

Climate change and nature risk support for insurers



A changing risk landscape

Climate change, biodiversity loss and wider nature-related risks are now firmly part of the risk management agenda for insurers. The PRA's expectations have also moved on. Firms need to be able to show that they have thought about these risks properly, understand where they could be material, and have a sensible plan for embedding them into existing governance, the risk framework, investment decisions and business planning.

The risks from climate change exist because insurers are exposed to the real economy, often over long time horizons. For non-life insurers, physical climate change can affect the frequency and severity of claims, for example through flood or subsidence exposures. For life and health insurers, the effects may be less visible but can still be important. Physical climate change may influence mortality and morbidity in all sorts of ways that may not be immediately obvious or anticipated. Transition risk will affect all insurers in some way, be it through investment markets, regulation, customer behaviour or the sustainability of particular sectors or business models. Operational resilience will be key to navigating these risks successfully.

Nature-related issues are relevant to insurers where there is a credible pathway to their financial health, business model or customer outcomes. These pathways may arise through investment exposures, insured liabilities, supply chains, operations or dependencies on particular locations and natural resources. The relevance and materiality of these risks will vary significantly by firm. Alongside this, insurers may choose to support positive environmental outcomes as part of their wider sustainability commitments, even where the direct financial risk is limited.

Practical support

Most insurers will now have completed their SS5/25 gap analysis. The next challenge is turning that work into a sensible plan. A gap analysis can easily produce a long list of possible actions, but the real value comes from deciding which points really matter for the firm, and which need attention soon, as opposed to those that could reasonably be dealt with over a longer time frame.

That is particularly important for smaller insurers, where the answer should not be a large standalone exercise unless the risks justify it. Climate risks can affect almost all aspects of an insurer's key metrics including investments, capital, claims, expenses, persistency, customer needs and product design. Nature-related issues may also be relevant where the firm has identifiable dependencies or exposures. The aim is to understand those links clearly enough to support the decisions the Board is already making.

A clear evidence trail also helps firms explain their approach. They need to be able to demonstrate what has been considered, what has been judged material, what further work is planned, and why some areas do not need more detailed analysis. Done well, this becomes a useful part of the risk management framework and business planning, rather than a one-off exercise to satisfy the regulator.

For some firms, the work may also highlight practical opportunities, particularly where nature, biodiversity or water-related issues are connected to specific locations, communities, investment exposures or customer groups. These areas can sometimes lend themselves to clearer actions and more visible outcomes than focusing only on financial risks.

How Broadstone can help

We are already helping firms turn their gap analyses into clear, practical action plans. This includes reviewing the work already completed, delivering Board training, assessing the materiality of climate risks and supporting scenario analysis, ORSA integration and wider risk management. For nature-related issues, we can help firms determine whether there is a credible financial risk requiring further work or whether the issue is better addressed through the firm's wider sustainability approach.

Our approach

Our process driven approach starts with the work that has already been done and then works through the key considerations in a structured way to determine what, if anything, needs to change. The intention is to keep the work proportionate and useful, while giving the Board a clear view of the issues, the actions being taken and the rationale for the firm's approach.

In practice, we would usually work through the following steps with you:

1. **Understand the current position:** Agree scope, understand what has already been completed and how the outputs will be used.
2. **Review existing evidence:** Review your SS5/25 gap analysis, ORSA, risk register, policies, Board papers and other relevant documentation.
3. **Map climate risk exposures and test nature-related relevance:** Work with key stakeholders to identify how climate risks could affect assets, liabilities, operations, strategy, customer outcomes and reputation. Consider the relevant physical, transition and nature-related risk pathways, including where local exposures may create both risks and opportunities.
4. **Assess materiality and prioritise actions:** Determine which risks and opportunities are most relevant to your firm, identify concentrations and areas of uncertainty, and focus attention on the issues that matter most.
5. **Develop proportionate scenarios and sensitivities:** Design practical scenarios linked to your specific exposures and decision-making processes, supporting your ORSA, risk appetite, capital planning and strategy.
6. **Identify data, MI and governance enhancements:** Consider whether existing data, management information, metrics and reporting are sufficient and identify any proportionate enhancements.
7. **Develop a practical roadmap:** Translate findings into a realistic action plan with clear priorities, ownership and timescales.
8. **Embed into business as usual:** Reflect outputs in governance, risk management, ORSA processes, policies, Board reporting and future reviews.

Modular service

We can tailor our support to the areas where you need most help, without asking you to commit to a full programme from the outset. That might mean reviewing your SS5/25 gap analysis and remediation plan and helping you turn it into practical next steps, or carrying out a detailed assessment of your insurance exposures and supporting you with the reserving approach and parameters needed to reflect them.

Our expertise

Our team brings together actuarial, investment, risk and regulatory experience, with a practical understanding of how climate risks affect insurers and how emerging nature-related issues can be assessed proportionately. We have supported firms with their initial SS5/25 gap analysis, ORSA integration, Board reporting and action planning, so we can focus our work on what is most relevant.

We bring perspectives from life, health and non-life insurance, and can consider the impact on assets, liabilities, operations, strategy, customer outcomes and governance. Our experience with smaller insurers, mutuals and friendly societies also means the output is proportionate and practical while remaining robust.

This is supported by colleagues who have developed Broadstone's climate and sustainability propositions, practical insurer frameworks, climate scenario work and gap analyses. We also draw on investment expertise in ESG, climate analytics, ALM modelling and portfolio exposures.

We also draw on current actuarial research and professional thinking on climate change and nature risk. This helps us distinguish between financially material risks that belong in the risk management framework and wider sustainability actions that support the firm's values and environmental commitments.

Overall, we help firms make sense of a broad and developing area of risk, then turn it into a clear, proportionate action plan that can be embedded into business as usual.

Why Broadstone

The strength of our team and our wider experience

For over 30 years we have supported insurers across a broad range of actuarial and advisory work, including reserved roles, regulatory advice, product development, with-profits support, risk and ORSA work, Board support and actuarial audit. We currently hold outsourced reserved roles for a variety of UK insurers, which include Chief Actuary and With-Profits Actuary roles. Our experience means we bring strong actuarial analysis, commercial judgement and a practical understanding of regulatory, Board and policyholder issues, working collaboratively with external teams as required.

Our standards

We hold key accreditations illustrating our commitment to quality, security, our people, customers and the environment. We take information security seriously and are ISO27001:2022 and Cyber Essentials+ accredited and audited.

Our commitment to ESG

Broadstone takes sustainability seriously and our latest annual report can be found here <https://broadstone.co.uk/sustainability-report>.

This outlines our core beliefs and the targets we have set the business for the next 12 months and beyond.



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