



CP10/25, Central Climate Team
Prudential Regulation Authority
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Consultation on PRA draft supervisory statement on banks' and insurers' approach to managing climate-related risks

We refer to Bank of England Prudential Regulation Authority's (PRA) consultation paper CP10/25 on Enhancing banks' and insurers' (firms) approaches to managing climate-related risks – Update to supervisory statement SS3/19. We welcome the PRA's efforts to establish more consistent and comprehensive climate risk management practices across its supervised firms using a proportionate approach and appreciate the opportunity to provide feedback on the proposals.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD1,739 billion at 31 December 2024, of which USD100.1 billion was invested in the shares of 325 UK listed companies, including listed banks and insurers regulated by the PRA.

As a long-term investor, our returns depend on sustainable economic, environmental and social development, and on well-functioning and efficient markets. Climate risks demonstrate financial materiality across major asset classes, including equity, and corporate debt. Our exposure spans the entire transmission chain: insurers → banks → real economy companies. Rising insurance losses threaten insurer profitability and stability. When insurers withdraw coverage, banks face weakened collateral and higher credit losses. Real economy companies ultimately bear higher capital costs, reduced property values, and uninsurable risks—directly impacting our equity returns.

Enhancing interoperability with international supervisory standards and guidance

To deepen integration of climate risk management within firms and enhance interoperability with supervisory expectations from other jurisdictions, we recommend that each section of the Supervisory Statement (SS) is mapped against the relevant principle from the guidance issued by international standard setters for banks and insurers, specifically:

- [Basel Committee for Banking Supervision \(BCBS\) June 2022 Principles for the effective management and supervision of climate-related financial risks](#) (BCBS P2C)
- [International Association of Insurance Supervisors \(IAIS\) April 2025 Application Paper on the Supervision of Climate-Related Risks in the Insurance Sector](#) (IAIS CAP).

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Mapping to BCBS P2C and IAIS CAP would enhance implementation by cross-referencing Basel and Insurance Core Principles that firms already know well. This reduces compliance burden for multi-jurisdictional firms and improves cross-border comparability. It also supports future alignment as IAIS deepens climate work and BCBS prioritizes extreme weather financial risks.¹²

We offer comments on three areas of draft SS3/19 for three areas: (i) governance, (ii) risk management, and (iii) scenario analysis, particularly for capital setting. These expectations could effectively embed climate risk management into firms' strategy and operations. The shift from principles-based guidance (existing SS3/19, BCBS P2C, IAIS CAP) to detailed implementation requirements will drive fundamental integration of climate risks. This enables firms to provide decision-useful disclosures under the IFRS S2 Sustainability Standards, which are the basis for the UK Sustainability Reporting Standards referenced in section 4.5.4.

Our comments are limited to these specific sections and requirements mentioned below.

Robust governance framework

We endorse the PRA's focus on governance, which aligns with our expectations of companies.³ Directors will have to fully understand their duty of care and exercise active oversight and accountability at the highest level. Strong governance is a key determinant of long-term viability of financial institutions and increased banks' likelihood of a positive outcome during the 2008 financial crisis.⁴

We agree with the enhanced specificity of board requirements, particularly in the following areas:

- Assignment of individual responsibility to a Senior Management Function (SMF) holder, who is subject to additional conduct rules under the UK regime.
- Internal climate-related risk reporting infrastructure that covers utilisation of risk appetite limits, changes to the firm risk register, analysis of the financial impact of climate events and use of reverse stress tests.
- Explicit board agreement on material climate risks identified in the risk register and the rationale for climate scenarios selected; and board approval of climate-specific risk appetite statements
- Board understanding of climate scenario analysis (CSA) exercises and impact of CSA on decision making which includes setting of quantitative risk appetite metrics and limits.
- Oversight of financial reporting to ensure the timely capture of climate-related risk; including forward looking information for balance sheet valuations; and connectivity of judgements and estimates used with information disclosed in sustainability reports.⁵

¹ BCBS Press Release 12 May 2025: Governors and Heads of Supervision reaffirm expectation to implement Basel III and discuss work on financial impact of extreme weather events

² IAIS Strategic Plan 2025-2029

³ [NBIM Climate Change Expectations of Companies](#)

⁴ FDIC Office of the Inspector General, "Acquisition, Development, and Construction Loan Concentration Study," Report EVAL-13-001, October 2012, Section "The Aftermath of the Crisis: Lessons Learned for Supervision"

⁵ NBIM highlighted the need for such connectivity in our view on [Global standards for corporate sustainability-related financial disclosures | Norges Bank Investment Management](#)

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Structured Risk Management Framework

We support the structured risk management approach ensuring rigorous assessment of (i) climate impacts across risk types and transmission channels, and (ii) categorization by risk hierarchy and imminence. Using CSA to set quantitative risk metrics and exposure limits will strengthen firm-level resilience while building system-wide resilience against extreme events.

We believe that section 4.1.6 may not be necessary since section 4.3.8 already requires firms to assess climate impacts on strategy across scenarios and evaluate management responses for credibility. The proposed risk framework, combined with CSA-informed risk limits and capital setting, adequately addresses climate goals from a safety and soundness perspective. Greenwashing concerns at the firm level or at product level (e.g. sustainability-themed insurance products) are best dealt with by the Financial Conduct Authority.

The recent slowdown in climate policy action across multiple countries will likely exacerbate physical climate risks, already manifesting through increased frequency and intensity of extreme weather events.⁶⁷ The increasing physical impacts underpin why we ask companies to explain whether their adaptation needs will be met by government investment or require their own capex⁸. In our experience, firms often lack disclosures on physical climate adaptation plans. Therefore it is critical that PRA highlights assumptions on insurance and government intervention in section 4.6.25 and requires consideration of adaptation plans and supply chain vulnerability in risk assessments for material relationships in section 4.2.9.

Effective Use of Climate Scenario Analysis, especially for capital setting

We strongly support the requirements in section 4.3.8 for firms to use CSA for business strategy, risk management, capital setting and valuation. This ensures that CSA is not undertaken as a tick box compliance or exploratory exercise, but instead produces relevant and insightful outputs to inform business decision-making. Furthermore, the explicit integration of CSA outcomes into regulatory capital processes ensures firms take action as they have to demonstrate how they have adequately mitigated risks identified in CSA and appropriately capitalised risks not otherwise mitigated.

Transition risks and physical risks differ by jurisdiction and geolocation respectively, affecting companies' assets and value chains to varying degrees. We ask companies with concentrated physical assets to disclose location data and include adaptation and resilience in their transition plans.⁹ We also ask companies to disclose material sustainability-related financial information reflecting industry, geography, and company-specific considerations¹⁰. We concur with section 4.3.15 requiring firms to assess exposures with sufficient geographic and sectoral granularity, including property-level physical risk exposures; cross-border spillovers of physical impacts; and sectoral/counterparty-level for transition risks. This ensures CSA achieves its intended objectives and actually informs decision-making.

⁶ United Nations Framework Convention on Climate Change Nationally Determined Contributions Synthesis Report October 2024

⁷ World Meteorological Organization State of the Global Climate 2024

⁸ [NBIM Climate Change Expectations of Companies](#)

⁹ *ibid*

¹⁰ *ibid*




We also agree with sections 4.6.27 and 4.3.15 requiring firms to assess and monitor concentration risks to certain sectors, geographies and counterparties. These risks can apply simultaneously to sector and geography – for example, the technology sector, our largest equity holding by share of net asset value, has high water resource dependencies and impacts. We used geospatial data to explore the sector's asset exposure to very high water stress areas, providing valuable input for our investment decisions.

Additionally, we agree with section 4.3.4 requiring firms to understand and account for the limitations of climate scenarios and models when using the results. These tools are still evolving and climate risks are uncertain in scale and timing as noted in section 2.6. Current scenario analyses based on commonly used models may severely underestimate physical climate risk effects by omitting losses associated with the systemic impacts of climate change on the macroeconomy. We developed a top-down approach to capture these systemic effects. Using this approach, the present value of average expected losses from physical climate risk on our US equity investments under a Current Policies scenario is 19% compared to just 2% using MSCI's Climate Value at (CVaR) model, a widely used bottom-up approach.¹¹

PRA can include references to useful guidance materials. The BCBS June 2025 framework for the voluntary disclosure of climate-related financial risks for banks includes tables to disclose concentration risk. The new NGFS short term scenarios covering the 5 years up to 2030 are very useful for climate-stress testing and analysis of financial risks that may materialise within a business planning timeframe.¹²

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

Signed by:

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Carine Smith Ihenacho
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Jeanne Stampe
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¹¹ [NBIM Climate and Natures Disclosures 2024](#) pages 27-30

¹² [NGFS Short-term Climate Scenarios for central banks and supervisors | Network for Greening the Financial System](#)