Pills

Regulatory/Supervisory Pills | N.23 November 2021

TOPICS:
CLIMATE RISKS, SUPERVISORY ASSESSMENT

SOURCE:
European Central Bank

Banks Must Accelerate Efforts to Tackle Climate Risks, ECB Supervisory Assessment Shows

The State of Climate and Environmental Risk Management in the Banking Sector

- In the first ever exercise of its kind, the **ECB comprehensively assessed the state of climate-related and environmental (C&E) risk management** in the banking sector.
- **None of the institutions are close to fully aligning their practices with the supervisory expectations.**
- The ECB recognises that the challenges linked to the integration of C&E risks into strategies, governance and risk management arrangements are constantly evolving.
- Virtually **all institutions** that performed a thorough materiality assessment expect C&E risks to **have a material impact on their risk profile** in the coming three to five years.
- While steps are being taken to adapt policies and procedures, **few institutions have put in place C&E risk practices with a discernible impact on their strategy and risk profile.**
- Most institutions have a **blind spot** for physical risks and other environmental risk drivers, **such as biodiversity loss and pollution.**
- The ECB identified **a set of good practices** across different expectations that originated from institutions spanning a range of business models and sizes.
- Virtually all institutions developed implementation plans to further improve their practices, but the quality of those plans varies considerably. All in all, **institutions have started paving the way, but the pace of progress remains slow in most cases.**
- **The ECB expects all institutions to take decisive action** to address the shortcomings set out in a dedicated supervisory feedback letter.