

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

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. Examples: underwriting/pricing that inadvertently discriminates by sex/race/etc. Investment advice using only backward-looking risk models, given that all climate scenarios are different from the past. Regulatory changes that impact the ability to underwrite risk through restrictions on data that can be used and questions that can be asked. Restricted	Risk Management 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	High	RB	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 rating factors. More pooling leading to an overall increase in the risk cost. Board to consider whether this risk to should be considered in more detail and if any further steps can be taken to reduce the residual risk - or whether to make the risk more focussed.	Movement updated to no change in likelihood to reflect static nature of risk.
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 issued by RB on climate related risks (2017) / Deep dive Nov 2020 (including Green Finance Education Charter) / Proposals around sustainability and climate change changes to the regulatory framework out for consultation between September and December 2021 / CPD campaign and learning tool to support RPD discussions launched / AMS 2021 Data Gathering Exercise report to be published 3 Nov.	IFoA signatory to Green Finance Education Charter (including regulatory aspect) / Scrutiny of climate change issues by JFAR including highlight in JFAR Risk Perspective / 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. Biodiversity and Natural Capital Working party established under the Sustainability Board developing think pieces, webinars, blogs, case studies and other educational resources and responding to relevant consultations.	Medium	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.	Residual risk moved from high (red) to medium (amber), taking into account regulatory and professional steps being taken to mitigate the risk. To be reviewed depending on progress of current projects. Trend is decreasing from likely to possible.
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 is underway, with the findings to be published in 2022. Board to review and update current funeral plan standard/guidance in 2022 once FCA supervision is in place.	FRC's TAS 400 promotes high quality actuarial work in relation to funeral plan trusts / FCA engaging in discussions about risks / issue raised in 2021 JFAR Risk Perspective/ FCA published final rules in July 2022 in light of feedback received/IFoA Funeral plan MIG organising a roundtable in 2021 to discuss issues of new FCA rules	Medium	RB	Encouraging start to AMS Thematic Review which may lead to risk stabilising. 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 in 2022 once thematic review is completed and the FCA rules are fully implemented.	
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	Sustainability Board	Major	Possible	High	↑ likelihood is increasing	2022-25	AMS Thematic review on corporate pensions advice will touch on this area/ RB Deep dive with TPR 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.	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 TPR/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. Board undertaking deep dive with TPR in attendance at November meeting.	Updated to include the Board's deep dive in November

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	High	↔ 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.	Likelihood updated to no change.
HS06	Regulatory uncertainty arising out 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	PRA continuing to carry out a lot of work in this area. Likelihood trend may be decreasing. To seek update from the IFoA policy team.	
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). 2021 AMS Thematic Review to launch in Q4 2021. Board conducted a deep dive on ERM's by RB in July 2021.	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	Await outcome of AMS thematic review.	Updated to reflect the Board's July deep dive on ERM's.
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.	
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	To seek update from policy team.	
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	CDC Regulatory Working Party looking at legislation and role of actuaries/potential risks, including possible PCs and standards. Will help to inform RB's work in this area / interim arrangements being out in place for first scheme / PC being considered as part of wider PC review.	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.	
HS11	Uncertainty over Scottish Independence	There is a risk that actuaries inadequately consider or prepare for a potential Scottish Independence outcome. This may mean that actuaries fail to provide an appropriate level of thought-leadership or advice to organisations, clients or consumers (e.g. potential impact on future regulatory environment; impact on pensions provision/legislation), thus damaging the reputation of the profession to act in the public interest on key matters.	All	Scottish Board	Moderate	Possible	Medium	↔ No change in likelihood	Ongoing	Scrutiny of Scottish independence related issues and implications for the public interest by the RB.	Scottish Board on alert to assess issues that may affect actuaries and the IFoA/ RB to keep alert.	Medium	RB, Scottish Board, Management Board, Council, Policy team	Board to consider any future look into this topic.	

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	Medium	↑ 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	Medium	RB, Regulatory Policy Team, Pensions Board, JFAR	Board to consider any future look into this topic and whether to combine this with risk HS11 above to reflect the complexities around Scheme Actuary appointments.	
HS13	Scenario analysis	Actuaries will often be involved in the design and operation of scenario analysis and/or stress testing in their organisation (or as advisers to organisations). There is a risk that in setting the relevant scenarios and tests actuaries do not consider sufficiently extreme "tail-risk" and hence users of the information are not provided with an appropriate range of potential outcomes on which to base decisions. Examples: climate change, geopolitical scenarios, pandemics, market shocks/disconnections (investment or product related)	Risk Management Life Pensions Investment GI Health	Risk Management Board	Moderate	Unlikely	Low	↑ likelihood is increasing	Now and ongoing		PRA: Climate Biennial Exploratory Scenario (CBES) by the Bank of England - uses three scenarios to explore the two key risks from climate change.	Low	RB to keep watching brief.	Board to consider if this is a risk they wish to look further into (such as a Deep dive or information gathering exercise) or to seek further information on how this is reflected in other parts of the IFoA, such as education.	
HS14	Impact of Covid-19 and related measures taken by UK Government	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.	Likelihood updated to 'unlikely' given trend in likelihood decreasing and steps taken by the IFoA. Overall and residual risk status therefore updated to low to reflect this. Lead ICAT volunteer to attend February meeting of the Board to discuss any further actions if appropriate.
HS15	Perceived conflicts of interest and the availability of independent experts for Part VII transfers	[TBC]	GI	JFAR/PRA	[TBC]									[Seeking further information on risk/issue from PRA/JFAR]	