



IFOA RESPONSE TO PRA CONSULTATION CP10/25

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA consultation CP10/25 on enhancing banks' and insurers' approaches to managing climate-related risks (update to SS3/19). This response is prepared by the IFoA Sustainability Board, General Insurance Climate Change Working Party, and General Insurance Exposure Management Working Party. It is written in the public interest.

Key recommendations:

- **Explicit acknowledgement of the twinned importance of biodiversity and other intersectional risks** in climate-related risk analysis and management, with the need to explicitly consider the plausible macro-economic and geopolitical consequences of climate-related and nature-related “extreme but plausible” events.
- **Clearer articulation of proportionality and providing more illustrative examples:** especially to outline minimum expectations of smaller insurers.
- **At least a year's implementation timeline**
 - Ideally, with an accompanying structured programme to develop supporting guides and case studies, which PRA could liaise with CFRF and industry bodies to provide.
- **Litigation risk** to be considered as a separate risk to physical risk and transition risk to reflect the size and scope of potential liability claims.

Actuaries play a crucial role in promoting the understanding and integration of climate risks and opportunities within decision-making, and in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics and the transition to net zero may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities.

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1. The IFoA is supportive of the direction of CP10/25. It raises the bar by setting out clearer expectations for firms. We welcome too the additional granularity provided by the regulator, which makes the supervisory statement much clearer in terms of how to align to it.
2. The IFoA believes that more needs to be done on addressing climate risk. We have been supporting members with a series of practical guides, risk alerts¹ and ethical and professional guidance on climate change², as well as educational resources to have the right skills and competencies to be able to support firms in meeting these expectations.
3. We are encouraged by the recognition that there may need to be a range of climate scenarios for different use cases, and we support stochastic approaches where possible. The inclusion of short term and narrative scenario references supports all risk-integration efforts and is particularly welcome for businesses that do not fit the 20yr+ NGFS model.
4. We note the increased focus on quantification, especially to support granular risk appetites. Quantification does improve the quality of discussion, but care is needed that it is not based on misleading historical-only values. Our research shows that relying on historical models that do not show alternative scenarios may lead to false conclusions about the overall resilience of a business model. Model development is required to better capture risk drivers, uncertainties and impacts³. Again, stochastic approaches should be encouraged.
5. It is positive that there is a recognition of the importance of a narrative approach to identifying risks. A narrative scenario that expresses what could happen and the quantification of impacts under that scenario is helpful in providing direction and rank on risks⁴.
6. The increased link into strategy is also welcomed. Greater connectivity between strategy risk management and scenario analysis is important to ensure that the underlying issues are understood and managed. There may be potential for further integration of some of the narrative and use case points highlighted in the strategy section within the RM and CSA expectations.
7. While the paper touches on identifying novel and complex threats, such as assessing second-order climate-related impacts, details are limited. Notably, there is limited mention of macroeconomic factors like inflation and GDP, and no reference to social factors, the magnifying impacts on inequality nor the role of the just transition in future pathways⁵. There is no mention of nature-related risks. This is also important as nature-related risks are not independent of physical risks; considering one without the other can result in an understatement of the risk. Broader environmental risks are directly referenced in EBA ESG risk management guidelines⁶ which indicates the move towards a broader consideration internationally.
8. The consultation mentions compound risk, referencing a Bank for International Settlements paper and implicitly the underlying NGFS paper which focused on the compounding of physical hazards. This leaves broader risks less explored. For example, there is little reference to the climate impacts on macroeconomic factors which are key risks for insurers. Moreover, a recent GFI report emphasises that nature-related risks might be just as impactful on the UK economy as climate change risks⁷. So robust

¹ IFoA [Risk Alert: Climate change scenario analysis](#) (2024); Climate Change and Sustainability Risk (2022)

² IFoA [Ethical and professional guidance on climate change](#) (2024)

³ IFoA [Emperor's New Climate Scenarios](#) (2023)

⁴ Ibid.

⁵ IFoA [Climate Inequality & Just Transition An Introduction for actuaries](#) (2024)

⁶ EBA [Guidelines on the management of ESG risks](#) (2025)

⁷ GFI [Assessing the Materiality of Nature-Related Financial Risks for the UK](#) (2024)

risk management approaches should include the compounding impacts across these broader environmental and economic factors. The work of the Just Transition lab⁸ highlights the importance of the transition to be just and fair. Physical impacts of climate change are likely to be greater on more vulnerable communities which are less resilient to the impacts. Thus, the compounding impacts on health, income, affordability and social cohesion should be directly considered by FIs.

9. We note the emphasis on how firms may “avoid” climate risks. We would like to recommend caution on this approach – a) There is a potential adverse social impact from rising un-insurability that will have social impacts and increase reliance on the state for lenders of the last resort, and b) It is unlikely that firms can avoid a systemic risk.
10. There is little mention of how counterparties of FIs can manage climate risk, be it through transition plans or adaptation. In the case of banks, the availability of insurance is a key consideration for future physical risk exposure. It is recommended to include some mention of the importance of risk mitigation in the context of climate risk as this is a key lever, not only for the reasonable measurement of a climate risk but for FIs to manage their risk beyond resorting to increasing prices or limiting exposure.
11. The CP includes further expectations for firms to form a view on a central scenario – this needs to be treated carefully to ensure that the regulations are driving long-term sustainable business decisions. A near-term central scenario is a challenging one to set and needs to be treated with care – it should be firm-specific but needs to take into account the existing policies and policy frameworks, i.e. a balance between the tragedy of the horizon and firms’ business planning cycle. The PRA should be cautious about unintended consequences of an industry focused on an overly short-term horizon that may slow down a transition to mitigate against the long-term physical risks.
12. While plausible scenarios are useful for decision making, the variability around climate change, and the lack of expertise within financial institutions, means a “most-likely” scenario may differ greatly between different FIs. We would see this as appropriate and a function of the market “working”, as it supports the “competition of ideas” and market resilience through different business strategies and responses.
13. While reverse stress testing is a valuable exercise (4.3.11), more discretion should be given to the outcome of the reverse stress test other than business failure. For businesses that operate over a short (3 year) time horizon, there are relatively few plausible scenarios for full business collapse relating to climate change.
14. Scenarios are one of a number of risk management tools. There might be risks which are not well suited to scenario modelling, particularly where the outcome of the risk materialising could occur in a vast number of very diverse ways and locking one potential manifestation into a scenario could misrepresent the risk. Requiring scenarios to capture *all* material risks (4.3.3) may give rise to an unhelpful number of scenarios, depending on granularity of risks. While material risks should be considered as part of a risk management exercise, we do not feel they need to be all included in the scenario analysis part of risk assessment.
15. The ways proportionality applies to smaller and mid-sized firms is not clear. The practicalities of meeting proportionality thresholds should be set out in the statement or supporting documentation.
16. The requirements to have a thorough understanding of all the model components lack clarity on the degree of detail and understanding required. There should be an understanding of the co-ordination efforts underlying the IPCC modelling, key assumptions, run selections, the key uncertainties underpinning the models and how these influence the modelling outputs. However, it should not be necessary to understand all the elements of climate modelling and climate systems.

⁸ [The Just Transition Lab](#)

17. With respect to understanding data and models, does this apply to external climate risk assessment models which produce metrics such as credit or underwriting risk impacts? We would recommend stronger wording on validation of external climate risk models given the nature and number of assumptions required to achieve a useful result. Moreover, these models may make use of a range of data to produce results; understanding the model and its data use is arguably a natural extension of the data consideration for climate risk management.
18. Finally, we note that the PRA has maintained its risk taxonomy into the two primary channels of physical and transition risks. We believe that it is critical for this high-level structure to be extended to liability risk, being the risk of litigation brought against regulated firms, their clients and their business counterparties.
19. We believe that there are a number of strong reasons why climate liability risk should be included in the considerations of regulated firms. Our view is that it should be considered a separate risk to that of physical risk or transition risk for the reasons given in the Annex.
20. The FSB⁹ recommends that “authorities should consider using common definitions ... for ... (iii) liability risk definition, whether separate from or as a subset of physical and transition risk.” In our view, CP10/25 fails to provide an adequate definition meeting the recommendations of the FSB¹⁰. While there is a limited reference to climate-related litigation in the draft supervisory statement¹¹ published alongside CP10/25, in our view not only has litigation risk been expressed far too narrowly (i.e. in a fashion that fails to recognise the full spectrum of risks facing firms, as described in the Annex), but it is also presented in a manner that suggests that the PRA considers this a risk that may only affect general insurers.

Annex

21. Climate-based litigation is a rapidly growing field, with potentially dramatic and far-reaching consequences. The 2025 Snapshot Report into Climate Litigation¹² highlights the growing maturity and complexity of this domain, and the sophistication of legal strategies being deployed by parties to advance their goals.
22. We believe that there are a number of strong reasons why climate liability risk should be included in the considerations of regulated firms:
 - a. Litigation against non-regulated firms may reduce the value of their equity and in turn their creditworthiness. This in turn may adversely affect the balance sheets of banks and insurers. Such litigation can cover a very wide range of causes, seemingly limited by human ingenuity. Notable types of claim include: loss and damage to property, wrongful death and injury to human life, increased mitigation and abatement costs, failure to anticipate and adapt, regulatory breach, false advertising/greenwashing and other corporate malfeasance.
 - b. Non-life insurers may be required to meet climate related claims under policies issued by them or, in certain jurisdictions, to meet policyholders’ defence costs.

⁹ FSB [Supervisory and Regulatory Approaches to Climate-related Risks: Final report](#) Section 2.3, Recommendation 3.

¹⁰ Ibid.

¹¹ BoE [Draft supervisory statement – Enhancing banks’ and insurers’ approaches to managing climate-related risks – Update to SS3/19](#)

¹² Setzer, J and Higham, C (2025) Global trends in climate change litigation: 2025 snapshot. Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change, London School of Economics and Political Science. <https://www.lse.ac.uk/granthaminstitute/publication/global-trends-in-climate-change-litigation-2025>

- c. Litigation may target financial institutions because they are both asset rich (so called “deep pockets”) and may, or may have formerly, financed or insured parties believed to be responsible for climate damaging activities. Such litigation may seek financial compensation or aim to inhibit the activities of financial institutions working in particular sectors¹³.
 - d. Conversely, the evolution of climate-related litigation suggests that such financial institutions may also be targeted for restricting access to finance or insurance for firms in carbon-intensive industries.
23. Note that there are two categories of liabilities that firms need to take into account:
- a. Those arising from current and future activities; and
 - b. Those in respect of past activities. The latter are in essence liabilities that firms may suddenly need to recognise on their balance sheets, resulting in potential significant impairment to their financial soundness.
24. There are a range of approaches being advanced by other regulatory and standard-setting bodies with no clear consensus. We note that other regulatory and standard-setting bodies have included liability risk in the climate risk frameworks that they are suggesting. For example:
- a. Australian prudential regulator APRA¹⁴ rejected adopting a framework consistent with “the TCFD (which includes liability risk within transition risk)” on the grounds that it has “unique properties when compared to other transition risks.”
 - b. The NGFS have released several papers highlighting that financial services firms are exposed to both direct and indirect climate-related litigation risk^{15,16}.
25. Although it is possible to conceive of litigation risk as subsidiary elements to transition risk (as appears to be the approach adopted by the PRA), we believe that such an approach is unhelpful. This is because:
- a. It risks downplaying the potentially catastrophic size of liability claims that might arise.
 - b. It fails to recognise that many financial institutions may already have accumulated material exposures to climate liabilities as a result of past activities. The risk of permitting firms to treat them as an emerging risk along with other hard to quantify risks is that the problem is downplayed and individually and collectively, firms fail to prepare and respond to the problem in a timely fashion.
 - c. It suggests that without transition to a greener economy, this litigation might not arise. We do not believe that this is the case for much of the litigation arising. We believe that firms need to be alive to the risk of climate-related litigation regardless of the extent and timing of transition that arises.
26. Equally, we do not believe that liability risks can be adequately subsumed under the heading of physical risk. This is because:

¹³ So-called “turning off the taps” litigation, see *ibid*.

¹⁴ Prudential Practice Guide CPG 229 Climate Change Financial Risks (2021) [Response paper - CPG 229 Climate Change Financial Risks](#) Note: the response mentioned is in Table 1 in Section 2.5.4

¹⁵ Climate-related litigation: Raising awareness about a growing source of risk (2021) [climate_related_litigation.pdf](#) / https://www.ngfs.net/system/files/import/ngfs/medias/documents/climate_related_litigation.pdf

¹⁶ Report on micro-prudential supervision of climate-related litigation risks (2023) [ngfs_report-on-microprudential-supervision-of-climate-related-litigation-risks.pdf](#) / https://www.ngfs.net/system/files/import/ngfs/medias/documents/ngfs_report-on-microprudential-supervision-of-climate-related-litigation-risks.pdf

- a. It risks firms focussing on post-event liabilities, rather than those arising from the scientific expectation of the increasing likelihood of such events. Such a changing picture emerging from scientific evidence leads to increased costs for parties who have, and we expect will continue, to seek litigation as a means of recourse against those that they allege are responsible.
- b. It does not give sufficient weight to litigation arising from failures to act, or improper action that we see as increasingly arising from climate change.

Should you wish to discuss any of these points further, please contact Caroline Winchester in the first instance, caroline.winchester@actuaries.org.uk