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News release

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PRA review finds that 70% of banks recognise that climate change poses financial risks

In its review published today, the PRA examines how climate change poses financial risks to banks and how banks are responding.

A survey of 90% of the UK banking sector representing over £11trn in assets found that 70% of banks recognise that climate change poses financial risks. These firms have begun considering the most immediate physical risks to their business models – for example the exposure to mortgages on homes that are at risk of flooding, or the exposure of their investment in countries that could be impacted by extreme weather events. And they have started to assess how the transition to a low-carbon economy, driven for example by government policy and technological change, may impact the business models of the companies that banks are exposed to. Only 10% manage these risks comprehensively and take a long-term strategic view of the risks. 30% of banks still only consider climate change as a corporate social responsibility issue.

The report finds that physical and transition risks from climate change have financial risk implications, some of which are already materialising. This reality will require more banks to move into the 10% category of strategic oversight. Physical and transition risks materialise into increasing credit, market and operational risks that can impact the safety and soundness of the UK banking sector.

With foresight, these climate-related financial risks can be managed in an orderly, effective and productive manner. Whilst a transition in thinking is taking place, the PRA will publish a consultation on its supervisory expectations for banks and insurers. These expectations will centre on firms' governance, strategy and risk management in responding to the financial risks from climate change, including the extent to which boards are considering strategically the distinct nature of these risks and the unique challenges they present.

To help consider climate-related financial risks, to share best practice and provide intellectual leadership in this emerging field, the PRA is also announcing a new Climate Financial Risk Forum with the FCA, involving private sector participants, technical experts and relevant stakeholders.

The Governor, Mark Carney, commenting on the findings in the report said: “Financial policymakers will not drive the transition to a low-carbon economy, but we will expect our regulated firms to anticipate and manage the risks associated with that transition. It is encouraging that the majority of banks recognise this and are already seriously considering the financial risks that arise from climate change. We expect regulated firms to manage these risks strategically and consider seriously the findings and implications set out in this report. And we invite you to engage on the PRA’s next steps so that we may work together to ensure the safety and soundness of financial firms as we transition to a low-carbon world”.

The Bank of England’s work on climate change involves two core elements. First, promoting safety and soundness by enhancing the PRA’s approach to supervising the financial risks from climate change. Second, enhancing the resilience of the UK financial system by supporting an orderly market transition to a low-carbon economy. As part of this, the Financial Policy Committee will also consider the system-wide financial risks from climate change, and will explore whether climate-related factors should be included in a future Biennial Exploratory Scenarios (BES) stress test. The Bank is also engaging closely with other central banks and financial regulators both domestically and internationally.

ENDS

Notes to editors

- [Transition in Thinking: the impact of climate change on the UK banking sector](#)
- [The impact of climate change on the UK insurance Sector September 2015](#)
- [Quarterly Bulletin June 2017: The Bank’s response to climate change](#)
- [Bank of England climate change website](#)
- [Publication of the mandates of the NGFS technical workstreams and expansion of the NGFS membership](#)