

# PRA to include climate risks in stress tests for insurers

## AT A GLANCE

April 2019

### What's new?

- In a [speech](#) on climate risk on 21 March 2019, Governor of the Bank of England Mark Carney unveiled further details of plans for climate risk stress tests for insurers.
- Speaking at a European Commission conference on sustainable finance, Carney explained that from April 2019, the PRA will ask UK insurers, as part of a market-wide insurance stress test, to consider how their businesses would be affected in different physical and transition climate risk scenarios.
- Climate stress testing will involve linking high-level data-driven narratives on the evolution of physical and transition climate risks to quantitative metrics to measure the impact on the financial system.

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### What does this mean?

- The PRA is conscious that climate risks pose threats to UK insurers and the financial system more broadly. It outlined how such risks could crystallise for insurers in a [report](#) published in 2015.
- The PRA wants to see evidence that insurers are adequately assessing these risks and thinking about the impact they could have on their business and operations. Carney noted a “cognitive dissonance” between liability-side and asset-side climate risk management.
- It's likely that the PRA will expect insurers to have formulated views on how they could be impacted by climate risks, which should include physical risks, transition risks and liability risks across both assets and liabilities.

### What do firms need to do?

- Insurers should prepare immediately for the PRA's expectations by gathering the necessary data on climate-related financial risks.
- At the very least, firms should be able to articulate to the regulator how they expect their business to be exposed to physical and transition risk scenarios through general risk management and the ORSA process & report.
- Firms should also be preparing for the PRA to finalise its supervisory expectations on managing climate risks more broadly. These were set out in draft for consultation in October 2018.
- This consultation considered board-level engagement on climate risks and identification of a Senior Management Function with responsibility for identifying and managing climate risks.

### Next steps

The PRA plans to begin climate stress test process for insurers from **April 2019**. EIOPA plans to include climate and sustainability risks in its 2020 stress tests.

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