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Insights

ENHANCING BANKS’ AND INSURERS’ APPROACHES TO MANAGING CLIMATE-RELATED RISKS

WHAT YOU NEED TO KNOW

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SUMMARY

On 3 December 2025, the PRA published Policy Statement 25/25 (PS25/25), finalising proposals from CP10/25 and introducing Supervisory Statement 4/25 (SS4/25). This replaces SS3/19 and sets out updated expectations on how banks and insurers should manage climate-related financial risks.

The PRA’s aim is clear: to strengthen resilience by embedding climate considerations into governance, risk management, and strategic decision-making. These changes respond to the growing impact of climate change and the economic transition to net zero. The PRA notes that financial and economic losses linked to climate change are projected to increase, though timing and magnitude remain uncertain.

Since first setting expectations in 2019, firms have made progress, but it is uneven. Industry feedback has called for greater clarity, and PS25/25 delivers this by consolidating guidance and aligning with international standards. The proposals are **not new rules**, but rather updated supervisory expectations designed to **embed climate risk into governance, risk frameworks, and strategy**. They apply existing regulatory principles to climate-related risks, with proportionate implementation based on a firm’s exposure. The PRA encourages innovation and flexibility while setting clear outcomes for risk identification, management, and governance.

The amended policy took effect on 3 December 2025, but firms have six months before supervisors expect evidence of gap analyses and action plans. So, what five things should firms prioritise?

1. STRENGTHEN GOVERNANCE AND OVERSIGHT

The PRA expects boards and senior management to take ownership of climate-related risks. This means moving beyond high-level statements to active oversight and accountability. Boards should ensure climate risk is integrated into strategic planning, capital allocation, and product development. Clear roles and responsibilities for climate oversight must be documented, and management information should enable informed decision-making.

For many firms, this will require revisiting governance frameworks to embed climate risk into existing committees and reporting lines. The PRA emphasises that governance should not be a "tick-box" exercise; it must demonstrate how climate considerations influence real-world business decisions.

2. EMBED CLIMATE RISK ACROSS RISK FRAMEWORKS

Climate-related risks are not a standalone category – they cut across credit, market, operational, and liquidity risks. The PRA expects firms to integrate climate considerations into their existing risk management frameworks, including ICAAP and ILAAP for banks and equivalent processes for insurers.

This involves adopting robust methodologies and assumptions to assess exposures under different climate pathways. Firms should ensure that climate risk is reflected in risk appetite statements, stress testing, and capital planning. The PRA acknowledges proportionality but expects all firms to demonstrate credible integration of climate risk into core risk processes.

3. ENHANCE SCENARIO ANALYSIS AND DATA QUALITY

Scenario analysis remains a cornerstone of the PRA's approach. Firms must go beyond compliance and use climate scenarios as a strategic tool to test resilience and inform business planning. The PRA expects firms to demonstrate a clear link between scenario outputs and decision-making, for example, how results influence lending strategies or investment allocations.

Data quality is equally critical. The PRA highlights the need for granular, forward-looking data and urges firms to critically assess sources, address gaps, and improve coverage. This may require investment in data infrastructure and collaboration with industry initiatives to develop consistent metrics.

4. ALIGN DISCLOSURES WITH GLOBAL STANDARDS

Transparency remains a key regulatory priority. Firms should provide clear, decision-useful disclosures on climate-related risks and opportunities, aligned with evolving international frameworks such as ISSB and TCFD. The PRA expects consistency in reporting and encourages firms to explain methodologies and assumptions underpinning disclosures.

For banks, disclosures should cover how climate risk is integrated into ICAAP and ILAAP, while insurers should address implications for solvency and capital adequacy. High-quality disclosures not only meet regulatory expectations but also build trust with investors and stakeholders.

5. PREPARE GAP ANALYSES AND ACTION PLANS

The PRA has given firms six months to evidence their approach. This means conducting a thorough gap analysis against SS4/25, identifying areas where current practices fall short, and developing proportionate action plans.

Firms should prioritise actions based on materiality and risk exposure, recognising that supervisors will expect credible progress rather than perfection. Early engagement with internal stakeholders and clear timelines will be essential. The PRA's message is clear: firms must move beyond compliance and use climate risk insights to support sustainable growth and financial stability.

WHAT NEXT?

PS25/25 signals a step-change in regulatory expectations. While the approach remains principles-based, supervisors will expect tangible evidence of integration and progress. Firms that treat climate risk as a strategic issue, not just a regulatory requirement, will be better positioned to manage uncertainty and seize opportunities in the transition to a low-carbon economy.

KEY DEADLINES AND NEXT STEPS

- **Immediate:** Review PS25/25 and Supervisory Statement 4/25 to understand updated expectations.
- **Within 6 months:** Complete gap analysis against SS4/25 and prepare proportionate action plans for implementation.
- **Ongoing:** Embed climate risk into governance, risk frameworks, and scenario analysis; enhance data quality and disclosures.
- **Engage early:** Ensure board and senior management oversight and allocate resources for integration and reporting.
- **Monitor developments:** Stay aligned with international standards (ISSB, TCFD) and PRA supervisory feedback.

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