



BANK OF ENGLAND

13 December 2021



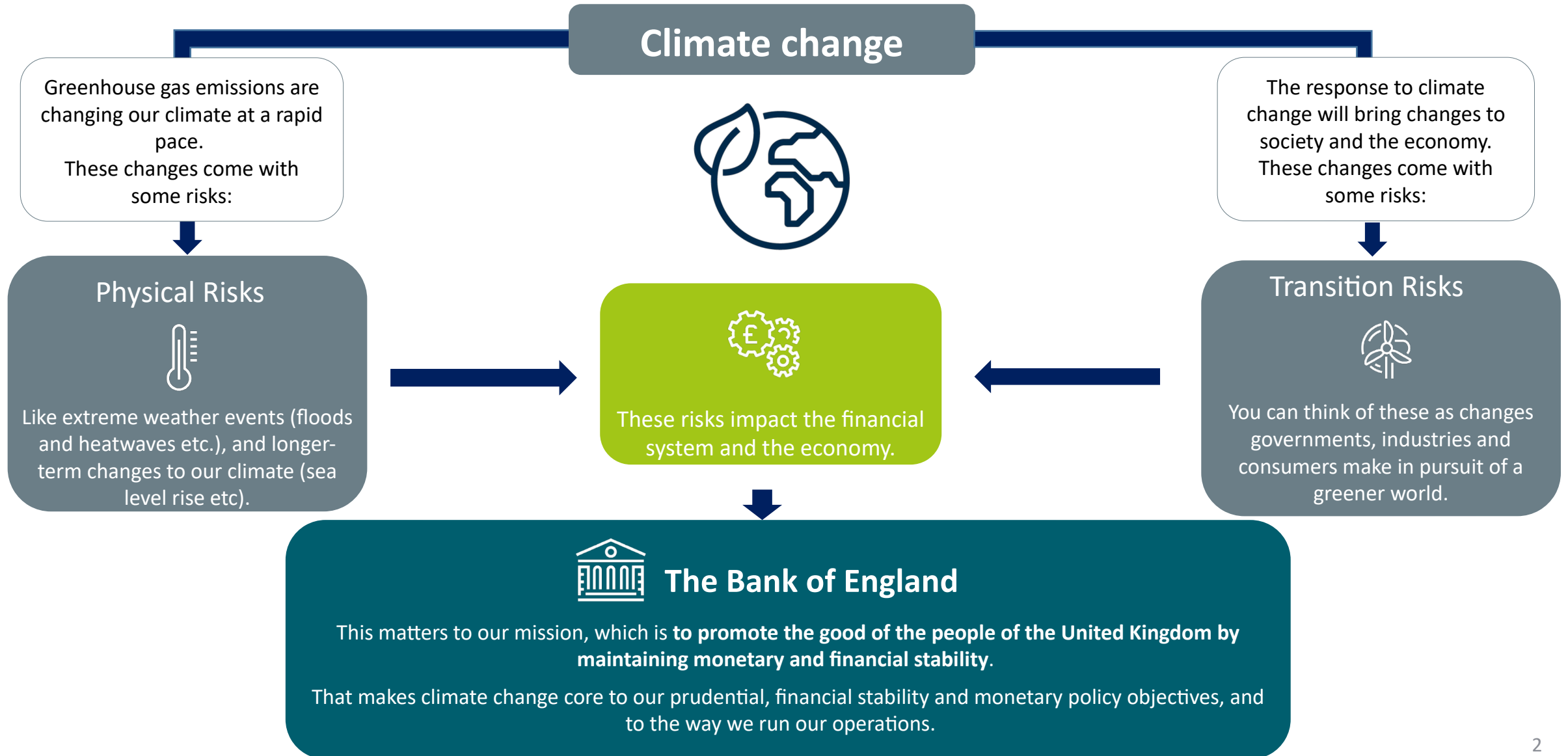
Financial risks from climate change and the Bank of England's approach

Theresa Löber, Head of Climate Hub

BE Warsaw / WiseEurope event



Climate Change and the Bank of England



Context: the Bank's climate strategy

The Bank's climate objective is to **play a leading role, through our policies and operations, in ensuring the financial system, the macro-economy, and the Bank itself, are resilient to the risks from climate change and supportive of the transition to a net-zero economy**

Our climate strategy is built around playing our part across five key goals



Ensuring the financial system is resilient to climate-related financial risks



Supporting an orderly economy-wide transition to net zero emissions



Promoting adoption of effective TCFD-aligned climate disclosure



Contributing to a co-ordinated international approach to climate change



Demonstrating best practice through our own operations

PRA Report: Transition in Thinking – impact of climate change on the UK banking sector

A transition in thinking is taking place as firms enhance their approach



30%

Responsible

Viewing climate change primarily through the lens of Corporate Social Responsibility (CSR)



60%

Responsive

Assessing climate change as a financial risk focussing within a three to five year time horizon

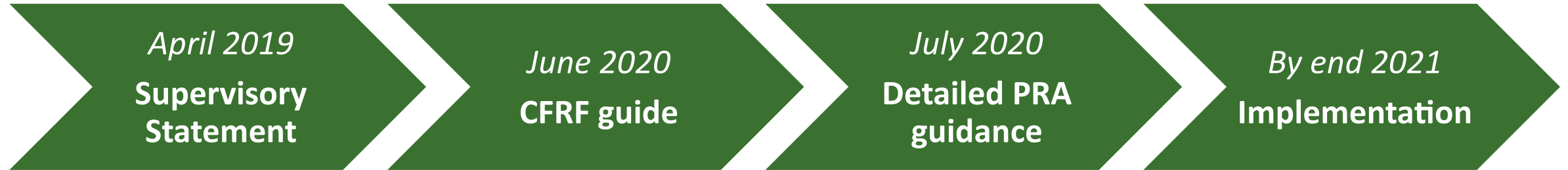


10%

Strategic

Taking a forward-looking view, grounded in long-term financial interests

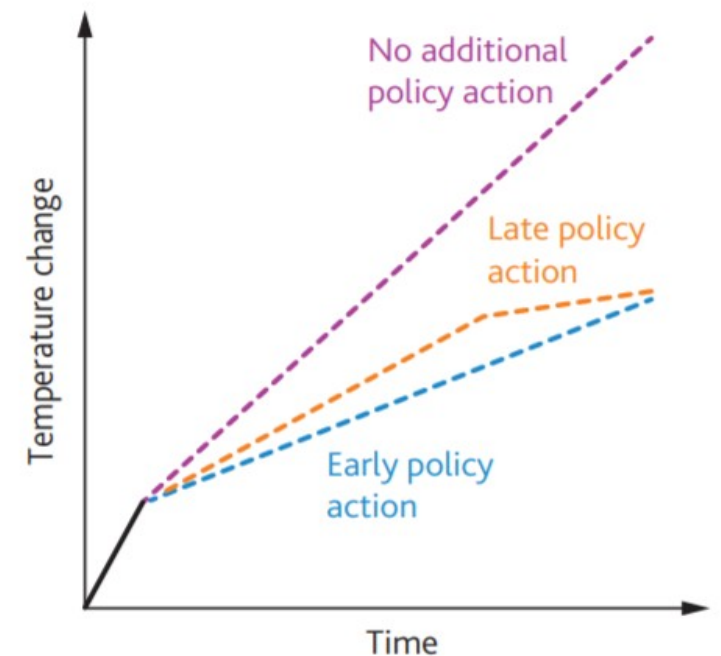
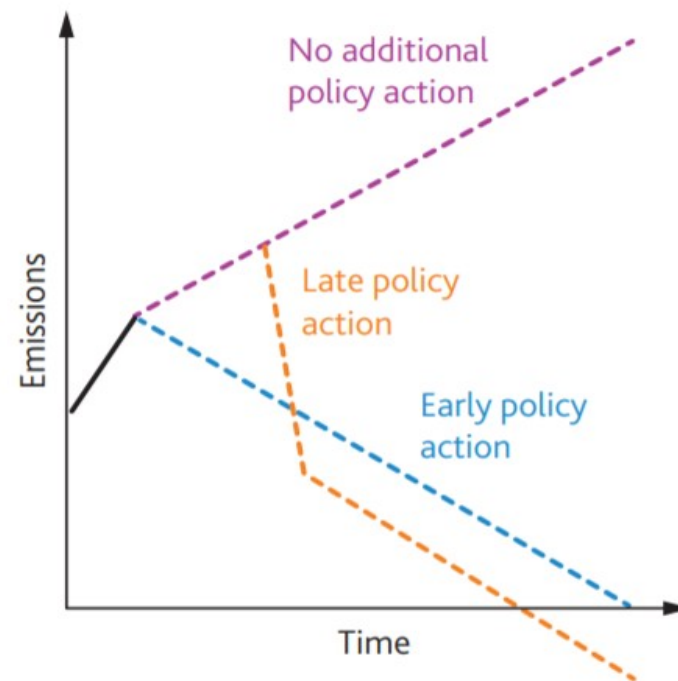
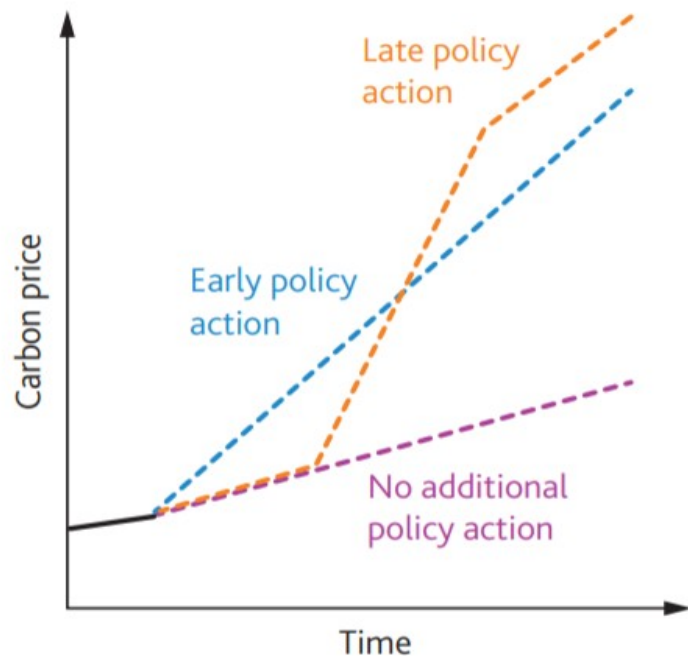
Climate-related supervisory practices



- We have set supervisory expectations for banks and insurers on managing the financial risks from climate change through:
 - *disclosure;*
 - *scenario analysis;*
 - *risk management; and*
 - *governance.*
- Whilst a deadline for doing this was initially not set, firms have been given until end-2021 to “fully embed” these expectations.

Climate Biennial Exploratory Scenarios

- In June, the Bank launched the Climate Biennial Exploratory Scenario (CBES)
- To be performed by the largest UK banks and insurers
- It explores 3 possible futures building on the NGFS scenarios



Climate BES Objectives



size the financial exposures of participating firms and the financial system more broadly to climate-related risks



understand the challenges to participants' business models from these risks, gauge their likely responses and the implications this carries for the provision of financial services



Assist participants in enhancing their management of climate-related financial risks. This includes embedding these risks in business-as-usual risk management, engaging counterparties to understand their vulnerability to climate change, and encouraging boards to take a strategic, long-term approach to managing these risks.

The CBES is different from a usual stress test

- **Wider scope and participation** macro-financial as well as climate variables; banks as well as insurers
 - **Multiple scenarios with long horizon** three scenarios spanning 30 years
 - **Novel modelling approaches** firms will conduct very granular analysis across sectors and geographies
 - **No direct link to capital** instead will inform the Bank's approach to supervisory and system-wide policy, and guide further work
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Demonstrating best practice through our own operations

- **Own climate-related financial disclosure** – published annually in line with TCFD
 - **Target to reach net zero emissions by 2050** across our physical operations – with clear milestones for 2030
 - **Greening our corporate bond purchase scheme** – published our intended approach
-

International engagement

Disclosure



Capability building



Industry



Standard-setters



SUSTAINABLE INSURANCE FORUM

Government



References

- **Bank of England and Climate Change:** <https://www.bankofengland.co.uk/climate-change>
- **Bank of England report on the impact of climate change on the UK insurance sector:** www.bankofengland.co.uk/prudential-regulation/publication/2015/the-impact-of-climate-change-on-the-uk-insurance-sector
- **Bank of England report on the impact of climate change on the UK banking sector:** www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector
- **Bank-PRA supervisory statement SS3/19 :** www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss
and Dear CEO letter: www.bankofengland.co.uk/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change
- **Bank of England's climate-related financial disclosure 2021:** www.bankofengland.co.uk/prudential-regulation/publication/2021/june/climate-related-financial-disclosure-2020-21
- **CFRF practical guide on climate financial risk management** <https://www.fca.org.uk/transparency/climate-financial-risk-forum>
- **NGFS climate reference scenarios and toolkit:** www.ngfs.net/ngfs-scenarios-portal/
- **Key elements of the Climate Biennial Exploratory Scenario (CBES)** <https://www.bankofengland.co.uk/news/2021/june/key-elements-of-the-2021-biennial-exploratory-scenario-financial-risks-from-climate-change>
- **Climate Change Adaptation Report** <https://>

Thank you