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IFoA Life Conference

**G2:ORSA scenarios and the implications
of sustainability-driven inflation**

ORSA scenarios and the implications of sustainability-driven inflation

Agenda

1. CP 10/25 – The future of managing climate-related risks
2. Current state of play
3. What's your view on the inflationary environment?

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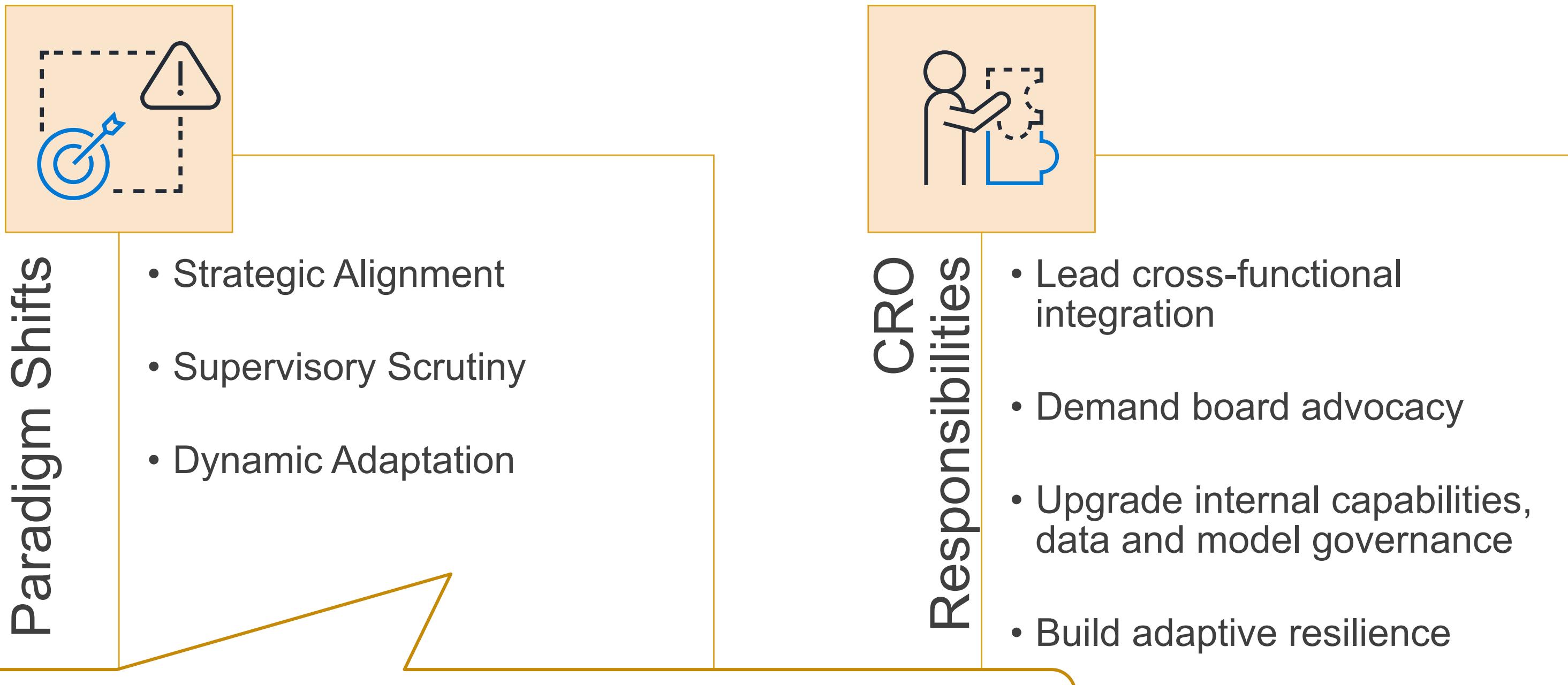
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CP 10/25 – The future of managing climate-related risks

Key Messages from CP10/25



"The PRA expects that firms will require [varying amount of] time to implement the proposals...and more likely that climate-related risk becomes priced in somewhat gradually."
4.43 of CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19

Key provisions of CP 10_25 draft statement

Outcome-driven results demonstrating operational integration into capital, strategy and decision-making.

1. Governance

- Strategic alignment, evidenced decision-making

2. Risk Management

- Structured, bespoke risk identification

3. Climate Scenario Analysis (CSA)

- Justify scenario selection, limitations & uncertainties
- Central and stress case separately

4. Data (and disclosures)

- Strategy for data gaps & in-house capabilities

5. Insurance specific

- More granular ORSA & reverse stress test

The draft statement reflects a significant shift in expectations moving from 32 paragraphs in SS3/19 to 133 in the proposed CP10/25 draft.

See [Summarising Consultation Paper 10/25: Enhancing banks' and insurers' approaches to managing climate-related risks](#) and [Key Issues and implications from CP10/25: Enhancing banks' and insurers' approaches to managing climate-related risks–update to SS3/19](#) for further details.

Risk Assessment now bespoke not off-the-shelf

Precision and proactivity; forward-looking, data-driven risk practices that inform capital allocation and strategic pivots.

“Current commitments for 2030 are not being met; even if they are met, temperature rise would only be limited to 2.6-2.8°C.”

[UNEP Emissions Gap Report 2024](#)

2. Risk Management

- Bespoke, enterprise-wide risk assessment
- Quantification
- Horizon and use-case alignment
- Operational and third-party risks
- Integrate Transition plans
- Upgrade Internal reporting



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Climate scenario analysis that informs decision making

Moving from foundational principles to more prescriptive, actionable standards

“The usefulness of the current scenarios is limited, as they do not communicate the level of risk adequately.”

The Emperor’s New Climate Scenarios, IFoA 2023

3. Climate Scenario Analysis (CSA)

- Central and stress cases
- Awareness of model limitations
- Strategic and capital integration
- Scenario tailoring
- Reverse stress testing
- Model validation



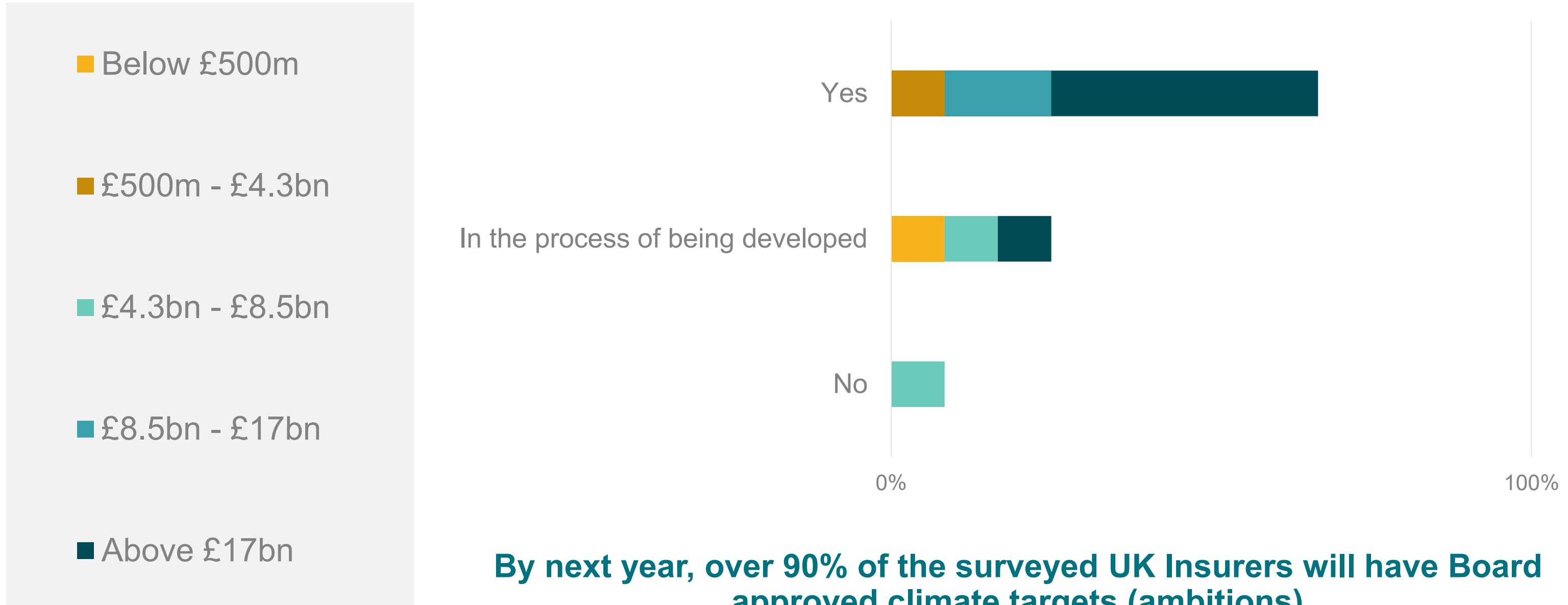
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Our surveys says...

Current state of play

Most Boards have approved climate targets (ambitions)

Does your company have a Board approved climate transition strategy with targets (ambitions) set for 2030 or beyond ?



Source: Milliman's 2025 Sustainability Survey see Appendix for further details.



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Good integration into assets but efforts start to fall off from there?

Survey: Which sustainability related risks do you consider within the different elements of your business?

Considerations of sustainability related risks by business function

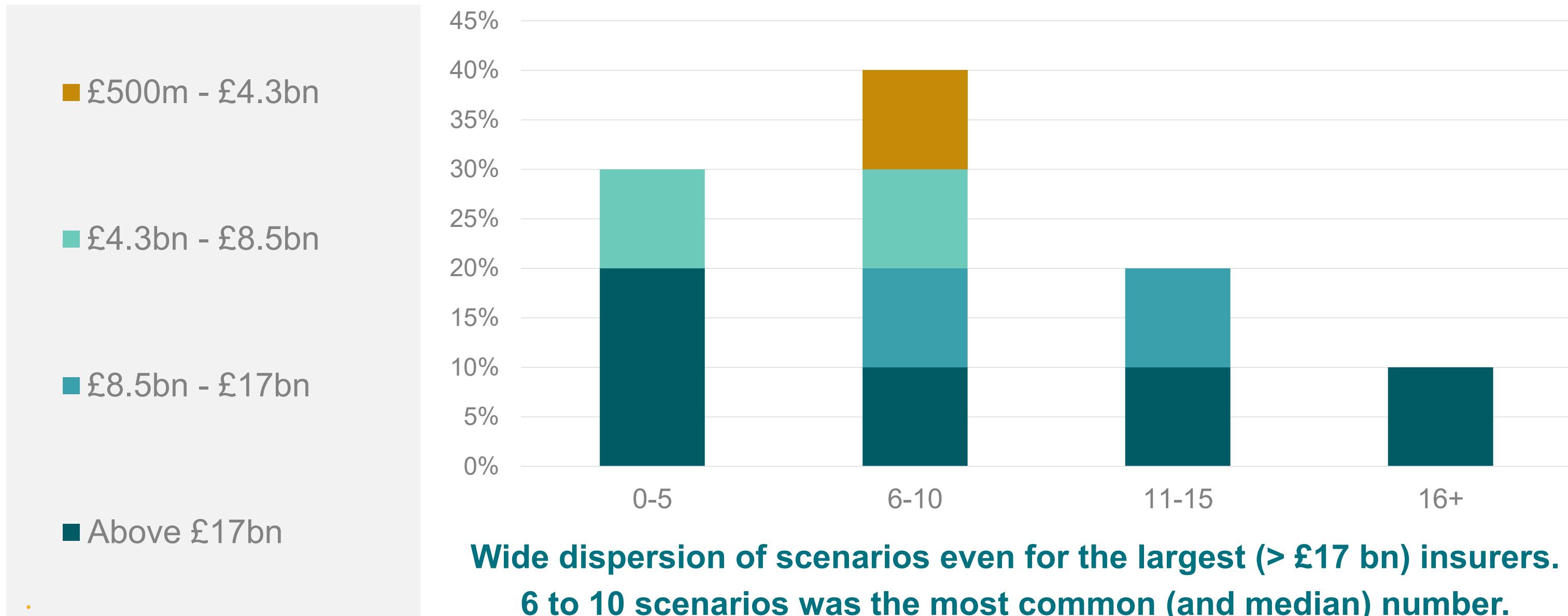
	Assets	Capital	Operations	ERM	Liabilities
Climate - Physical	83%	58%	58%	50%	50%
Climate - Transition	83%	58%	50%	50%	42%
Reputation	50%	42%	58%	58%	33%
Litigation	33%	42%	42%	50%	25%

Nearly all insurers consider physical and transition climate risks in their assets but efforts on reputation and litigation were more mixed

Source: Milliman's 2025 Sustainability Survey see Appendix for further details.

Wide dispersion in numbers of scenarios used

Survey: How many scenarios are included in your company's ORSA each year?

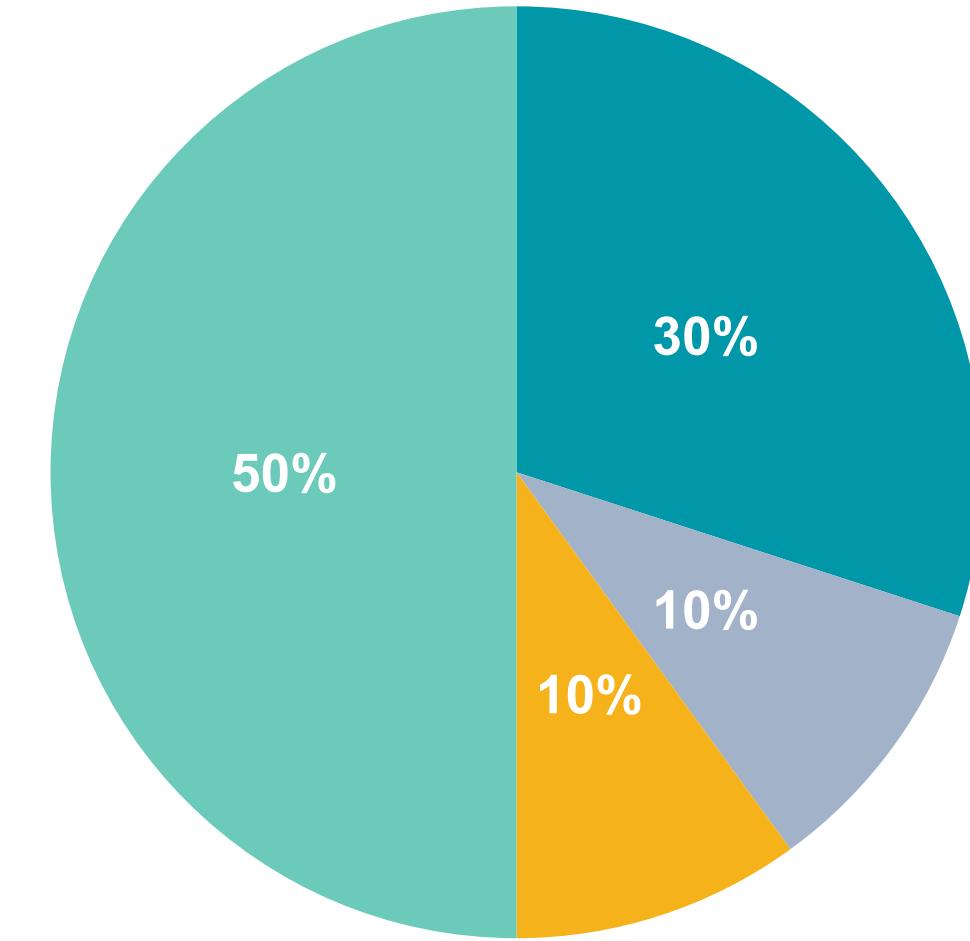


Source: Milliman's 2025 Sustainability Survey see Appendix for further details.

Individualised macro-economic engagement is 50:50

Survey: In your ORSA analysis do you allow for the potential macro-economic impacts of the sustainability transition? What do you adjust?

- No, our macro-economic assumptions are based on historical analysis and broad continuity
- Not explicitly but our macro-economic assumptions heavily weight post 2020 experience as a proxy
- Yes, as a single shift to long-term macroeconomic outlook
- Yes, different adjustments based on different sustainability pathways



50% of firms make adjustments which vary by sustainability pathway typically allowing for interest rates, inflation and GDP; although 30% don't make any macro-economic adjustments.

Source: Milliman's 2025 Sustainability Survey see Appendix for further details.

Huge ranges for inflation and interest rate stress

Survey: For your ORSA scenarios or other stress tests do you use a level shift in interest rates and/or inflation as standalone or as part of multi-factor scenarios?

	No level shift	0 - 74 bps	75 - 124 bps	125-174 bps	175-224 bps	225-274 bps	275 bps+
Inflation down	0%	40%	20%	0%	40%	0%	0%
Inflation up	0%	0%	63%	0%	25%	0%	13%
Interest rates down	0%	29%	0%	14%	43%	0%	14%
Interest rates up	0%	20%	20%	0%	20%	0%	40%

All firms considered some level shifts but there was a wide dispersion across all categories. Certain firms consider level shifts of 275 bps+ for all shifts except inflation down. Scenarios including spikes in rates included shifts of over 750 bps.

Source: Milliman's 2025 Sustainability Survey see Appendix for further details.

Survey Summary: Climate well established but large implementation variations

More consistency required for breadth of considerations and macro-economic stresses

1. Need for climate integration (fairly) well established

- > 90% of Boards with climate ambitions by 2026
- > 50% integrate climate across risk categories*
- 75% intending to give 2025 disclosures

2. Significant variations in depth of integration

- Wide dispersion of number of ORSA scenarios
- > 80% consider climate on assets...but other functions more mixed
- Most (> 60%) considered scenario impacts across two to four of six elements

3. Macro-economic variations particularly large

- Shifts in interest rates ranged from < 75 bps to over 275 bps
- Small number consider “spikes”... but included spikes of over 750 bps
- Most (75%) include macro-economic stresses ... but few (25%) as part of sustainability scenarios

* Other than underwriting risk

Please see Appendix and contact the presenters for further details and a more complete overview of the survey.



What's your view on the inflationary environment?

Inflation and Climate Change

Wide-ranging upward and disruptive pressures

Inflation is affected by climate change.

It is likely to be:

- **Higher, over a sustained period**
- **More volatile**

1

Transition Costs

Transitioning to a non-polluting economy—which will involve upfront investment, the conversion of processes, and supply chain transformation

2

Transition Efficiencies

Efficiencies gained could reduce costs in the long run... But unlikely in short-run.

3

Physical Climate Factors

More severe weather damages to assets and livelihoods, causes food and water insecurities, reduces the effectiveness of current production

4

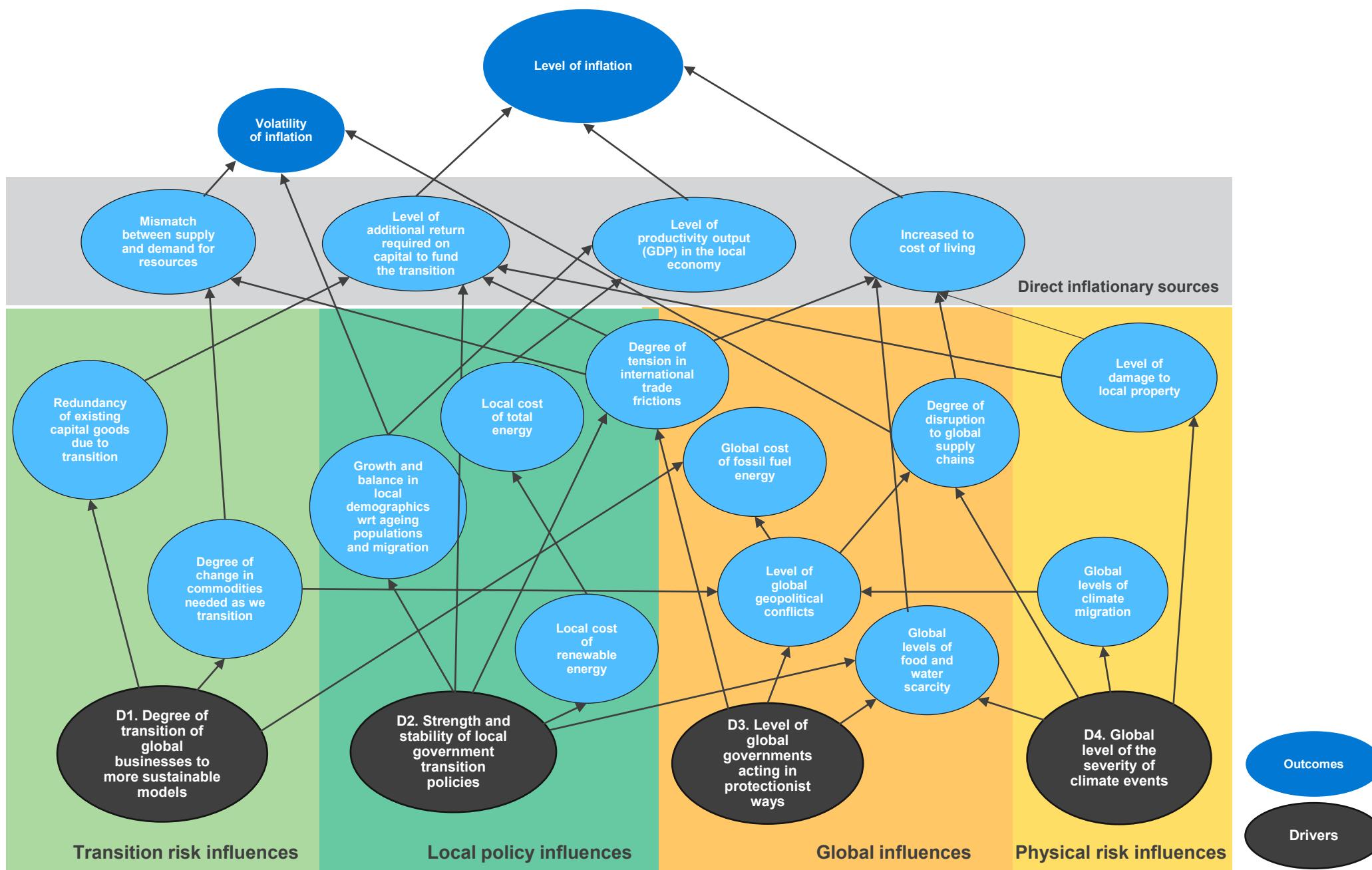
Geopolitical Factors

Severe weather and transition factors create tension over resources, displace people and increase inequalities leading to geopolitical tensions.



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The Milliman sustainability inflation model



Source: Milliman

2025 Update to the sustainability inflation model

2025 updates:

- Weightings of influences on Level and Volatility of Inflation
- UK government confidence
- Global trade protectionism

Model version	Mean	90 th percentile	SD
2024	~2.25%	~7%	~5%
2025	~4.25%	~15.25%	~7%

Source: Milliman

+ baseline inflation
+ tail risk
+ uncertainty

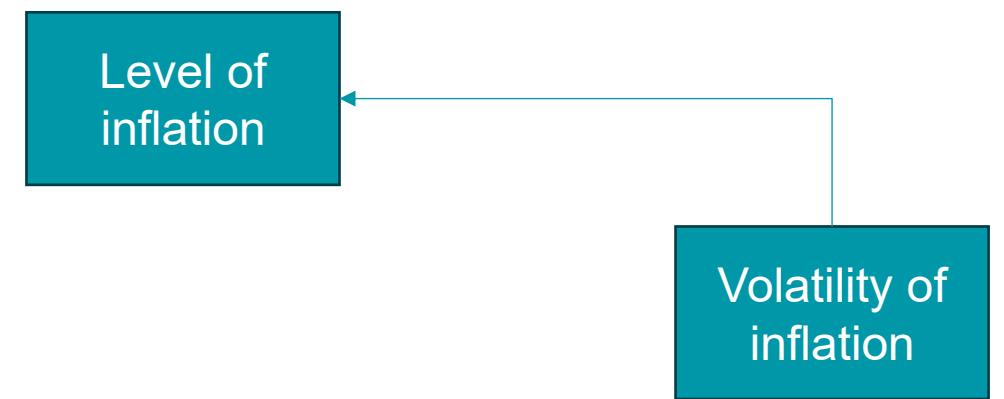


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Developing an inflation climate scenario

Inflation spikes can arise from indirect transition impacts

A. Start at a higher, more volatile level



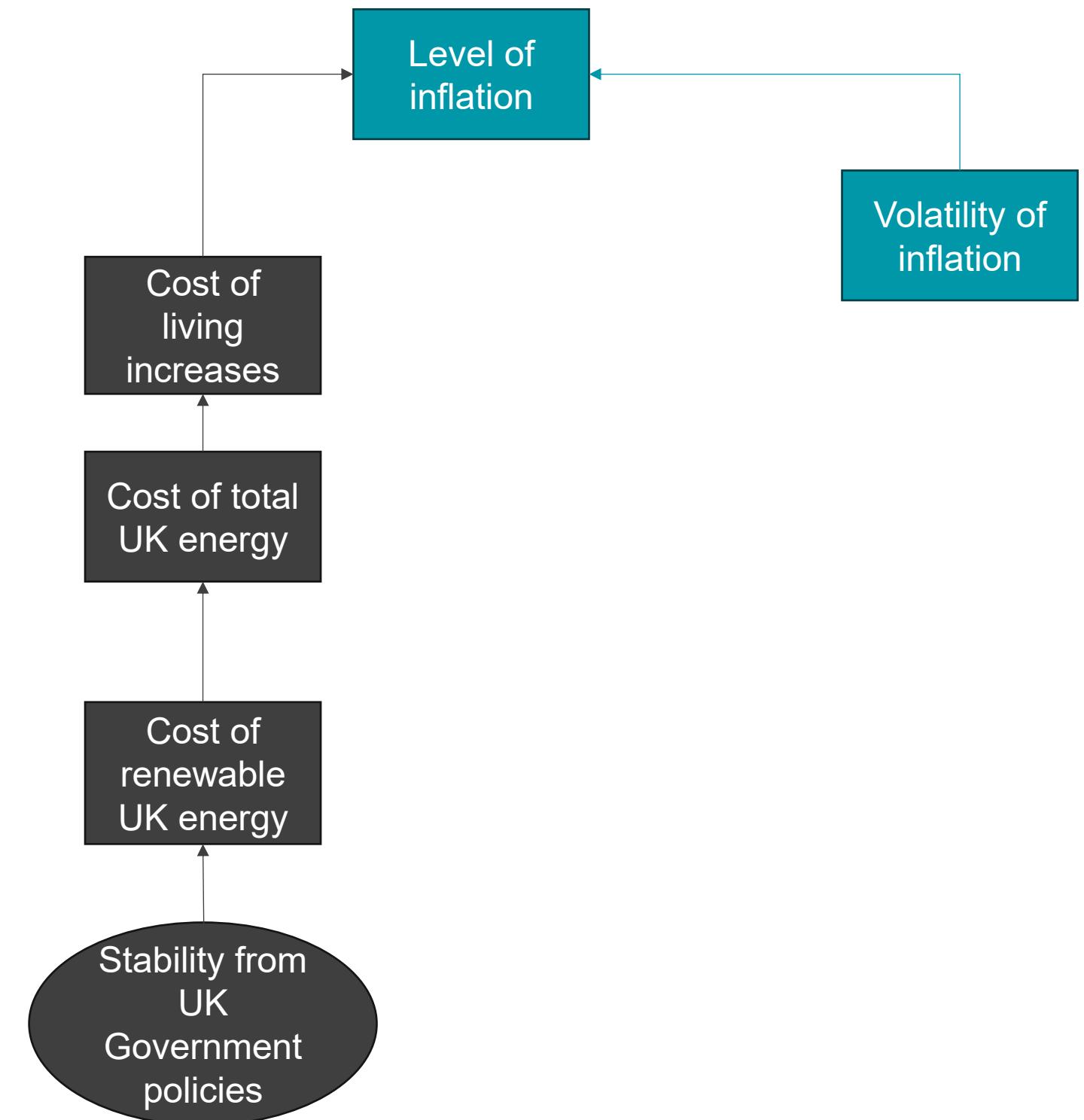
Source: Milliman

Developing an inflation climate scenario

Inflation spikes can arise from indirect transition impacts

A. Start at a higher, more volatile level

B. Further deterioration in UK Government confidence



Source: Milliman

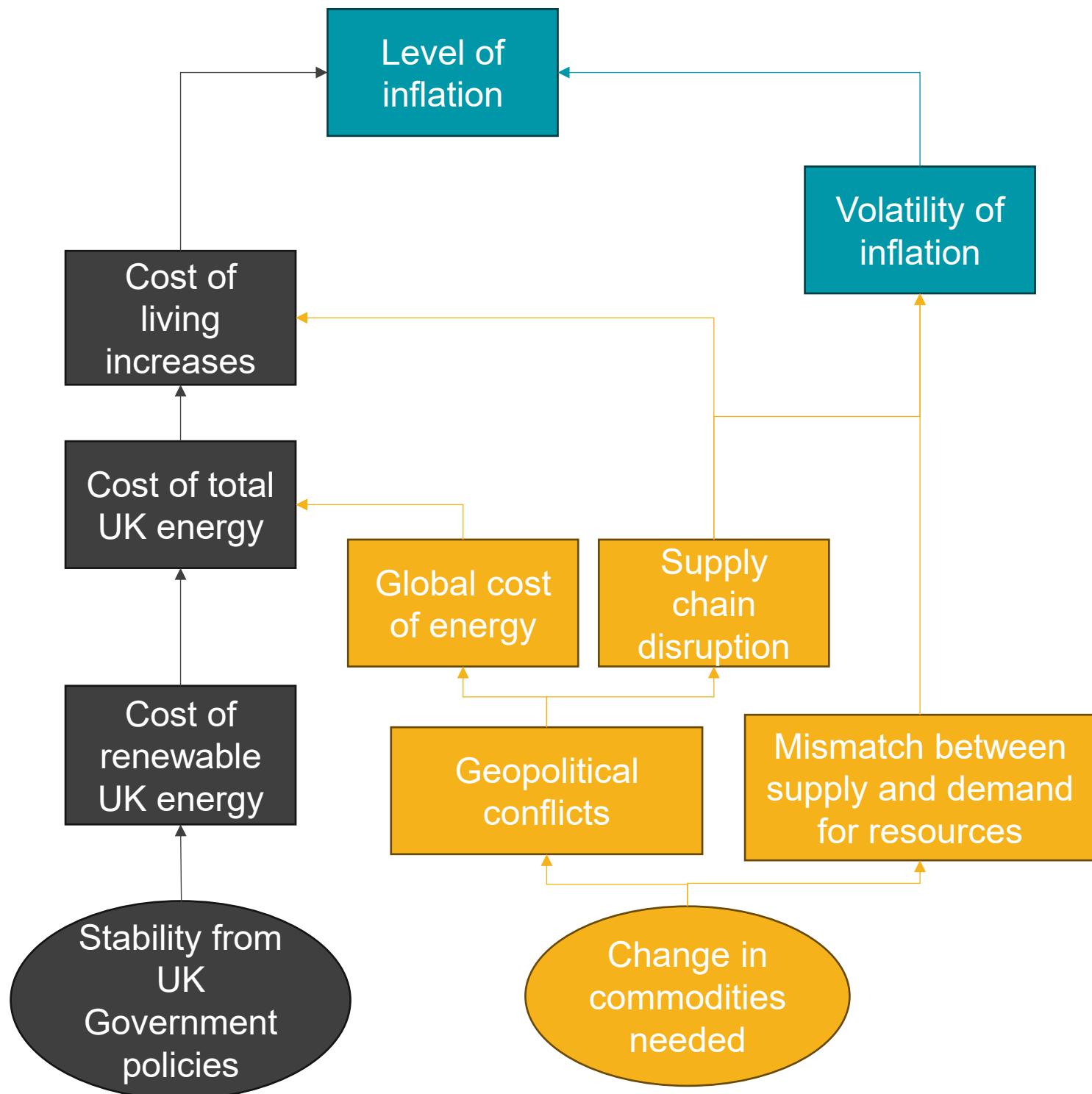
Developing an inflation climate scenario

Inflation spikes can arise from indirect transition impacts

A. Start at a higher, more volatile level

B. Further deterioration in UK Government confidence

C. Moderate shift in demand for new commodities



Source: Milliman

Developing an inflation climate scenario

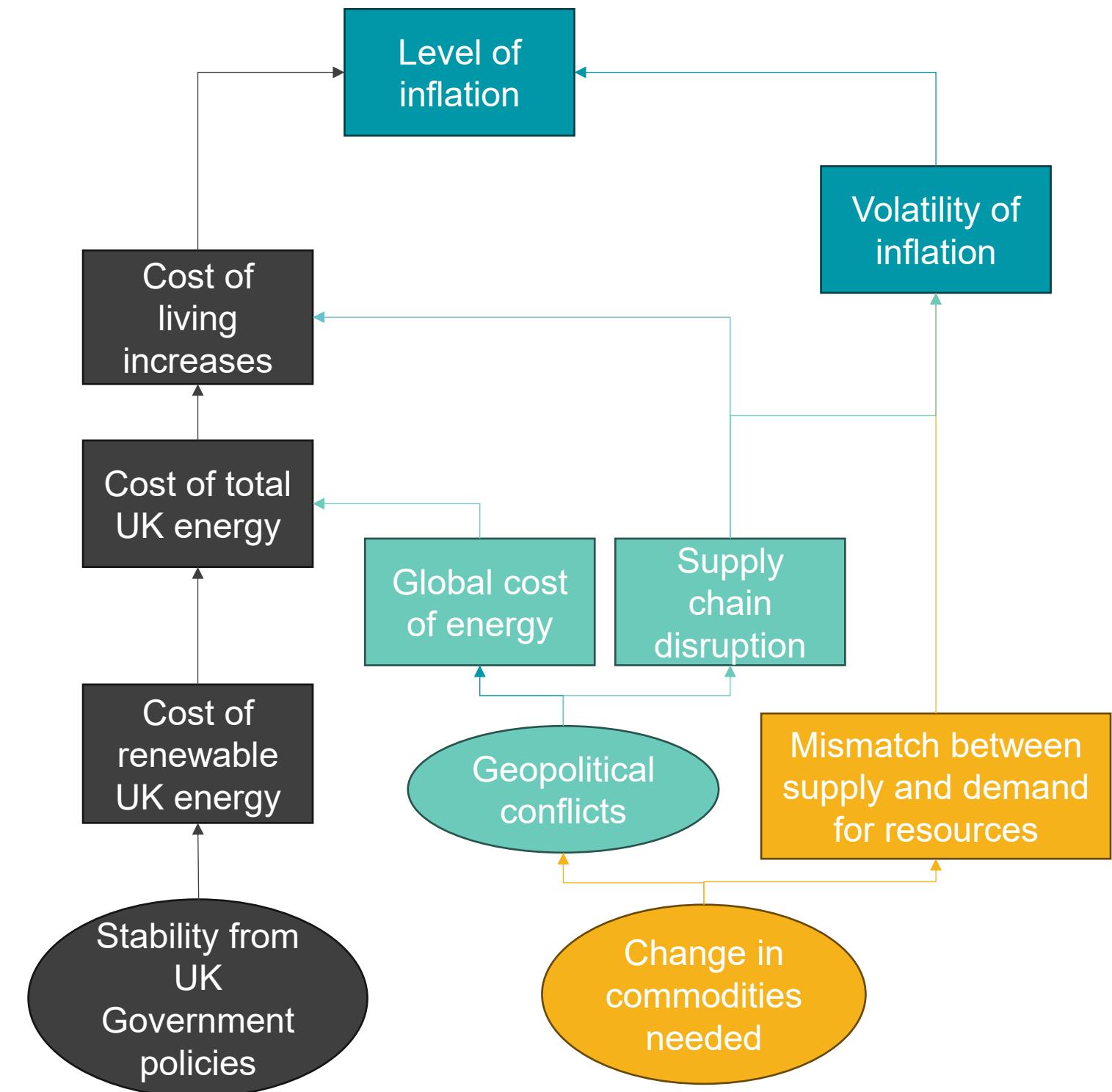
Inflation spikes can arise from indirect transition impacts

A. Start at a higher, more volatile level

B. Further deterioration in UK Government confidence

C. Moderate shift in demand for new commodities

D. Escalation in Geopolitical conflicts



Source: Milliman

Developing an inflation climate scenario

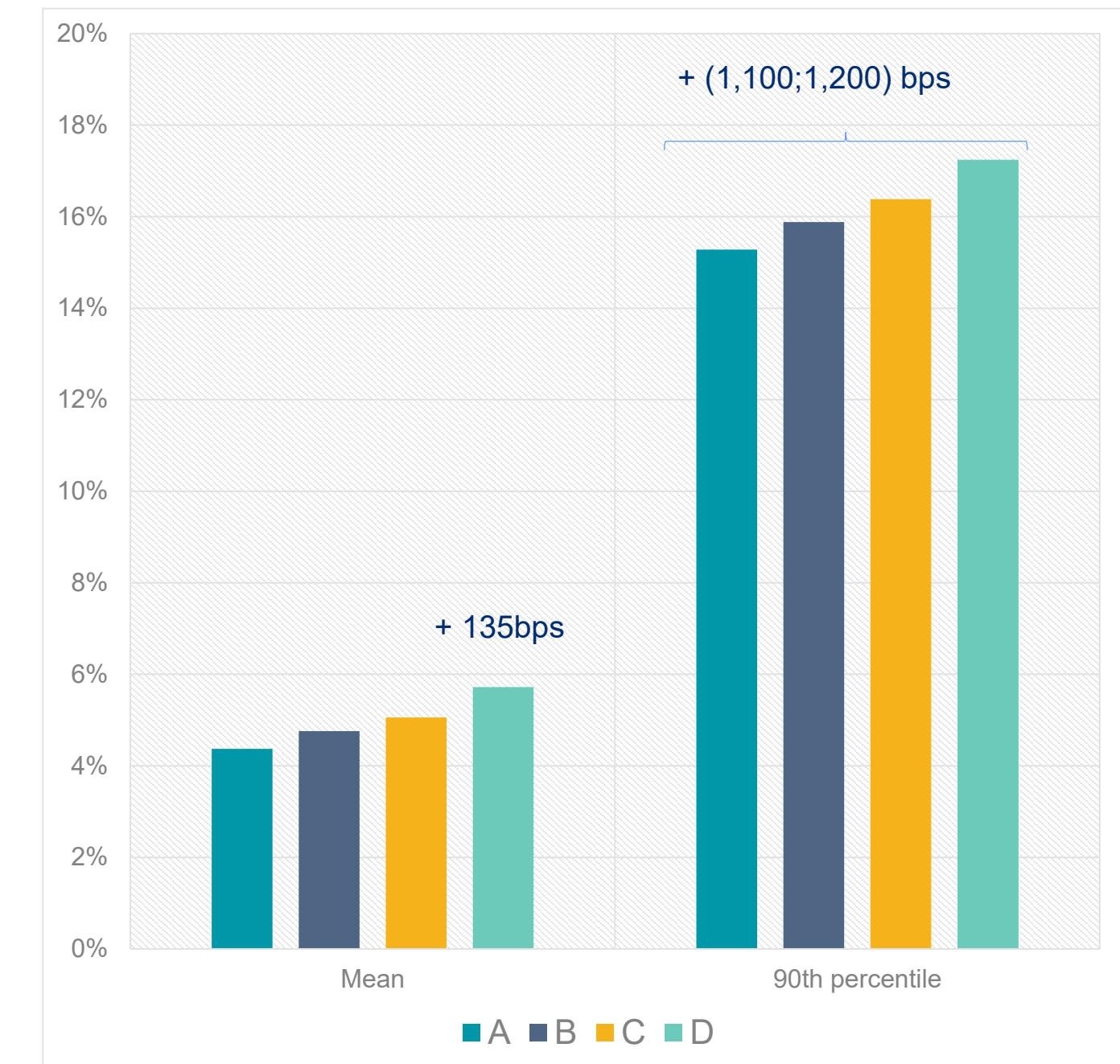
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A. Start at a higher, more volatile level

C. Moderate shift in demand for new commodities

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D. Escalation in Geopolitical conflicts



Source: Milliman

In conclusion...

- *CP10/25 is coming: paradigm shift and upgrade of risk/scenario efforts*
- *Inflation is [almost certainly*] coming*
- *Nearly all boards have climate-related risk targets (ambitions)*

BUT...

- *Integration of macro-economic assumptions in ORSAs mixed*
- *Wide-range of levels of stress-testing: rate shifts and impacts*

* This is an actuarial conference. Other futures remain possible if unlikely.

Q&A





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Thank you

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Appendix: Milliman's 2025 Sustainability Survey

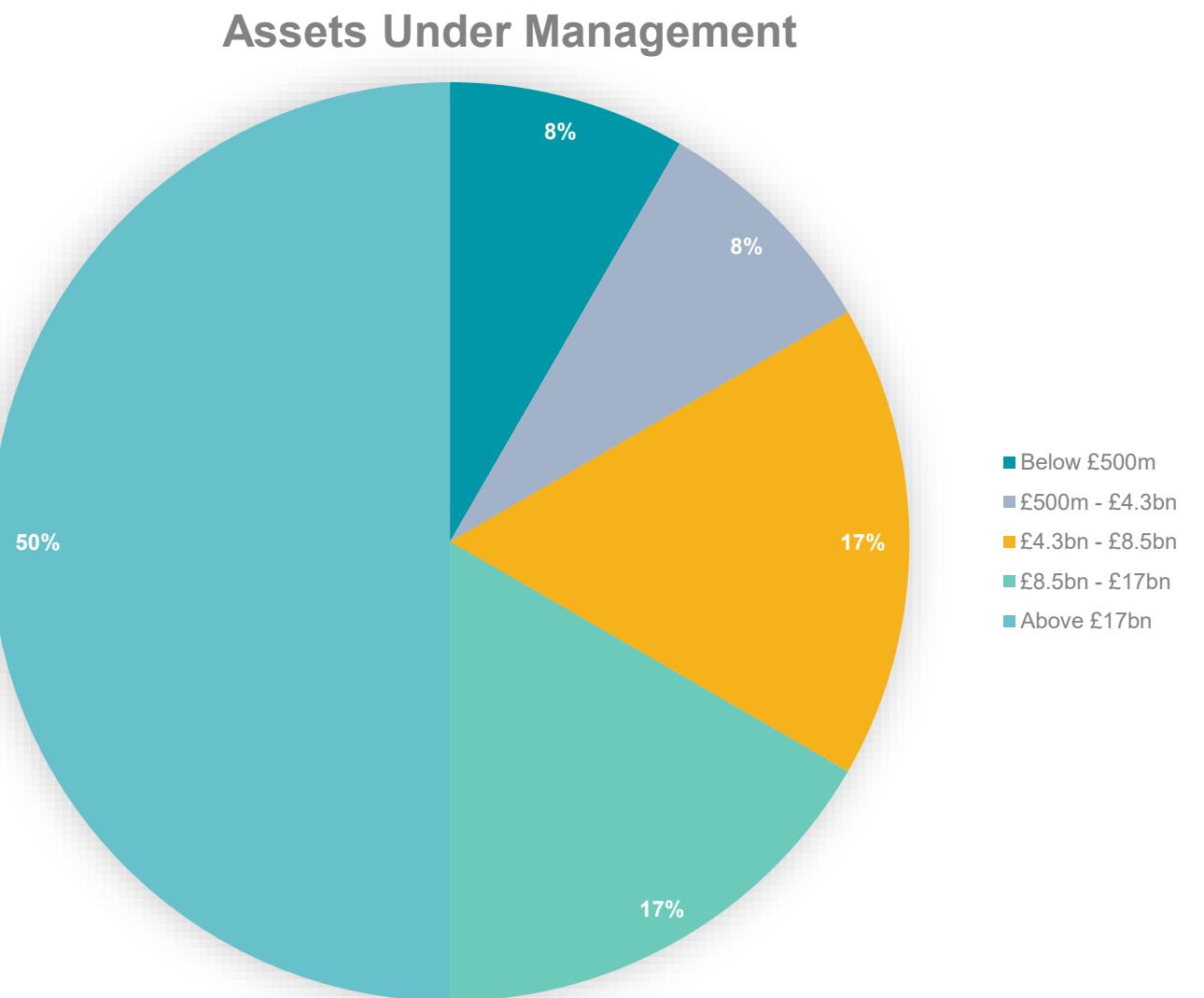
Background on the survey respondents

Our 2025 ORSA Sustainability survey was conducted across Europe in May to June 2025 with 33 respondents in total including 12 from the UK.

This presentation considers only the UK respondents, although comparisons are drawn with results across Europe as a whole.

The UK respondents were from a range of sizes with 50% above £17bn in assets under management. 10 described themselves as Life insurers, 2 as Composite insurers.

As with any voluntary survey, the results will likely be biased toward those most interested in sustainability. However, we believe the responses give a useful picture of industry trends, even if they don't reflect exact proportions, especially since people tend to overstate their sustainability efforts.



Please contact the presenters for further details and a more complete overview of the survey which is due to be published in December 2025.