BANK OF ENGLAND

Managing the financial risks of climate change

Presentation to Finance Managers Forum
Association of Financial Mutuals
27 June 2019

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Agenda

- **Why is addressing climate change urgent?**
- The approach to supervision
- Supervisory Statement
- What does this mean for you?
- Any questions?

Why is addressing climate change urgent?

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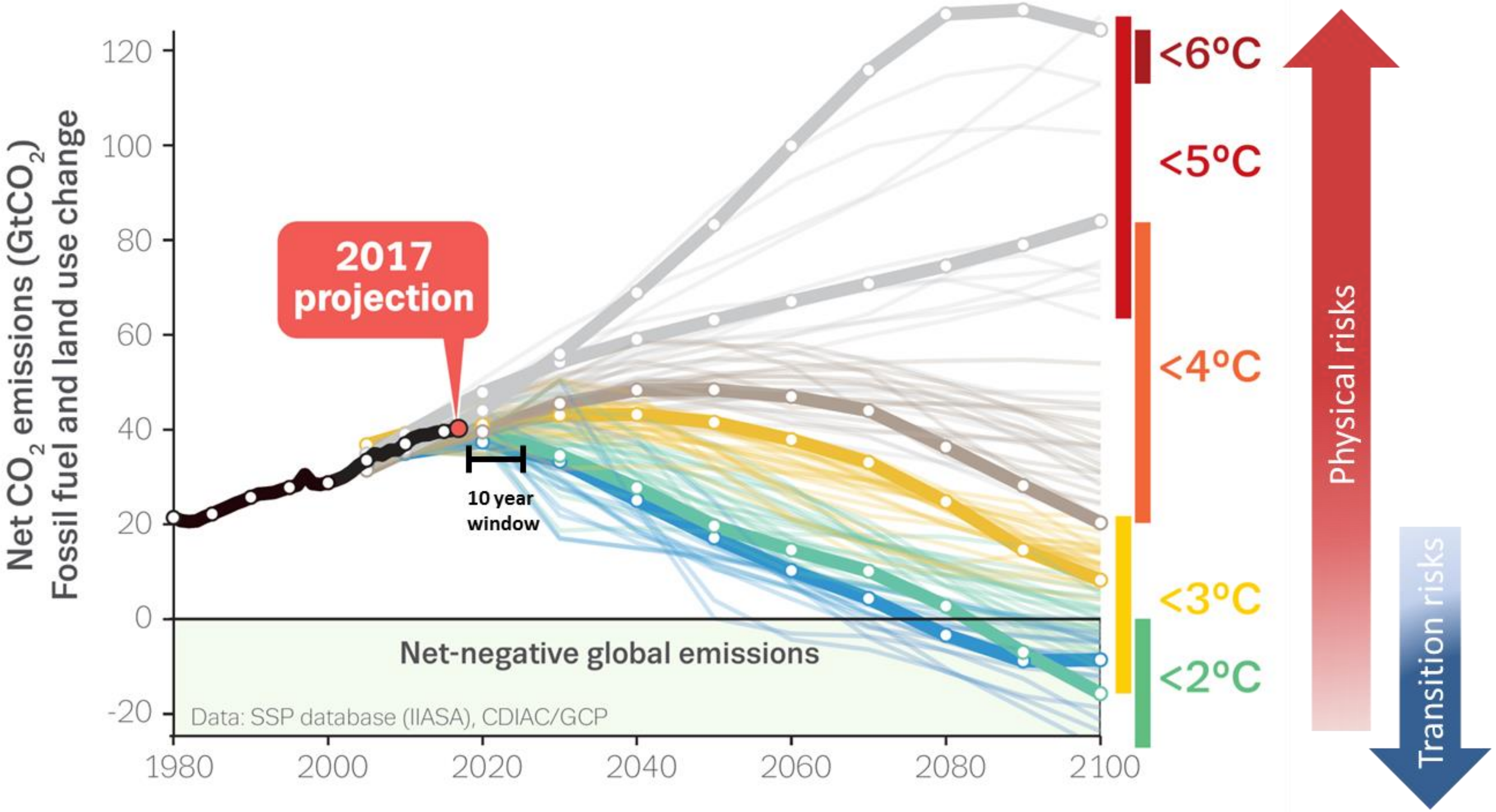


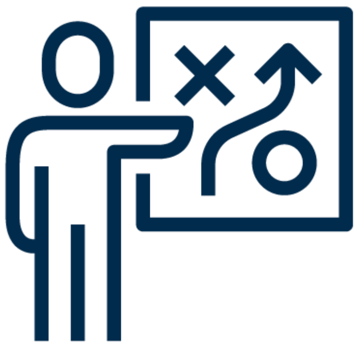
Why is addressing climate change urgent?

We think these risks are different

Far reaching, non-linear and irreversible

Foreseeable, although uncertain

For action today to minimise future risks



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The approach to supervision

- Prudential Regulation Authority (PRA) / Bank of England view is that climate change causes financial risks that threaten both:

  Financial stability

  Safety and soundness of the firms we regulate

The approach to supervision

- So we are active in many areas, and we want to move things on

  2015 Insurance report

  September 2018 Banking report

  April 2019 Supervisory Statement

  Embed into day-to-day supervision

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Supervisory Statement

- We have published a Supervisory Statement (SS 3/19) which sets out PRA’s expectations for how firms should respond to the financial risks from climate change

Supervisory Statement

The PRA expects that by **15 October 2019** firms will:

- Identify a senior management function (SMF) responsible for managing financial risks from climate change
- Have an initial plan to address PRA's expectations

The Supervisory Statement has four main areas

- Governance
- Risk Management
- Scenario Analysis
- Disclosure

PRA expects - Governance

- We expect the Board to oversee a firm’s strategic response to the financial risks from climate change…
- … and exercise effective oversight of risk management and controls…
- … and ensure adequate resources are available

PRA expects – Risk management

- We expect firms to address the financial risks from climate change through their existing risk management frameworks

- Insurers (under Solvency II) to consider possible accumulation of risk in the investment portfolio (particularly via transition risk i.e. changes in policy, technology, and consumer preferences)

PRA expects – Scenario analysis

- Firms (where proportionate) to do scenario analysis to examine the impact of financial risks from climate change on risk profile and business strategy

- Firms to consider scenarios over both:

    short term (e.g. life of business plan) and

    long term (e.g. time horizon to be "in the order of decades")

PRA expects – Disclosure

- Firms will make disclosures about their financial risks from climate change
- Firms to consider if they would benefit from TCFD proposals (TCFD = taskforce on climate-related financial disclosure).
- Firms could encourage greater climate-related disclosure in the economy through their ownership of financial assets

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What does this mean for you?

By 15 October 2019:

- Identify a senior manager
- Have an initial plan

Be proportionate

Do consider how climate change could affect your business

Learn from others e.g. Climate Financial Risk Forum

association of financial mutuals

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