

Submitted via a standardised online [form](#) for [consultation](#).

IFoA Consultation - Proposals for changes to the Regulatory Framework on Climate Change and Sustainability

1 December 2021

1. To what extent do you agree that the IFoA should explicitly reference climate change and sustainability in its regulatory and professional requirements?

Strongly Agree X
Agree

Disagree
Strongly Disagree

Please provide any reasons or further explanation for your response here:

We agree with the comments within the consultation document that climate change and sustainability will be among the biggest themes for governments and business over the next few decades. Indeed, the recent focus on global climate change as part of COP26 and the focus on climate change within actuarial fields such as pensions through Task Force on Climate-related Financial Disclosures (TCFD) highlights that this is already a major issue for society, governments and businesses.

Whilst we strongly agree that professional requirements and regulations should explicitly reference climate change, we believe that the way this is implemented is critical in terms of:

- The behaviours it encourages from members
- The benefit to users of our advice
- The perception of the profession in its wider public interest role; and
- The risks that changes create for members.

In particular, additions and changes to the regulatory and professional requirements should reflect agreed best practices amongst practitioners within the industry and actively support members in helping them meet their duties and obligations.

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2. To what extent do you agree with option A that amplification 2.1 (competence and care principle) of the Actuaries' Code should be amended to include 'climate change and sustainability', as outlined above?

Strongly Agree
Agree

Disagree
Strongly Disagree X

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

Whilst there were a range of views amongst members, the majority strongly disagreed with making changes to the actuaries' code in way proposed. There was agreement that making a change in this fashion would represent a departure from the approach taken elsewhere within the actuaries' code – which by definition is a principles based ethical code that applies to members conduct. Its nature is broad and places the onus on individual actuaries to determine how to comply in a proportionate and reasonable fashion.

As set out in our response above, we agree that climate change is a very significant risk. Our disagreement is in the proposed implementation. In our view, singling out any single specific risk, no matter how important, is not within the spirit of the code. In this specific case it provides for a disproportionate focus on an area which in many cases may not be relevant to the advice or user.

In addition, we think both singling out this item within the code, and the proposed wording itself places a disproportionate expectation on actuaries in what is a highly complex and emerging area. What could be reasonably considered as relevant knowledge and skill on climate change is incredibly broad given the myriad areas of actuarial advice that climate change could touch, including (but not limited to), investment strategy, mortality and economic assumptions. Such a change to the code without clarity on best practice risks actuaries feeling compelled to include commentary that is subjective and of limited real-world application to the detriment of their advice and ultimately end users of this advice.

3. To what extent do you agree with option A that amplification 6.3 (communication principle) of the Actuaries' Code should be amended to include 'climate change and sustainability', as outlined above

Strongly Agree
Agree

Disagree
Strongly Disagree X

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

Please see response to question 2.

4. To what extent do you agree with option B that amplification 2.1 (competence and care principle) of the Actuaries' Code should also be amended to include 'new and emerging risks', as outlined above

Strongly Agree
Agree

Disagree
Strongly Disagree X

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

The comments in response to Option A largely apply here, but with additional concerns around unintended consequences.

In our view, whilst including wording on 'new and emergent risks' helps address concerns around climate change being placed on a pedestal within the code, it also opens up actuaries to the potential for significant criticism with the benefit of hindsight.

It is not clear from the drafting what would be expected of actuaries in trying to identify new and emerging risks, what level of knowledge would be required and what may be useful in communicating to users.

An example of this would be COVID-19, and when in practice this would have been classified as an emerging risk under the code, when it would have been reasonable to include or exclude considerations on COVID-19 from actuarial advice and indeed whether COVID-19 is now no longer a new and emerging risk and therefore whether the interpretation under the code is that it should be of lesser relevance.

As a more specific example, in January 2020 it wasn't immediately clear the extent to which the potential pandemic should influence advice or decisions. However, with the benefit of hindsight, the pandemic was clearly a significant and material issue with a broad range of impacts on society and businesses and therefore actuarial advice and the decisions to be taken as a result of such advice. It is unclear to us whether the code as drafted would have expected actuaries to comment, and gives rise to a real risk that in situations like this example that actuaries could be unfairly criticised with the benefit of hindsight.

Furthermore, the pandemic provides an excellent illustration on the speed at which relevant knowledge and skill in new and emerging areas can develop. Again, placing an individual onus on actuaries to assess requirements here, where best practice has not yet emerged, is in our view unhelpful.

5. To what extent do you agree with option B that amplification 6.3 (communication principle) of the Actuaries' Code should be amended to include 'new and emerging', as outlined above?

Strongly Agree
Agree

Disagree
Strongly Disagree X

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

Please see response to question 2.

6. To what extent do you agree with Option C and the IFoA issuing specific non-mandatory guidance on climate change and sustainability issues, that highlights the resources available and illustrates ways to fulfil the requirements of the Code?

Strongly Agree X

Agree

Disagree

Strongly Disagree

7. If you Strongly Agree or Agree with question 6, do you think that such guidance should be?

In addition to changes to the Actuaries' Code

Instead of changes to the Actuaries' Code X

Please provide any reasons or further explanation for your response here:

As set out above, whilst there is agreement of the importance of climate change as an issue, we believe that the actuaries code should be principles based and not drawing out individual risks.

We see non-mandatory guidance as an excellent way to initially set out best practice in a way that can be refined and updated to reflect the fluid nature of new and emerging risks such as climate change.

We would also note that initial guidance could also act as a 'stop-gap' whilst the IFoA considers developing best practice, the way that this can be reflected in advice and any additional relevant training and resources to offer its members.

8 Are there additional areas of non-mandatory guidance you would like to see on climate change and sustainability?

Approaches developed to date tend to focus on the investment implications of climate change where in practice climate change impacts multiple facets of actuarial work, for example mortality, sponsor covenant and journey planning.

That said, providing tangible advice on this issue is difficult and more thinking is required by the profession noting that in many cases the uncertainty works both ways. More work is required by the industry as a whole to develop best practice.

9. What, if any, impact do you think the proposals (either in Options A, B, C or D, please specify) would have on users of actuarial work and public confidence in actuarial standards?

As stated elsewhere in our response, in our view there is a real risk that any of the proposed changes have either a limited or detrimental impact to users of actuarial work. In practical terms, without meaningful guidance on best practice that is relevant to the advice being issued, we believe that the proposals as drafted would risk many actuaries simply adding vague statements to their advice given the broad plausible range of climate outcomes and the broad range of impacts that this might have.

So bearing this in mind, we suspect that D would have the largest impact, followed by B and A with C having the smallest impact. A, B and D would force actuaries to be more explicit about

climate change. Given the subjectivity of the issues outlined above, coupled with the risk to actuaries of hindsight risk, there may be some users who feel that we are raising broad, subjective issues without adding value. In some cases, presenting extreme outcomes from climate change risks detracting from the core advice.

Equally the impact on users and public confidence more broadly don't necessarily work in the same manner or direction. As outlined above, whilst D, B and A will have the largest *impact* on users we don't think this impact will always be helpful. That said, a more visible and mandatory code may (at least initially) increase public confidence in actuarial standards.

However, an element of public confidence will always stem from the overall quality of the advice. Mandating climate change as a factor within actuarial advice, leading to the inclusion of a broad range of information that detracts from the advice being delivered to the user may not ultimately improve the confidence users have in our advice.

Regarding Option D in particular, there may well be an argument for the introduction of a new APS or (some other way of providing mandatory guidance such as incorporation of additional guidance in subject specific APS). However, in order to form a definitive view on Option D we would need to understand the proposed content of such guidance.

10. What are your views on the extent to which these proposals, as a whole, would demonstrate the IFoA's commitment to promoting the public interest in its regulatory role? Are there any aspects that you think have been overlooked? (please specify)

Changes to the actuaries' code may be more visible than other changes such as additional guidance. However in our view, the best way to demonstrate commitment is not by making small changes to the code. The best way is where changes are made in a meaningful way with supporting guidance on best practice. In general changes should only be made if they would be of benefit to users and lead to better advice, decisions and outcomes rather than forcing actuaries to perform an exercise and incur cost for users as a box ticking exercise.

11. Is there any further support on climate change and sustainability that you would request for Members?

As stated above, this is a broad area where deep expertise is required to advise credibly. Providing further CPD opportunities, practical examples, case studies and emerging best practice is key to ensure that changes to actuarial advice enhance rather than detract from actuarial advice.

Response ends