

Institute and Faculty of Actuaries, Regulatory Board

Subject	Horizon scan annual review
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Purpose	Steer

A: Executive summary

1. The Board is asked to **provide a steer** on:
 - substantive updates to the horizon scan (**Appendix 1**);
 - proposal for an improved horizon scan format (**Appendix 2**); and
 - the on-going membership and approach of the Board's horizon scanning sub-group.
2. During June and July, the Executive requested feedback on the existing content of the horizon scan from the IFoA Practice Boards, attending one meeting of each Board. Practice Board feedback was collated (**Appendix 3**) and discussed by this Board's horizon scanning sub-group at a meeting on 25 July. That discussion informs this paper.

B: Background

3. The Regulatory Board's horizon scanning register was introduced in May 2020, to support the Regulatory Board's risk-based approach to regulation. The register has since appeared as a standing item at Regulatory Board meetings and has been discussed at the Board's Strategy Days. It is an evolving tool which allows the Board to focus regulatory interventions on areas of actuarial work where there may be risk to the public interest.
4. At the Board's September 2023 Strategy Day, the Board agreed to put together a sub-group of three Board members to meet and discuss the horizon scan between full Board meetings. Over the last year, this sub-group has met in advance of each Board meeting, to identify a key focus risk to be featured, in-depth, at the full Board meeting. This approach has been instrumental in supporting the Board to get maximum value out of the time available throughout the meeting cycle to consider the horizon scan.

C: Updates to the horizon scan

5. The Board is asked to consider the following discussion points, raised during the sub-group's discussion and to **provide a steer** on substantive updates to the horizon scan. Following the Strategy Day, the Executive will provide the Board with an updated horizon scan based on the Board's discussion.

D: Discussion points

6. We propose to retain a theme-based approach for individual HS entries, with more specific sub-themes or risks highlighted to the Board through its regular review, and any associated deep-dive activity.
7. In the table below we have outlined a number of discussion points, including potential new items, as well as some proposed removals and revisions to existing items.
8. We have also summarised some additional discussion points from the HS sub-group review where we are not proposing to add specific entries to the horizon scan.

Potential new items

Actuaries insufficiently challenge established practices and theory, in the face of significant economic, environmental, and societal changes.

Actuarial training, in common with other financial disciplines, uses established financial economic theory in relation to the pricing and valuation of market assets. This may lead to valuations driven by short-term benchmarking whereas long-term value may come under increasing pressure from the impacts of climate change, significant technological advances, or geopolitical upheaval. This could be extended to other aspects of the actuarial skillset, where established thinking may need constructive challenge.

[This could be combined with HS05 (“Actuaries not appropriately allowing for significant changes in economic environment”) to create a broader Group Think risk.]

Actuarial involvement does not sufficiently promote and ensure fair consumer outcomes and financial inclusion

IFoA research and publications, such as the Great Risk Transfer, Inclusive Insurance, and the Poverty Premium, have highlighted where there are increasing questions around fair consumer outcomes, including for more vulnerable consumers. Additionally wider industry work looking at gaps in protection and savings (including pensions) suggests that financial services is not delivering well for society and consumers as a whole. In the UK the FCA’s Consumer Duty aims to address certain aspects and the regulator will track how organisations are implementing its requirements.

[Potential to update HS04 (“Products which combine higher risk of adverse outcomes with significant actuarial involvement”) with a greater consumer focus, or introduce a new item.]

Potential changes to existing items

HS01 – Failure to appropriately promote and allow for climate change, biodiversity, and sustainability risks: PROPOSE UPDATED WORDING

We propose to retain this entry with some minor updates to wording.

HS02 – Complex models insufficiently validated and understood, or poorly communicated: PROPOSE UPDATED WORDING

In discussion with practice boards there was some feedback relating to this entry being more focused on developments in AI, seen as higher risk. There were also comments around whether communications should be separated out from model risk. We have proposed some updated wording for this entry.

HS03 - Risk associated with multiple significant pensions developments over a short period of time: PROPOSE UPDATED WORDING

Feedback from Practice Boards indicated that this item needs more clarity. The sub-group requested that this feedback be discussed by the Board. The recent Virgin Media case is an example of such a development which has a potential impact. The Board may also wish to discuss whether the implications of that case should be incorporated (in addition to immediate actions in response to the appeal judgment).

The Executive suggests this risk is retained while there is significant ongoing government and other regulatory activity on pensions. This will enable a broad view to be taken of pensions developments, and to ensure any specific issues requiring attention can be identified.

As noted, in the future reviews paper, this is also an area where a thematic review could be scheduled, to capture the advice being delivered by actuaries in the context of emerging legislation.

HS04 - Products which combine higher risk of adverse outcomes with significant actuarial involvement: PROPOSE REMOVE

Covered by proposed new risk, above, focusing on fair consumer outcomes and financial inclusion.

HS05 - Actuaries not appropriately allowing for significant changes in economic environment: PROPOSE REMOVE

To be included within Groupthink themed entry proposed above.

HS06 - Risk of inaccurate pandemic modelling and future path of longevity as a result of the COVID-19 pandemic: PROPOSE REMOVE

Pandemic mortality, and the extent to which it is allowed for in assessments of future mortality projections, is now firmly embedded in the Continuous Mortality Investigation and to that extent this risk is mitigated. There is also other regulatory focus on both capital modelling, and operational resilience which further mitigates.

Other areas of interest from HS sub-group discussion

Social care

Actuaries have the skill set to produce good research on social care and move these things forward in that challenging area, but it is not clear that actuaries are doing that. There may be potential to incorporate into a consumer-focused horizon scan item (see proposed new entry above).

Collective Defined Contribution (CDC) pension schemes

There is currently no specific mention of CDC schemes on the horizon scan. Nonetheless, the uptake of CDC arrangements has been lower than may have been expected, now that all the regulatory arrangements are in place, with only one such scheme in the UK. CDC could be included into one of the other risks – for example group think, fair consumer outcomes or multiple pensions developments – in light of developments in this market.

Cyber risk

Notwithstanding the on-going thematic review, the Board may wish to consider whether the increasing attention cyber risk and operational resilience has attracted in public debate following recent high profile incidents merits further focus.

Maintaining demand for actuaries

The sub-group considered whether to recommend a new risk around maintaining demand for actuaries due to the downward pressures in some traditional areas of work not being balanced by opportunities in emerging wider fields. However, the Executive considers this would only be appropriate for the Horizon Scan if there was an associated public interest risk. There is a risk similar to this on the IFoA's own strategic risk register.

E: Revised horizon scan format

9. The Board is asked to consider the revised horizon scan format provided at **Appendix 2**, and **provide feedback to the Executive, and a steer** on moving to this new format.
10. The proposed revision to the format of the horizon scan, to some extent, moves away from a classic risk register format. The Board is asked to consider whether in the longer term, a move to a theme-based approach may be more appropriate. For example, such as the "Major Trend Descriptions" in the appended CRO Form Emerging Risk Initiative (**Appendix 4**).

F: Horizon scanning sub-group

11. The horizon scanning sub-group was set up at the September 2023 Strategy Day, with three members of the Board volunteering to meet and examine the horizon scanning in between full Board meetings. The Board is now asked to consider the sub-group's **approach** and **membership** for the coming year.
12. During the last year, the sub-group has been meeting in advance of each full Board meeting to identify a key focus risk ahead of the approaching Board. Based on those discussions the Executive has prepared a paper at each Board meeting, and where appropriate, invited relevant experts from the Practice Boards to join Board meetings for the associated agenda item. The Board is asked to **provide feedback on this approach and provide a steer**.
13. The Board is asked to consider the membership of the sub-group for the coming year.

G: Conclusion

14. The Board is asked to **provide a steer on:**

- the substantive content of the horizon scan
- the proposed updated format for the horizon scan
- the approach and membership of the horizon scanning sub-group.

H: Appendices

- **Appendix 1**, Existing horizon scan
- **Appendix 2**, Horizon scan 2.0
- **Appendix 3**, Practice Board feedback
- **Appendix 4**, CRO Forum, Emerging Risk Initiative (pages 4 & 5, Major Trends)