was appropriate and how to best refine and prioritise the risks. The group requested the assistance of the Actuarial Executive team, David Gordon and Alan Marshall, to review the risks and help to define the risks by what actuaries are accountable and responsible for.
- 2.2 A number of changes have been made to the Register. A copy of the updated Register is included as **Appendix 1**.
- 2.3 The changes made to the Register since the last Board meeting are set out in the table below:

Risk	Change
All	Each risk reviewed and, where unclear, attempt has been made to be more specific to the role of actuaries within the description of the risk.
All	Actions/mitigations updated where possible with recent developments.
Regulatory uncertainty arising out of Brexit	Description amended to the risk being in relation to divergence in financial services and the impact on consumer protection. Impact amended to Moderate since risks

	appear to be based on possible changes to consumer protection, and Regulation Board only an influencer.
Impact of Covid-19 and related measures taken by UK Government	Description amended to consider the risks/impact as a result of the Covid-19 pandemic, as well as learnings, and how actuaries can improve their pandemic modelling going forward. Impact amended to Moderate and likelihood to possible, since COVID now known to have more limited impact on working age population (eg actuaries).
Impact on consumers if any more major employers enter the Pension Protection Fund	This risk has been removed. Although actuaries involved advising trustees and other actuaries advising sponsors, corporate failure is not linked to their advice.
Actuaries taking into account Climate Change Risks	Description updated to focus on the actuaries' role. Previous risks on biodiversity and climate change disclosures have been merged into this risk. Headline re-worded.
Biodiversity	This has been merged with the above overall risk on climate change.
AI and machine learning Choice of models	Description updated to reflect that the overall risk is the choice is models and the current live risk is around AI and machine learning, and how the models are used and applied, as well as how the data is used. Merged two previous risks together.
Funeral Plan Trusts	The residual risk status has been downgraded and headline risk re-worded.
Actuarial Regulation Review (post Kingman)	This horizon risk has been removed as it is no longer a 'new and emerging risk', it is being actively worked on and considered.
Equity Release Mortgages	The description has been updated to capture and separate out consumer impact, economic outcome for the providers and reputational risks for the profession.
Climate change disclosures	This risk has been merged with the above overall risk on climate change.
Regulatory changes impacting the level of sophistication in underwriting decisions	This risk has been combined with the overall risk relating to choice of models and AI/machine learning.
Claims decisions	This risk has been removed as the sub-group were unable to identify the apparent regulatory public interest risk.
Scenario analysis	This description has been updated to focus on the 'tail-risk'.
Uncertainty over Scottish independence	New risk suggested by the Scottish Board, focussing on a risk that actuaries do not adequately consider or prepare for a potential Scottish independence outcome.

3. Deep Dives

- 3.1 The Board will be discussing the topic of GI Pricing at its meeting on 2 February. There is currently one further regulatory risk deep dives scheduled to take place in 2021, with a discussion on Equity Release Mortgages (ERMs) tentatively scheduled for the Board's meeting in May.
- 3.2 The Board is invited to identify topics for risk deep dives in Q2 2021. It is suggested that two potential topics might be:
 - The role of GI actuaries in relation to insurance firms' reserving policies (following PRA's 'Dear Chief Actuary' letter in Nov 2019); and
 - Implications for actuaries from TPR proposed 'fast-track' DB scheme funding route.

4. Next steps

- 4.1 A copy of the updated Register will be shared in the usual way with the IFoA's Policy and Actuarial Monitoring Teams, Chief Risk Officer and Corporate and IFoA Practice Boards, all of whom will be invited to share with the Board any feedback on existing risks or additional topics or issues the Board may wish to consider for inclusion in the Register.
- 4.2 The Executive will identify speakers to help facilitate the Board's discussion and deep dive on ERMs for its May meeting, including from the IFoA's policy team to provide a background on the IFoA's work in this area.

C: Decision

- 5.1 The Regulation Board is asked to note this update and:
 - i) approve the format and content of the updated Register;
 - ii) provide a steer on which risks the Board would like to focus on over the coming year, in addition to those in relation to which a deep dive is already planned.

D: Appendices

- Appendix 1: Updated Horizon Scanning Register**
- Appendix 2: Register process document**