

## Institute and Faculty of Actuaries, **Regulatory Board**

<b>Subject</b>	Key focus risk – climate-related risk
<b>Meeting date</b>	16 July 2024
<b>Previous Steer/Approval</b>	Various – risk alerts, thematic review, guidance
<b>Related horizon scan code</b>	HS01 – climate change, biodiversity, and sustainability
<b>International issues considered?</b>	Relevant
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<b>Reviewer</b>	David Gordon, Senior Review Actuary
<b>Purpose</b>	Steer

### **A: Executive summary**

1. This paper is to provide the Board with background information on Horizon Scanning Register entry HS01, which covers climate change, biodiversity, and sustainability in the context of actuarial work:
  - **“Failure to appropriately promote and allow for climate change, biodiversity and sustainability risks”**
2. Actuaries, and the IFoA, have become increasingly active in this area over the last 5-10 years. This has included significant activity by the Regulatory Board, encompassing risk alerts, non-mandatory guidance, and an information gathering exercise carried out by the AMS team.
3. Wider IFoA activity, driven by a consistently engaged and active Sustainability Board, and working parties focused on climate change and sustainability, has been considerable, including the production of well-received thought leadership material.
4. The Board is asked to provide views on where we have reached, and to what extent there are further IFoA regulatory activities that can be progressed to help actuaries, and wider society, manage and mitigate this key risk.

### **B: Introduction and Background**

5. The Horizon Scanning Register definition is as follows:
  - **“Failure to appropriately promote and allow for climate change, biodiversity, and sustainability risks**
    - **actuaries do not sufficiently allow for climate-related risks in the work that they carry out, including appropriate catastrophe outcomes.**
    - **actuaries may not sufficiently promote risks to climate, sustainability and biodiversity within their organisations, and guard against greenwashing.”**

6. The IFoA Regulatory Board has considered this risk and previous versions of similar risks over recent years, with key activity as follows:
  - 2017 [Risk Alert: Climate-related risks](#)
  - 2021 [Information Gathering Exercise: Climate-related risk](#)
  - 2022 [Risk Alert: Climate change and sustainability related issues](#)
  - 2024 [Non-mandatory guidance: Ethical and professional guidance on climate change](#)
  - 2024 [Risk Alert: Climate change scenario analysis](#)
7. Key wider IFoA publications, which consider a range of aspects with relevance to actuaries for climate change, sustainability, and biodiversity, have included:
  - 2021 [Climate change statement](#)
  - 2022 [Climate Emergency tipping the odds in our favour](#)
  - 2023 [Biodiversity and nature-related risks policy statement](#)
  - 2023 [Emperor's New Climate Scenarios – a warning for financial services](#)
  - 2024 [Climate Scorpion – the sting is in the tail](#)
8. Additionally in 2022 the IFoA introduced the [Climate Risk and Sustainability Course](#). This is intended as an introduction to the main concepts of climate risk and sustainability relevant to actuaries, and what impact they might have on actuaries' work.
9. There also exists a [CPD Reflective Practice Discussion \(RPD\) Toolkit on Climate change and sustainability](#): this is intended to be used in a Reflective Practice Discussion as part of the reflective process in identifying learning objectives.
10. In recent years there have been numerous conference sessions and webinars where IFoA members have shared insights and experiences in this field. This is expected to continue, as actuaries grow their skills and influence in this key area of work.
11. There has also been significant activity from other UK regulators. The FRC, TPR and FCA have principally focused on disclosure requirements and outputs, with the FCA also recently publishing [anti-greenwashing guidance](#). The PRA has carried out reviews into how financial services firms have implemented requirements around climate-related financial risk and in conjunction with the Bank of England, has also included [climate-related scenarios in industry stress test exercises](#). Lloyd's of London carried out a [thematic review looking at climate change catastrophe modelling](#). An aspect the Board may wish to consider further is knowledge and visibility of wider global regulatory activity impacting our members.
12. The IFoA Sustainability Board conducted a deep dive on policy and regulation at their most recent meeting, 19 June 2024. The paper accompanying that Board's discussion is included as **Appendix 1**.

## **C: Considerations for actuaries**

13. In developing the IFoA regulatory material outlined above, the Board has discussed and debated the considerations for actuaries on climate change a number of times. This section of the paper is not intended to be exhaustive, outlining some of the ongoing and emerging aspects which continue to have a material impact on the work of actuaries.
14. Climate-related data trends, supported by scientific evidence, continue to worsen. This brings with it a reduced chance of meeting existing targets aimed at mitigating the risk and an increased likelihood of significantly adverse future outcomes.
15. This is exacerbated by an ongoing mismatch between global policies and regulations, versus the actions required to stay within targets. A recent survey (source: The Guardian) found that 80% of leading climate scientists expect existing policy will lead to 2.5 degrees warming versus COP target of 1.5 degrees.
16. IFoA member-led thought leadership output (“Emperor’s New Climate Scenarios” and “Climate Scorpion”) indicates existing scenario and stress testing is leading to a material understatement of potential adverse outcomes. This understates the risk and may lead to reduced urgency of required actions.
17. There is an ongoing risk of greenwashing and virtue-signalling of actions with limited positive impacts. It is important to ensure organisations do what they say they will, and appropriately challenge where actions may not deliver sufficiently positive outcomes.
18. There continues to be examples of where climate change may impact on the ongoing insurability of risks. This could have a serious knock-on to financial inclusion and the critical role of insurance within society.
19. There is likely to be further changes in the range of investments deemed appropriate for pension and insurance funds, and wider financial services. There is a question mark on whether the markets, often dominated by short-term thinking, are appropriately pricing the longer-term impact of climate change on certain asset classes and sectors.
20. We know actuaries are already involved and utilising their skills to make a difference in the field of climate change and with IFoA support this influence can continue to grow. This brings with it responsibility and a reputational risk which ongoing regulatory focus can help to mitigate.

## **D: Conclusions**

21. The Board is asked to consider whether any of the points raised during the course of the discussion indicate the need for further IFoA regulatory activity to address public interest risks at this stage.
22. Some potential steps and discussion points the Board might consider include:
  - a) Would further deep-dive activity on this topic be helpful? (for example, focusing on recent IFoA thought leadership output, or global regulatory developments)
  - b) Would further non-mandatory guidance be appropriate and helpful for members?

- c) Is there additional career-long learning material that should be developed to provide support to Members working in this area? (again, building on thought leadership developments, or areas where actuaries may need to more actively promote appropriate actions)
  - d) Would updated thematic review activity be helpful to gather further information on the most recent work of actuaries in this space?
  - e) Are there collaboration opportunities that could be explored with other regulators?
  - f) Should there be consideration of mandatory standards for climate change? (either internally to the IFoA, or through liaison with other relevant regulators)
23. We would note that the list in paragraph 22 would normally include consideration of a Risk Alert. However, given there have been three climate-related risk alerts issued since 2017, with the last one in June 2024, it is suggested this isn't a potential step at this stage.
24. The Horizon Scan entry HS01 continues to assess this risk to be 'High', and the Executive recommends the Board continues to regularly monitor this risk and consider further actions.

## **E: Appendices**

- **Appendix 1**, Sustainability Board paper
- **Appendix 2**, HSR extract – HS01