



RISK ALERT

Climate change and sustainability related issues

KEY MESSAGE

There is a risk that actuaries may not appropriately consider, or communicate clearly, the impact of climate change and sustainability related issues in their actuarial work.

What are Risk Alerts?

A series of email alerts by the Institute and Faculty of Actuaries (IFoA) Regulatory Board drawing Members' (and others') attention to specific issues where the IFoA asks Members to think carefully about the consequences of actions they are taking or not taking.

The information in the Risk Alert is published to support Members and to protect the public interest. The Risk Alert is not mandatory guidance.

This Alert is relevant for the following Members:

All Members.

Subject matter

The IFoA issued a Risk Alert in 2017 on Climate-Related Risks with the key message that actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate-related risks in any relevant decisions, calculations or advice.

Since 2017, it has become increasingly recognised, by governments, businesses and regulators, that climate change and sustainability related issues represent a material financial risk to future economic and market conditions.

It is therefore even more crucial now that actuaries are aware of these issues and that they are appropriately taken into account. Members need to appropriately consider, and communicate clearly, the impact of climate change and sustainability issues or risks within their actuarial work.

Key regulatory updates since 2017

- The IFoA's Actuarial Monitoring Scheme [Climate risk information-gathering exercise](#).
- The IFoA's regulatory commitments, including developing guidance for Members on this topic, resulting from a public [consultation](#) on possible ways to incorporate this area into the regulatory framework.
- The UK's Joint Forum on Actuarial Regulation (JFAR) inclusion of climate related risk as one of the key hotspots in its [2021 update of the Risk Perspective](#).

Other key updates

- Climate related risks continue to be global and systemic, with many uncertainties, reaching into all aspects of the world and not only financial systems and institutions. Global understanding is increasing and climate risk is being linked with wider sustainability issues. The data sources can be vast, heterogeneous and with limited quality assurance.

Considerations for actuaries

Climate change and sustainability represents a variety of risks, including material financial risks for financial institutions which are advised by actuaries and could impact the public interest. The understanding around the implications of climate change and sustainability considerations on financial systems has developed significantly and is an evolving area of expertise.

Some of these climate and sustainability risks are systemic in nature and new, or emerging, areas around this include the risks, opportunities and impacts that can occur from changes to the environment and society.

These risks may not present additional risk factors on their own, but will change the future risk profiles of financial services. For example, the lack of historical data available leads to a need to consider allowances for a range of possible outcomes that may happen in the future and to plan for a variety of forward time estimates by stress and scenario testing.

In addition to actuaries considering and incorporating this area within their roles where relevant, there is also a need to consider what further support is required from other experts and carefully consider any relevant communications.

Actuaries can play a key role in shaping future financial systems and leading positive changes for the management of these risks to protect the public interest. Additionally, actions taken now in response to these risks could amplify them, or alternatively help to mitigate against them. This emphasises the importance of the professionalism required to consider, and support, individual and collective action in the mitigation of systemic risks.

For further information and examples of the work that actuaries are doing in this area, please visit the sustainability page of the [IFoA's website](#).

Professional obligations

Members are reminded of their obligations under the Actuaries' Code ('the Code'), Actuarial Profession Standards (APSs) and the Technical Actuarial Standards (TASs) issued by the Financial Reporting Council.

Further information and support

Members who have specific professional questions or concerns should send those to the regulation team at regulation@actuaries.org.uk. Members can also get support on ethical or technical issues through the Professional Support Service.

Further IFoA support for Members includes:

- CPD Reflective Practice Discussion (RPD) Toolkit on Climate change and sustainability: intended to be used in a Reflective Practice Discussion as part of the reflective process in identifying learning objectives and considering how those can be met through activities and other learning opportunities.
- Sustainability and Climate Risk course: this will introduce the main concepts of climate risk and sustainability that are relevant to actuaries, what impact they might have on actuarial work and how to apply these concepts.
- A climate change curated library
- Sustainability Board practical guides
- Professionalism video case-studies to be launched in 2022
- Incorporating climate change and sustainability into specific subject areas across the IFoA's career long-learning provision
- The IFoA's regulatory commitments, including developing guidance for Members on this topic.