Enhancing banks' and insurers' approaches to managing climate-related risks

WeeFin's position

WeeFin is a French impact fintech founded in 2018 with a clear mission: to raise the standards of sustainable finance and make it the norm.

Convinced that sustainability should be at the heart of every investment decision, we developed the first SaaS technology fully dedicated to sustainable finance. By combining deep financial expertise with innovative technology, we address one of the biggest challenges in the industry today: making sustainable finance both actionable and impactful for our clients (Asset Managers, Asset Owners, Wealth Managers, Asset Servicers, etc.).

WeeFin supports financial institutions in meeting regulatory constraints as well as leading the transition to a fairer, more resilient global economy. In that order, WeeFin provides an technological ESG data management solution and expertise on all ESG issues, including climate risks (knowledge of regulatory frameworks, methodologies and data required to calculate and monitor physical and transition risks).

After two rounds of fundraising and with over 50 european clients (€7,530bn) and more than 50 connected data sources, WeeFin was named Fintech of the Year 2023 in France and awarded Best ESG Technology Initiative. The company is now expanding across Europe, with an office in London and new contracts with several significant financial institutions across the UK.

WeeFin's key messages

Climate risks have been and remain a top priority for every financial institution interested in ESG investing. Through its activities, WeeFin supports firms in the calculation and management of climate risks and is particularly aware of the many challenges they face regarding data governance, methodologies and internal expertise. For that reason, WeeFin sides up with these proposals, which provide guidance for climate risk management for financial institutions.

However, WeeFin finds that some dispositions of the proposals could be adjusted in order to ensure :

- A right level of flexibility in the application of PRA proposals
- Methodological guidelines covering the full range of dimensions to identify and manage climate risks efficiently.

Please find below more details on WeeFin's key takeaways and specific opinion on each axis of the proposals.

1. The proposals recognise the importance of integrating climate-related risks in banks and insurance risk management practices.

WeeFin supports the introduction of new proposals for the management of climate-related risks

Through its proposals, the Bank of England sheds light on the relevance of integrating climate-related risks within banks and insurances' risk management practices. Doing so, it recognises that managing climate risks present significant stakes and potential financial losses for asset owners. Publishing such proposals will give financial institutions the tools to implement more extensive and robust climate-related risks measurement and prevention practices.

The proposals introduce a treatment of climate-related risks similar to other drivers of financial risk and compliant with Basel Accords. Climate-related risks should be integrated into risk management processes in the same way as other risk drivers: financial institutions, regardless of their specific sector, should therefore consider them at all parts of their risk management framework, from risk analysis, internal reporting and financial ratio calculations to governance and public reporting.

The proposals place appropriate attention on ESG data

WeeFin finds the Bank of England's choice to underline the needs and practices regarding climate-related data to be especially relevant.

WeeFin provides an ESG data management solution and is therefore uniquely positioned between data providers (private and public) and financial companies. As such, WeeFin's teams, who are in daily contact with asset owners' ESG, compliance and data management teams, have identified that one of the most important challenges facing financial companies is data availability and quality.

Hence, WeeFin supports the emphasis put on data management through a dedicated dimension within the proposals. This part pinpoints that data is the foundation upon which risk management relies and that appropriate measures should be taken to ensure proper control over financial institutions' data resources.

2. The PRA's proposals provide for flexibility and proportionality in each of its provisions, which can have mixed effects on banks and insurance undertakings

Throughout the proposals, the Bank of England focuses on proportionality. For that reason, it does not give any precise requirements when it comes to integration of climate-related risks in decision making, frequency of risk assessment, methodologies, data points, thresholds, processes and materiality analysis.

The proposals lack guidelines for the effective integration of climate-related risks in the decision-making process

The proposals focus on risk analysis and internal reporting. They do not support financial actors in defining targets that would help clarify the actions to be implemented to reduce their exposure to climate-related risks, thereby enabling them to remain competitive.

The proposals lack of methodological guidance for risk assessment

Similarly, WeeFin believes that flexibility can help firms to adapt the integration climate-related risk to their specific context. However, the absence of guidelines, recommended metrics, good practices and/or reference methodologies could undermine financial institutions' efforts in taking climate-related risks management measures. Financial actors need to be given tools to guide their decision, otherwise (i) they might be less disposed to dedicate resources to climate-related risks management; (ii) they might spend more time and resources identifying appropriate methodologies and (iii) they are likely to implement measures with varying levels of ambition, limiting the comparability of reported risk levels and management practices.

The PRA's proposals show a limited level of ambition in relation to ESG risks at this stage

The Bank of England's proposals have the merit of initiating the systematic and formalised implementation of a climate risk management framework. However, it will be necessary to extend this framework in order to provide for the graduate integration of other environmental topics (e.g. biodiversity) and social and governance topics.

Detailed feedback on the proposals

The proposals focus on four main themes: governance, risk management, scenario analysis, and disclosure and the draft Supervisory Statement (SS) is structured around the following seven chapters:

I. Chapter 1: Governance

Embedding climate related-risks into strategic oversight

The proposals are broadly consistent with established governance frameworks and align with the growing global trend to embed ESG, and in particular climate-related, risks into core strategic and risk management processes. Integrating these risks at the board level is both timely and necessary, given their increasing materiality and systemic nature.

The emphasis on board-level engagement, scenario analysis, and clearly defined risk appetite statements mirrors many elements already found in leading practices across the financial sector. Targeted training initiatives are indeed a key enabler of board readiness. In this regard, the financial industry is making progress.

> *For instance, WeeFin has provided training and strategic workshops to various boards and senior executives on climate-related risks, biodiversity loss, and greenwashing, helping financial actors to better understand the operational and reputational implications of these emerging challenges.*

Areas requiring further clarification and reinforcement

To move beyond symbolic alignment and foster a genuine transformation of governance practices, WeeFin believes the following aspects warrant further attention:

1. Clarifying expectations around board competencies and composition

The proposals do not specify the level of expertise or types of profiles expected at the board level. We recommend that the final guidance elaborates on the minimum competencies or backgrounds expected to ensure that boards can exercise effective oversight and challenge.

Not providing more detailed guidance could lead to a risk that boards' knowledge and competencies remain insufficient to address climate strategy and risk.

2. The absence of climate-related goals

The proposals explicitly state that firms are not required to adopt climate goals. While this preserves flexibility, WeeFin believes it may inhibit financial actors from defining risk exposure limits.
Climate-related risks are material at short, medium and long term under different scenarios. For that reason, we suggest reconsidering this position or at least encouraging firms to disclose how their climate risk management meets the growing climate-related challenges faced by the global economy.

3. Risk of regulatory asymmetry

Finally, WeeFin would like to highlight the risk of regulatory fragmentation or asymmetry, especially with jurisdictions that are moving faster or setting higher expectations. To maintain coherence and competitiveness, and to reduce the burden on cross-border firms, it is important that this framework does not fall behind international benchmarks or allow for a diluted implementation of climate governance responsibilities.

This chapter’s proposals are a strong foundation, but its effectiveness will depend on how clearly and ambitiously it is implemented. We recommend adding greater precision on governance expectations, more operational guidance, and stronger encouragement for ambition, to ensure that this framework drives real progress and does not become a compliance exercise.

II. Chapter 2: Risk Management

While the proposals offer a solid foundation for identifying and assessing climate-related risks - through training, risk assessment, data management, and the integration of climate-related risks into risk management frameworks and financial reporting - further clarifications would help ensure effective, consistent, and actionable implementation across financial institutions.

Key Clarifications to Strengthen Implementation

1. Defining materiality and review frequency

A clear and operational definition of "materiality" is essential to guide firms in identifying which climate-related risks warrant structured assessment and monitoring. WeeFin recommends that the final framework:

- Propose criteria or dimensions to help firms in assessing the materiality of their climate-related risks (e.g., financial exposure, strategic relevance, reputational impact, time horizon);
- Clarify the expected frequency for reviewing and updating risk mappings, and how these reviews should be embedded into broader risk governance cycles.

2. Ensure active risk monitoring

To avoid a purely observational approach, firms should be encouraged to define climate-related alert thresholds and pre-defined response actions. For example, when a counterparty is assessed as high-risk due to climate exposure or transition misalignment, this should trigger a governance process or escalation protocol. This would bring climate risk in line with established practices in credit, liquidity, or conduct risk management—ensuring it drives concrete decision-making.

3. Providing Reference Risk Metrics

Although the proposals avoid mandating specific metrics, a minimal set of reference indicators, even presented as indicative or illustrative, would offer valuable guidance to firms at different maturity levels. WeeFin suggests including:

- Examples of quantitative metrics for both transition (e.g., financed emissions, carbon intensity, alignment scores) and physical risks (e.g., Value-at-Risk under climate hazard scenarios).
- Guidance on how to calibrate internal limits or tolerances based on these metrics.

Such tools would improve comparability, promote consistency, and reduce the risk of underestimating exposures due to methodological divergence.

4. Supporting Implementation with Practical Guidance

To facilitate adoption, regulators could complement the final framework with:

- Worked examples, including model risk assessments or mock reporting formats.
- Sector-specific templates for institutions with differing business models (e.g., banks, insurers, etc.).
- Suggestions for basic calculation methodologies, especially for firms with limited internal capacity.

By providing not just expectations but also practical tools, the proposals can help ensure that implementation is not only consistent, but also meaningful and impactful.

III. Chapter 3: Climate scenarios

While the proposals outline important expectations regarding Climate Scenario Analysis (CSA), greater precision is needed to guide firms in implementing these requirements effectively and consistently.

Key Clarifications and Recommendations on Climate Scenario Analysis

1. Clarifying which climate scenarios to use

- The proposals should provide more detailed guidance on the types and number of scenarios firms are expected to consider. This includes whether firms should use a standard set of scenarios (such as those published by the IPCC, NGFS...), or develop bespoke scenarios aligned with their specific risk profile (e.g., EIOPA has offered useful insights and recommendations on scenario selection in order to support financial companies).
- Further clarity is needed on the time horizons to prioritise (short, medium, and long term), and how firms should balance the focus across these horizons depending on their business model and risk appetite.
- The proposals should also specify how frequently scenarios should be updated, and under what circumstances a revision should be triggered (e.g., material changes in policy, technology, or climate science).

2. Demonstrating the influence of CSA on strategic decision-making

Firms should be encouraged to document and demonstrate clearly how CSA outcomes impact strategic and risk decisions, rather than treating CSA as a compliance exercise. This includes linking scenario results to capital planning, portfolio adjustment, risk appetite, and investment decisions.

3. Integrating non-financial risks into capital frameworks

The integration of climate-related non-financial risks into capital adequacy processes such as ICAAP and ORSA is still an emerging area with significant uncertainties. More guidance is needed on how firms should approach this integration, including methodological considerations and supervisory expectations.

Enhancing the proposals with these clarifications would facilitate greater consistency across firms, promote meaningful application of CSA, and better align climate risk management with broader strategic and capital management processes.

IV. Chapter 4: Data

Effective management and quality assurance of ESG and climate-related data remain among the most critical challenges faced by financial institutions today. The proposals rightly emphasise the need for strategic plans and investments to address data gaps and governance frameworks for external data providers. To build on this, several important clarifications and practical recommendations are necessary:

Key considerations on climate-related data management and quality

1. Enhanced controls and oversight

Clearer guidance is needed regarding the specific controls and validation processes that firms should apply to climate-related data to ensure accuracy, completeness, and reliability. Firms should have well-defined roles and responsibilities for supervising external data providers, including continuous monitoring and escalation mechanisms when data quality issues arise.

WeeFin advocates for the development of good practices to enable financial institutions to qualify and improve the quality of their data:

- Ensuring consistency between financial and ESG data matching;
- Leveraging multiple data sources to enable cross-checking and challenge of primary sources;
- Implementing a series of tests to ensure a quality level that supports effective monitoring and informed decision-making.

2. Addressing data gaps with practical solutions

As already stated by various regulators, the absence of data cannot justify the failure to address ESG risks. The regulatory framework should therefore provide guidelines on how to bridge these gaps, particularly in a context where access to data is costly. Proxy methodologies, conservative assumptions, and robust aggregation techniques are essential interim steps that require significant technical expertise.

> *For example, asset location data is often imperfect or incomplete but is critical for physical risk assessment. The development and use of expert-driven proxies help bridge such gaps.*

3. Practical experience from WeeFin

WeeFin has developed a solution to improve the coverage and quality of data used by financial companies to monitor their exposure to ESG risks (matching, propagation, quality and consistency checks, tracking the correction of false data, etc.).

Improving the quality and governance of climate-related data requires a balanced approach that combines strategic planning, robust controls, cost-effective tools, and expert methodologies.

The proposals would benefit from incorporating these practical dimensions to facilitate meaningful progress and reduce barriers for financial institutions in managing ESG data effectively.

V. Chapter 5: Disclosures

WeeFin welcomes the PRA's recognition of the operational strain that excessive and overlapping disclosure requirements may place on firms, particularly in the context of accelerating regulatory developments at both domestic and international levels. The measured approach taken in the proposals reflects a pragmatic understanding of this challenge.

The PRA's decision not to introduce new or duplicative disclosure obligations is aligned with the growing consensus that regulatory coherence is essential to avoid overburdening firms and overwhelming end-users with fragmented or inconsistent information.

However, WeeFin notes that the absence of more structured climate disclosure expectations, including reference methodologies, could inadvertently lead to inconsistencies across firms and jurisdictions, especially in the context of international regulatory alignment.

To remain credible and comparable on a global scale, UK-based institutions would benefit from a baseline set of expectations that clarify:

- How climate risks are expected to be integrated into financial disclosures.
- What methodologies or assumptions are considered acceptable.
- How alignment with international frameworks (e.g., ISSB or UK SRS, TCFD) is expected to evolve.

Importantly, WeeFin believes that disclosure is not an end in itself. Its purpose should be to enhance the understanding, governance, and management of material climate-related risks - on par with other financial risks. In this sense, we advocate for disclosure expectations that are targeted, not excessive, linked to risk management practices, not disconnected from strategic processes and supportive of internal governance and board-level oversight. A disclosure that does not serve risk comprehension and integration lacks real value for firms, regulators or stakeholders.

Rather than increasing the number of reporting obligations, the focus should be on ensuring that climate disclosures are well-structured, risk-aligned, and decision-useful. This means providing:

- A clear framework for integrating climate risk into financial reporting.
- Reasonable implementation timelines and coordination with broader regulatory developments.
- Support for firms at different maturity levels to build robust internal processes, not just external reporting pipelines.

We support a streamlined and proportionate approach to climate disclosures, but one that remains rigorous and risk-based. The goal should not be to multiply reports, but to anchor disclosure within effective climate risk management frameworks—which in turn enhances trust, comparability, and strategic clarity.

VI. Chapter 6: Banking-specific issues

1. Embedding Climate Risks into banks' risks management processes, starting with ICAAP and ILAAP

The integration of new risk drivers into all components of banks' risk management processes, including financial reporting, Internal Capital Adequacy Assessment Processes (ICAAPs) and Internal Liquidity Adequacy Assessment Processes (ILAAPs) and credit, market and reputational risk assessment is a common prudential approach for managing new risks, in accordance with Basel Agreement.

Since ICAAP and ILAAP are often used as the primary mechanisms to assess the financial materiality of climate-related risks, WeeFin supports the mandatory integration of the effect of climate-related risks within these frameworks.

When it comes to financial reporting, credit, market and reputational risk, the proposals are not as restrictive and focus more on process implementation rather than results. Indeed, accounting climate-related risks in financial reporting, credit, market and reputational risk is both highly dependent on methodological choices and important for transparency in the financial sector. For instance, when it comes to liquidity risk:

- Physical risks may lead to asset deterioration, which in turn puts pressure on liquidity;
- Transition risks can trigger asset revaluation, creating stress in the market;
- Systemic and interbank effects can amplify liquidity pressures

Similarly, for credit risk:

- Physical risks may lead to an inability to repay loans (for example, a bank that has lent to agricultural operators or companies located in flood-prone areas will see its credit risk increase);
- Transition risks can result in reduced revenues or job losses;
- Collateral values may depreciate.

Thus, as these interlinkages become increasingly significant, it would be preferable to consider, in the long term but always on a gradual basis, also requiring the integration of this risk into the ILAAP. For that reason, WeeFin would like to suggest that financial reporting, credit, market and reputational risk should also be made binding for banks, in order to prevent significant divergence across institutions.

2. Bank-Led Methodological Development

The proposals grant institutions full responsibility for designing their own methodologies, data sets, processes, and materiality assessments. While this flexibility is valuable, it also raises comparability and supervisory convergence concerns.

To strengthen implementation, WeeFin believes that further clarification could be provided on:

- The minimum expectations for defining materiality (e.g., credit risk exposure, transition sensitivity, duration of risk);
- The nature of tools, scenarios and methodologies to be used;
- Expected governance structures for internal validation and update frequency of climate-related methodologies;
- Supervisory review mechanisms to ensure robustness and consistency across institutions.

VII. Chapter 7: Insurance-specific issues

1. Treatment Across the Insurance Risk Landscape

Climate-related risks are expected to be reflected in risk appetite frameworks, Own Risk and Solvency Assessments (ORSA), Solvency Capital Requirements (SCR), and balance sheet projections under Solvency II. The integration into underwriting, reserving, market, credit, and operational risk processes aligns with Basel Agreements dispositions for integrating new risk drivers. WeeFin finds this treatment to be appropriate to the challenges associated with climate-related risks and supports the framework introduced with the proposals.

2. Limited Emphasis on Reputational and Legal Risks

Unlike some regulatory approaches (e.g., the Swiss framework), the Prudential Regulation Authority proposals do not explicitly require treatment of compliance, legal, or reputational risks stemming from climate-related factors. This omission may limit a full-spectrum understanding of risk exposure, particularly for firms with significant public or stakeholder exposure.

3. Insurer Autonomy with Limited Process Guidance

As with the banking sector, the proposals place the responsibility for defining Key Risk Indicators (KRIs), data sources, thresholds, and materiality analyses on the insurer. However, unlike for banking-specific issues, the proposals makes it binding for insurer to effectively integrate climate risks into existing governance and decision-making,

WeeFin considers this choice to be very relevant and recommends that the final framework should provide additional methodological guidance to ensure this focus translates into concrete practices, Guidance could include:

- Reference methodologies for risk quantification;
- Examples of relevant KRI;
- Illustrative examples of materiality thresholds;
- Guidance on aligning KRIs with Solvency II technical provisions and own funds.