

How Climate Risk Policy of a Bank should look like?

Climate Risk Policy

Climate change is one of the most emerging risks being faced by most of the industries and Banking is no exception to it. Along with the risks associated with climate change, there are various opportunities which are also opening up across different sectors which is posing unique challenge to Banks to be in preparedness for the change. The situation becomes more challenging considering the fact that the impact of climate change and the associated changes have different time horizons ranging from short term (2025-2030) to the end of the century and beyond. In this backdrop, having a robust Climate Risk Management Policy becomes the starting point for Banks and is the minimum expectation from regulators.



Contents of a Climate Risk Policy

Background

Banks can start with background of climate risk which can also include description of Green House Gases (GHGs), brief on UN Sustainable Development Goals (SDG) and Paris Agreement.

Vision

Banks can also give their vision on climate change and give a high level overview of the process being followed or proposed to be followed in the Bank for climate risk management. It can include high level statements related to adoption of Paris Agreement and the Bank's commitment to the same. Bank can describe the Board and Senior Management level involvement for climate risk management. Banks can also give short term (2025-2030), medium term (2030-2040) and long term (2050 and beyond) objectives.

Strategy

Banks can divide their strategies into two parts. First part can be pertaining to their internal operations. In this section, Banks can provide strategies to reduce carbon footprint in their internal operations. In the second part, the Banks can provide strategies to reduce the carbon footprint of their customers. Banks should specify how they intend to hand hold their client in the transition climate-resilient and low carbon business model.

Climate Change Risk Management Framework

Banks can start with different types of climate risk which includes Physical Risk and Transition Risk. Banks can also get into details of sub-types of these risks. Banks should also demonstrate linkages between different types of climate risks and various traditional risks like Credit Risk, Market Risk, Operational Risk, Reputation Risk, Strategy Risk, Liquidity Risk and any other material risks. Banks should incorporate how traditional risk behave when they interact with climate change related risks. For this interaction, the impact on the Bank as well as clients need to be assessed and risk mitigations need to be suggested. Banks can also use Scenario Analysis to identify various paths for climate change and assess the impact on the Bank and its customers and prepare remedial measures. Banks can also prepare risk appetite framework as a part of their climate risk management framework.

Climate Change Risk Management Structure

Banks can identify roles and responsibilities of various stakeholders starting from Board level. Banks can also elaborate on roles of First Line, Second Line and Third Line of defense. In the structure, Banks can also include various committees at various levels along with its responsibilities for climate risk management.

Disclosures

Banks can elaborate on the disclosures which will be made with regard to climate change risks. Details of disclosure standards which the Bank intends to follow can also be included.