Positive Money response to PRA consultation CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19

Positive Money welcomes the opportunity to respond to the PRA's consultation paper CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19.

Positive Money is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

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General comments

Positive Money welcomes the Bank's updated supervisory statement on banks' and insurers' approaches to managing climate-related risks. Both climate change and environmental degradation more broadly pose risks to the stability of individual financial institutions, as well as to wider financial and monetary stability, and are therefore highly relevant to the PRA, FPC and MPC's objectives. Robust supervision is also necessary to enable UK financial services firms to support the transition to net zero, as is highlighted as a focus area in the Prudential Regulation Committee's remit. Overall, we believe that the draft updated supervisory statement provides greater clarity compared to the previous iteration, without adding undue regulatory requirements. We emphasise that i) a broader array of environmental risks should be embedded alongside climate risks within expectations of firms; ii) stronger and clearer enforcement measures are required to improve UK firms' practices, iii) A precautionary approach to supervision of nature-related risks is needed, which should be complemented by macroprudential policies.

1. Broadening supervision to include management of environmental risks beyond climate change

1.1. There is a growing consensus that financial institutions and the wider financial system face significant risks from forms of environmental degradation beyond climate change. It is also increasingly recognised that the two should be considered in an integrated manner, rather than as distinct phenomena. The NGFS, for example, has proposed that climate change be considered alongside broader environmental risks under an umbrella framework of 'nature-related risks'.[1]

1.2. With respect to physical risks, climate change and wider environmental degradation are deeply interconnected and mutually reinforcing, meaning that

[1] NGFS (2024). Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors.

assessing either in isolation is likely to omit compounding effects that increase risks to the financial system.[2] Nature loss is a driver of climate change, including through the destruction of carbon-sequestering ecosystems releasing carbon into the atmosphere, and via the loss of climate-regulating functions. Nature loss can also increase vulnerability to climate impacts due to the loss of natural buffers to climate shocks. For example, wetlands such as peatland, mangroves and seagrass store a disproportionately large amount of carbon for their size, and when drained (such as for conversion to agricultural land), stored carbon is released into the atmosphere, whilst the natural defenses wetlands provide against extreme weather such as flooding and storms, and wider stabilising services wetlands provide, such as erosion control, are lost.[3] 90% of England's freshwater wetlands have been lost over the past century, increasing flood risk and costs of flood mitigation.[4] Climate change in turn is an increasing driver of environmental degradation, with temperature change, increasingly severe and frequent extreme weather events, and sea level rise all having profound and widespread effects on ecosystems.[5]

1.3. As the CP notes, climate change is subject to tipping points that, if crossed, could lead to large-scale, irreversible damage. Tipping dynamics are also present in many of the world's critical ecosystems and, if breached, the impacts would be profound – both via the direct effects of large-scale, rapid ecosystem loss on the provision of key ecosystem services, and via feedback effects on the climate. The crossing of ecosystem tipping points and knock-on effects could also arise and materialise within the financial system before the most severe climate impacts.[6]

1.4. Measures to reduce carbon emissions and measures to halt and reverse nature loss can also exhibit both synergies and trade-offs, with implications for individual financial institutions and the overall system. For example, some forms of climate change mitigation may negatively impact critical ecosystems that themselves are key for climate stability – for instance, mining for critical minerals (key inputs for renewable energy technologies) is becoming an increasingly important driver of forest loss.[7] Assets linked to critical mineral production could become 'stranded' if regulations are introduced to protect important ecosystems, including those required to meet current global biodiversity targets.[8] Similarly, heavy exposure to some climate mitigation technologies that have negative impacts on nature – such as bioenergy production linked to land-use change, or carbon/nature credits

[2] Kedward et al. (2021). Biodiversity loss and climate change interactions: financial stability implications for central banks and financial supervisors.
[3] McAllister, S. (2025). Wetlands: Nature's lifeline for biodiversity and climate resilience.
[4] GFI (2025). Assessing the Materiality of Nature-Related Financial Risks for the UK.
[5] IPBES (2019). Summary for policymakers of the global assessment report on biodiversity and ecosystem services.
[6] Marsden et al. (2024). Ecosystem tipping points: Understanding risks to the economy and financial system.
[7] WRI (2024). Mining Is Increasingly Pushing into Critical Rainforests and Protected Areas.
[8] Kedward, K. and Poupard, A. (2024). The economic and financial risks of implementing the '30x30' Biodiversity Framework targets.

derived from poorly designed afforestation, may give rise to transition risks if nature policies are robustly enacted.[9]

1.5. The above two points evidence how, in addition to through interactions with climate change, environmental degradation can give rise to both physical (1.3) and transition (1.4) risks that impact the stability of the financial system and individual firms through more direct channels (noting the Bank's expression of uncertainty surrounding this in 2022[10]).

1.6. Efforts to quantify the economic and financial impacts of nature-related risks are less advanced and face greater methodological challenges, than that of climate change. However, efforts to do so are advancing,[11] and both supervisors and supervised firms can make use of a range of approaches to explore risks, and for supervisors, to inform a 'precautionary' policy approach (as expanded upon below).

1.7. Due to the reasons outlined above, we recommend that the PRA embed environmental risks beyond climate change throughout its supervisory expectations, such as under a broader conceptualisation of 'nature-related' financial risks. Other central banks have taken this approach, including the ECB,[12] MAS,[13] BaFin,[14] and the HKMA[15], all of whom have embedded broader environmental risks into their supervisory expectations of firms for several years.

2. Stronger and clearer enforcement measures are required to improve UK firms' practices

2.1. It is unclear from the consultation paper how the PRA will ensure that firms' adequately implement the new expectations. As the PRA's own supervisory feedback notes, firms are failing to meet expectations, with the CP stating that many supervised banks '*do not currently consider climate-related risk to be a material risk, yet this conclusion is not based on an adequate assessment of climate-related risk exposures*'. This is also supported by UK firms' increasing their financing of activities that actively increase their exposure to environmental risks, including the expansion of fossil fuel production.[16] Given that SS3/19 has been in place since 2020, and interim warnings have been issued to firms stating that the PRA may exercise a wider array of supervisory tools if needed,[17] it is clear that a stronger approach is required.

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[9] NGFS (2024). Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors.
[10] Breeden, S. (2019). The nature of risk - speech by Sarah Breeden.
[11] A recent attempt to quantify risks posed to the portfolios of the 7 largest UK banks from nature loss alone suggests possible near-term losses value in domestic holdings of up to 4-5% by 2028 (5-year time horizon): GFI (2025). Assessing the Materiality of Nature-Related Financial Risks for the UK.
[12] ECB (2020). Guide on climate-related and environmental risks.
[13] MAS (2020). Guidelines on environmental risk management (banks).
[14] BaFin (2019). Guidance Notice on Dealing with Sustainability Risks.
[15] FSB (2024). Stocktake on Nature-related Risks.
[16] Rainforest Action Network (2025). Banking on Climate Chaos 2025.
[17] PRA (2022). Thematic feedback on the PRA's supervision of climate-related financial risk and the Bank of England's Climate Biennial Exploratory Scenario exercise.

2.2. To ensure firms meet supervisory expectations, since 2023 the ECB have set deadlines, imposing binding supervisory decisions and subjected banks to potential periodic penalties for failing to meet expectations. The ECB has also announced that it will publish 'best practice' examples for firms later this year. The ECB's approach appears to have improved the practices of European banks with respect to environmental risks.[18]

2.3. We recommend that the PRA establish a clear escalation procedure (such as by publishing an implementation and enforcement procedure) detailing interim deadlines by when firms will be expected to comply with the updated expectations, and outlining measures that will be taken as a result of non-compliance, such as financial penalties.

3. A precautionary approach to supervision of climate and nature-related risks is needed, which should be complemented by macroprudential policies

3.1. The Bank of England does not yet have a publicly communicated plan of action setting out how it will incorporate climate and nature into its research, prudential and monetary policy. This is necessary to achieve both price and financial stability objectives, as well as the PRA's objective to promote the safety and soundness of individual firms, and we urge the Bank to set out a clear climate and nature plan, as for example has been done by the ECB.[19]

3.2. Whilst efforts to strengthen supervisory expectations are welcome, climate and nature-related risks to individual firms and the stability of the financial system from nature-related risks will not be effectively mitigated through microprudential measures. As the CP notes, climate (and nature) risks are systemic in nature and are characterised by a high degree of uncertainty, making them ill-suited to conventional risk-modelling approaches. They are also endogenous to the financial system - meaning that the financial sector's activities contribute to the build-up of further risks.

3.3. As a result of these challenges, efforts based on encouraging individual firms to quantify and 'price in' environmental risks are likely to result in them underestimating – and failing to fully mitigate – the risks to which they are exposed. Due to this, individual financial institutions are unlikely to manage risks in such a way as to reduce the buildup of systemic risks.[20] Moreover, absent coordinated, complementary measures, if firms *were* to introduce strong measures to mitigate risks this could have counterproductive consequences - particularly with respect to physical risks, where this may result in increasing the costs of, or limiting access to, financing for climate mitigation and adaptation.[21]

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[18] Elderson, F. (2025). Banks have made good progress in managing climate and nature risks – and must continue.
[19] ECB (2024). Climate and nature plan 2024-25 at a glance.
[20] BoissinoT et al. (2021). Aligning financial and monetary policies with the concept of double materiality: rationales, proposals and challenges.
[21] Dafermos, Y. (2021).Climate change, central banking and financial supervision: beyond the risk exposure approach.

3.4. For central banks and financial supervisors, these dynamics warrant a 'precautionary' policy approach, meaning one that seeks to mitigate the financial sector's contribution to the build-up of risks by reducing financial flows to environmentally damaging activities.[22] This entails using an array of different approaches to understand risks to the financial system from the environment and vice versa, including drawing on a suite of different models,[23] alongside greater use of qualitative analysis and expert judgement.

3.5. Policy options to apply such an approach include: adjusting capital requirements in a way that seeks to disincentivise lending to activities not aligned with the green transition (such as fossil fuel expansion) via adjusting risk-weights; applying quantitative restrictions on lending for such activities; and calibrating monetary policy tools including aligning collateral eligibility and haircuts. Such measures would support an orderly transition, and thus contribute to safeguarding macroeconomic and financial stability. Greater coordination, both within the Bank and with other institutions (including fiscal and industrial authorities), may be needed to enhance the effectiveness and orderliness of such measures, support alignment with government-led green transition policies, and help to avoid adverse distributional or other counterproductive impacts arising as a result of prudential measures.[24]

3.6. The PRA can and should support such an approach. In the immediate term, the Bank and PRA should re-examine the capital framework in relation to climate and nature, such as within its forthcoming assessment of overall bank capital requirements.[25] No next steps appear to have been taken following the Bank's report on climate and the capital framework, and regulators in other jurisdictions are now increasingly moving beyond just efforts to *assess* the relevance of environmental risks in prudential frameworks, but are recommending integrating these into policy. For example, the EBA recently recommended that higher capital requirements for fossil fuel-related assets need to be considered in capital requirements for banks,[26] whilst EIOPA has recommended similar treatment for insurers.[27] The PRA can also play an important role via its supervisory function, in supporting the introduction and implementation of net-zero aligned transition plans for financial firms, as expanded upon below.

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[22] Chenet et al. (2021). Finance, climate-change and radical uncertainty: Towards a precautionary approach to financial policy.
[23] NGFS (2023). Recommendations toward the development of scenarios for assessing nature-related economic and financial risks.
[24] Monnin, P. and Robins, N. (2022). Supporting the just transition: a roadmap for central banks and financial supervisors.
[25] Bank of England (2025). Financial Stability Report - July 2025.
[26] EBA (2025). Final report: Guidelines on the management of ESG risks.
[27] EIOPA (2024). EIOPA recommends a dedicated prudential treatment for insurers' fossil fuel assets to cushion against transition risks.

Recommendations to strengthen specific elements of the draft statement

4. Chapter 1: Governance

4.1. We welcome the clarification on the provision of climate-related risk analysis to boards, in order to enhance knowledge of the financial impacts of climate change. However, as discussed above, firms' financing activities today are contributing to the build-up of systemic climate and environmental risks. We therefore recommend that risk analysis provided to boards be required to include an assessment of how firms' financing activities may impact the build-up of systemic climate and environmental risks.[28] This is particularly important given the relative importance of UK financial institutions in this regard. For example, UK banks' consistently score highly in global comparisons of banks' financing of fossil fuel companies, including companies actively expanding fossil fuel production.[29] UK financial institutions have also been found to play an outsized role in facilitating financial flows to companies linked to significant land use change and degradation of critical ecosystems at risk of crossing tipping points - research has found UK firms come second only to US firms in facilitating financial flows to companies linked to deforestation in the Brazilian Amazon, and UK firms were found to be the most significant non-Asia based financiers of companies linked to degradation of Indonesian Peatlands.[30]

4.2. We welcome the requirement that firms be able to demonstrate how plans to meet voluntarily adopted, or Government-mandated climate targets, are embedded into business strategies, noting the UK Government's commitment to introduce a mandatory requirement for 1.5 degree-aligned climate transition plans for UK firms and the ongoing consultation on the implementation of this commitment. Transition plans can provide important forward-looking information as to the alignment of individual financial institutions with likely transition pathways, which can act as a proxy for environmental risks that cannot be quantified, and thus help to overcome some of the challenges involved in incorporating environmental risks into prudential regulation.

4.3. We recommend that the Bank work in coordination with the Government to support the introduction and implementation of mandatory, 1.5-degree aligned transition plans for financial firms. Once introduced, these should be incorporated into the PRA's supervision. For example, the PRA could set expectations for firms surrounding the development and implementation of transition plans for prudential purposes. Such expectations should support broader requirements for transition plans as introduced by the Government, i.e requirements reflecting the purposes of transition plans in supporting an entity's decarbonisation and an economy-wide transition. This is essential as, as outlined above, an orderly and

[28] Boissinor et al. (2021). Aligning financial and monetary policies with the concept of double materiality: rationales, proposals and challenges.
[29] Rainforest Action Network (2025). Banking on Climate Chaos 2025.
[30] Marsden et al. (2024). Financial system interactions with ecosystem tipping points: evidence from the Brazilian Amazon and Indonesian peatlands.

timely alignment of the whole economy with environmental objectives poses less risk of instability to individual firms and the wider financial system than a disorderly, late transition, and the physical risks of unmitigated environmental degradation. However, the PRA could specify what must be included for prudential purposes, and could play an important role in monitoring firms' implementation of developed plans, with firms subject to sanctions (such as fines, as proposed by the ECB[31]) for non-compliance.

5. Chapter 2: Risk management

5.1. We welcome the draft statement's requirement that firms take a structured approach to identifying and assessing climate risks, review risks periodically, and assess climate-related risks arising from relationships with clients and alignment between the transition plans of firms and those of clients, counterparties, investees and policyholders. Supervisory expectations could explicitly require firms to consider environmental risk transmission channels beyond climate change – for example, EIOPA has suggested that firms could identify 'potential lines of business or investments most at risk of loss of specific ecosystem services', including considering the direct drivers of nature-loss highlighted by IBPES of land and water use, resource extraction/(over)-exploitation, pollution, and invasive species, and focusing on economic sectors with particularly high impacts on ecosystems.[32]

5.2. When identifying material risks, to reflect both the more severe long-term impacts of climate change, and to align with the requirement to consider national climate policies, firms should be required to take a forward-looking approach to risk identification and assess risks over a long-term time horizon, such as to at least 2050, aligning with the UK's statutory net zero commitment.

6. Chapter 3: Climate Scenario Analysis (CSA)

6.1. We welcome the draft statement's increased recognition of the limitations of climate scenario analysis, and the requirement that firms understand these limitations. We would suggest that firms should be required to detail these limitations within the required documentation of how CSA informs decision-making.

6.2. Greater specificity is needed surrounding the time horizon according to which firms are expected to carry out CSA, including requiring that firms carry out CSA over a specified long-term time horizon. The PRA should also clearly outline what scenarios they consider to be conceptually sound. It may also be appropriate to require firms to use a core set of specific scenarios as a minimum (such as based on the NGFS scenarios).

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[31] Elderson, F. (2024). "Failing to plan is planning to fail" – why transition planning is essential for banks.
[32] EIOPA (2025). Report on biodiversity risk management by insurers.

6.3. Greater clarity is needed as to how the PRA expects firms to compensate for the limitations of CSA that are identified in the supervisory expectations, including when incorporating CSA into internal capital adequacy assessments.[33]

[33] Finance Watch (2025). A safer use of climate scenario analysis by banks.