

Institute and Faculty of Actuaries, Regulatory Board

Subject	Risk Alert – Climate Change Scenario Analysis
Meeting date	14 May 2024
Previous Steer/Approval	Aug 2023 – via email Mar 2024 – via email
Related horizon scan code	N/A
International issues considered?	This Risk Alerts applies to all members
Author	Sarah Borthwick, Interim Regulatory Board Secretary
Reviewer	Cargill Sanderson, Regulatory Policy Manager
Purpose	Steer

A: Executive summary

1. The purpose of this paper is to ask the Board to **provide a steer** on outstanding discussion points on the draft Risk Alert on climate change scenario analysis.

B: Introduction

2. In August 2023 the Board discussed, via email, whether a Risk Alert on climate change scenario analysis should be issued, following a suggestion from the Sustainability Board (SB). The Board agreed that a Risk Alert should be issued. The Secretary discussed suggested drafting improvements with the SB, including making the Alert less generic. The SB made changes to the Alert and contacted the Secretary in January 2024, seeking to progress issuing of the Alert.
3. At the 14 February 2024 Board meeting, under AOB, it was agreed that the Secretary would contact the Board, via email, to progress the issuing of the Risk Alert. The updated Risk Alert was then circulated and comments were sought from the Board.

C: Issues with the Risk Alert

4. Several of the comments made by Board members have been incorporated into the draft Risk Alert, but there are some matters which require Board discussion before the Risk Alert can be finalised. An updated draft of the alert can be seen at **Appendix 1**.
5. There was no consensus between Board members as to whether IFoA members would understand the context and applicability of the Risk Alert; in particular, the difference between “Climate Change Scenario Analysis” and “stress and scenario testing”. The Board is asked to discuss this point and **provide a steer** on a preferred approach.
6. The Board asked whether this Risk Alert should be shared with the General Insurance and Life Practice Boards for comment. As set out in the Standards Approval Process, the Risk Alert approval process is intended to be light touch to ensure that, once it is decided an Alerts is required, it can be issued quickly. There would, therefore, need to be very good justification for

consulting additional Practice Boards. In this context, the Board are asked to **provide a steer** as to whether it deems further consultation necessary and the reasons for any such consultation.

7. The Board suggested that the Alert should be more specific and name particular models/scenarios. The SB has expressed concern that, achieving this would require a longer-term piece of work, lasting at least 6 months, and have expressed discomfort with the inclusion. The SB were advised that this matter would be discussed by the Board. The Board are asked to **provide a steer**.
8. The Board are asked to note that the Prudential Regulation Authority are working on an updated risk policy statement on climate change. It is expected that this will be detailed and include content on scenario analysis. It is expected to be issued for consultation around November 2024.

D: Conclusions

9. The Board are asked to **provide a steer** on the matters set out at paragraphs 5 to 7, above, and decide how they wish to proceed with the issuing of the Risk Alert.

E: Appendices

- **Appendix 1** – draft Risk Alert on climate change scenario analysis