

SUSTAINABILITY RISKS IN THE FINANCIAL SECTOR



**JONATHAN
DIXON**

Secretary General –
International Association of
Insurance Supervisors (IAIS)

Climate risk: from policymaking to implementation

Last year was the hottest year on record. At 1.5 °C above pre-industrial levels, global temperatures have already exceeded the aspirations set out in the Paris Agreement. This is contributing to the intensification of weather events, exposing households and businesses to natural catastrophes. Many do not have the protection afforded by insurance coverage, particularly in emerging market and developing economies (EMDE).

As efforts by governments to address climate change stall, the medium- and longer-term physical risks for insurers will increase. Without action, the protection gaps we see today will continue to grow.

In 2021, the IAIS published our first Application Paper on how supervisors could assess and address climate-related risks. Over the last two years, we have built on this foundation to further support a globally consistent supervisory response. The IAIS materials are aligned with, and

contribute to, other cross-sectoral initiatives on addressing climate-related risks, notably that of the Network of Central Banks and Supervisors for Greening the Financial System, as well as the Financial Stability Board's Roadmap for addressing financial risks from climate change.

Last year, we adopted changes to our Insurance Core Principles, the global standard for insurance supervision, to clearly state the need for climate risk to be incorporated into existing risk frameworks. This month marks another milestone, as we will publish an updated Application Paper on climate-related risk that covers a comprehensive set of supervisory practices, following an intensive period of policy development and consultation. The Application Paper supports both market conduct and prudential supervisors in delivering against their mandates as climate risk increases.

Conduct

From a market conduct perspective, the paper supports supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge in relation to natural catastrophe protection products or sustainability-focused products – for example, through greenwashing or misleading information on the sustainability of an insurer's operations.

Microprudential

From a microprudential perspective, the paper supports supervisors' understanding of climate-related risks by setting out considerations for effective supervisory reporting, which is a key first step in assessing any risk.

Climate-related risks need to be managed on both sides of an insurer's balance sheet. The paper sets out the need to improve asset and liability valuation by incorporating climate risk and reflecting this in investment strategies. It provides practical steps on how climate risk can be integrated into corporate governance, internal controls and risk frameworks, to help ensure that insurers' boards and senior managers understand and manage these risks.

The paper also highlights the need for material climate risks to be disclosed to market participants and policyholders in line with existing requirements both in our standards and generally with existing securities law.

Macroprudential

Climate change has the potential to create spillover effects into the rest of the financial system. For instance, if policyholders cannot secure affordable coverage for mortgaged properties, this could increase credit risk for banks. Equally, increasing protection gaps can make economies less resilient in the face of increasing natural catastrophes.

Scenario analysis is highlighted as a tool that insurers and supervisors can use to better understand emerging climate risk. The focus is on understanding the resilience of insurance business models and the strategic decisions needed to protect policyholders and insurance markets, rather than reaching a precise financial estimate.

Next steps

The IAIS' membership of more than 200 jurisdictions will see climate risk crystallise in different ways and at different times. Many of our EMDE members are likely to have the greatest exposure to climate risk, but also the fewest resources to respond. The IAIS will continue to support our members to effectively integrate climate-related risks into their supervisory frameworks and support them to address protection gaps caused by increasing physical risks. Initially, work will focus on climate metrics for supervisory reporting and public disclosures, and on natural catastrophe modelling.

As we shift our focus to implementation, the IAIS will provide practical guidance and supervisory capacity building opportunities. For example, the IAIS was one of the launching partners of the Climate Training Alliance, a dedicated online platform for training on climate risks for central banks and supervisors. Similarly, we are collaborating with international organisations on joint work related to increasing physical risks, including: i) with the IMF on, for example, the high-level panel on protection gaps as part of the IMF annual meetings 2024; ii) with the OECD to support the G7 publication of a High-Level Framework for Public-Private Insurance Programmes against Natural Hazards; and iii) co-authoring with the World Bank an input paper for the G20 Sustainable Finance Working Group (SFWG) on assessing and addressing natural catastrophe insurance protection gaps, as part of the SFWG's priority focus on adaptation.



BARNABÁS VIRÁG

Deputy Governor –
The Central Bank of Hungary

Building a resilient economy: Climate risk assessments for a sustainable future

We live in an age of profound transitions - demographic shifts, geopolitical realignments and the accelerating impacts of climate change. The way policymakers navigate these challenges will determine the trajectory of economic growth, the viability of sustainable development and the resilience of social cohesion. For central banks, price stability remains the primary mandate, with inflation as the number one adversary. Achieving and maintaining price stability in the short, medium and long term requires managing the real economic and financial stability consequences of climate change.

Climate change poses a systemic risk to financial stability, necessitating the continuous development of risk assessment methods within the financial sector. To assess the materiality of these risks around financial stability and as part of its green mandate, the Magyar Nemzeti Bank (MNB) has conducted a series of climate stress tests. These tests serve as critical tools in identifying vulnerabilities, quantifying potential losses and guiding financial institutions toward improved risk management practices. These initiatives are in line with recommendations of the NGFS

and built on the work and knowledge of this international community.

The MNB employs long-term scenario analyses to assess the sustainability of banking and insurance business models and short-term climate risk stress tests to evaluate solvency risks. The 30-year banking sector scenario analysis considers physical risks and transition risks across three pathways, from a Paris-aligned orderly transition to a “Hot-house world” scenario with failed decarbonization. Findings indicate that a lack of alignment with climate targets could significantly increase credit risk in the electricity and gas supply, mining and utilities sectors. Similarly, a long-term analysis—based on NGFS scenarios—evaluated transition risks on insurers’ asset portfolios. Results showed these risks remain manageable with existing risk management tools.

Building on these insights, the MNB developed a short-term climate risk stress test methodology to identify institution-specific transition risks as part of microprudential supervision. Covering a 2–3-year horizon, these exercises assess the impact of carbon price shocks on individual banks. Results confirm that while all Hungarian banks would remain solvent, increased carbon costs could lead to sectoral credit risk differentiation, particularly for sectors with high carbon intensity. Banks with concentrated loan portfolios in these sectors could be also prone to such risks. This underscores the importance of forward-looking risk management and continuous monitoring of climate risks.

Banks must incorporate climate stress testing into their risk processes.

In response to these findings, the MNB has strengthened its supervisory expectations, requiring financial institutions to integrate climate risks into their governance, risk management and capital adequacy frameworks. Banks must incorporate climate stress testing into their risk processes, covering both physical and transition risks under severe yet plausible scenarios, including institution-specific adverse scenarios.

Climate related risk sensitivity has also been introduced into the MNB’s macroprudential regulation. Among other steps, the MNB has adjusted its borrower-based measures, implemented since 2015, applying more favourable debt-service-to-income (DSTI) and loan-to-value (LTV) limits for energy

efficient green property purchases and for loans with renovation purposes from 1 January 2025. The preferential treatment supports the energy renewal of the Hungarian residential real estate portfolio, while from a risk perspective the adjustment is motivated by a growing amount of empirical research confirming that mortgage loans financing green real estate can have lower credit risk. This can be attributed to their lower utility costs (higher disposable income) and price premium (more resilient pricing), and therefore borrower-based measures can be disproportionately effective for such properties compared to their riskiness.

For a central bank, the continuous assessment of climate risks in its balance sheet and its carbon footprint is also essential. To enhance transparency regarding its climate exposures, the MNB was among the first central banks to publish a climate-related financial disclosure in 2022, which has been publishing annually since then. With the publication the MNB also aims to provide guidance for the local financial sector to monitor their own carbon footprints and their climate-related financial risks.

The MNB’s climate stress tests and evolving supervisory approach highlight the growing importance of climate risk integration within the financial system. While the Hungarian banking sector has shown resilience, enhanced risk assessment and strategic portfolio realignment remain critical. As climate risks evolve, the MNB intend to continue refining its methodologies and integrating them into the SREP to ensure financial institutions are well-equipped to navigate the green transition.



KENTARO TAMURA

Deputy Director-General of
Financial System and Bank
Examination Department –
Bank of Japan

Potential of climate scenario analysis

Climate change is a global issue that requires a long-term commitment. During the initial phase of this journey, it was essential to set ambitious ultimate goals in order to formulate effective ways of achieving such goals. At this juncture, we need to take a pragmatic approach in order to keep the various stakeholders on board while continuing our journey on this global scale project.

The field of climate scenario analysis is a good area for central banks to take advantage of their analytical capacity. Despite differences in their policy mandates, central banks generally share commonalities in their approaches towards monitoring and research of climate risks and their impact on the macro economy and financial stability. These commonalities have led to central bank cooperation at the international level such as at the NGFS, which developed climate scenarios for assessing the impact of climate related financial risks as a global common starting point for both public sector authorities and private sector market participants worldwide.

Yet, central banks and financial sectors still continue to struggle with data and scenario gap issues. The usefulness of

any climate scenario analysis depends on whether it captures the changing natural, technological and macro-economic environment and relevant national level initiatives, from the viewpoint of the user. For instance, not only do scenarios need to be adjusted for technological advancements but as each jurisdiction has different natural environments and industrial structures, the underlying assumptions will vary, implying that at least in the short term, these scenarios need to account for different priority measures. In the Asian context, a large proportion of industries belong to energy-intensive and hard to abate sectors, creating significant need for transition finance in these areas. For people in other regions who do not directly experience these conditions, understanding the necessity and importance of such financing may not be easy. In fact, even the latest NGFS scenarios or other publicly available scenarios have not properly covered these issues.

How could we address these analytical and operational challenges to pave a way forward? Two examples of pragmatism are worth noting from the Bank of Japan's scenario analysis exercise initiatives, conducted jointly with the Financial Services Agency of Japan.

First, the Bank of Japan developed sectoral GDP pathways with an in-house model to supplement the NGFS scenarios in the 2022 pilot exercise. Given that climate policies could have significantly different impacts depending on the sector and that sectoral variables are key to understanding sector specific shocks such as those on carbon intensive sectors, there was a clear need to fill these key data gaps using this approach. This initiative facilitated the dialogue with scenario analysis participants and led to an improvement in their scenario analysis approach.

Tailored scenario analysis leads to better risk management.

Second, we shortened the scenario analysis time frame for transition risks to 2030 in the current exercise, compared to 2050 of the 2022 pilot exercise. The 2022 pilot exercise highlighted various challenges posed by data gaps arising from uncertainties in climate change, the development and implementation of emission reduction technologies and climate policies over the long term. For the current ongoing exercise, we decided to focus on the shorter time

horizon to conduct scenario analysis in the period where the interim target and roadmap of Japanese government and major carbon intensive firms are already available. By doing so, the current ongoing exercise with richer data provides a severe but more plausible vulnerability assessment under short term shocks that is useful for scenario analysis participants risk management.

Climate scenario analysis is a vital toolkit that has the potential to show to various stakeholders a pathway towards achieving long-term goals based on plausible scenarios. The key to unlocking this potential is connecting scenarios with realistic policies. Efforts to make scenario analysis more accessible to a diverse range of stakeholders to promote further use, involves narrowing down the risks being analyzed and conducting scenario analysis with a shorter time frame.

The scenario analysis process itself helps deepen mutual understanding between public and private sectors regarding climate risks. It also contributes to enhancing banks' risk management and supporting their clients in their climate change response efforts. To achieve long-term goals, it is essential to first present a realistic story that is easy for people with different perspectives to understand, promote information sharing, and advance concrete discussions.



GERARDO DI FILIPPO

Head of Group Risk
Management Processes and
Operations – Generali

Stronger public-private collaboration to close the protection gap

The most significant impacts of climate change today stem from the increasing frequency and severity of the atmospheric phenomena that underpin extreme weather events. Over recent years, global data has shown a rise in climate-related perils, such as more frequent heavy rainfall leading to river floods.

While the economic and societal effects of these trends are clear, it remains challenging to separate the direct impact of intensified climate events from the growing exposure subject to losses.

This can be due to a denser urbanization especially in high risky areas, assets with higher vulnerability (e.g. the new thermic cohabitation applied to the residential buildings), more susceptible of losses than in the past, as well as to poor maintenance of infrastructures and natural landscape, like the canalization of rivers.

These phenomena are also exacerbating the gap in protecting and recovering from the losses caused by the climate events. Whilst the insurance industry

plays a key role in reducing this gap through its product offerings and mutualization of risks, the cost of insurance coverage is, however, closely related to the level of risk to be covered, which is progressively aggravated by such climatic events; these increasing costs could potentially lead to unaffordability, or even un-insurability.

In parallel, the absence of proper risk-based pricing could ultimately affect the strength of the industry's solvency, triggering wider challenges where the policyholders are impacted on a larger scale, regardless of the products they hold, and risking societal issues.

To keep insurance costs manageable, the exposures subject to losses must be reduced through effective prevention and adaptation measures. This requires collaboration from all stakeholders.

Households and the private sector must develop a greater risk awareness of the zones where they live or operate, introduce risk reduction measures to improve buildings and production systems' resilience, and, not last, improve their prevention behaviors by anticipating the occurrence of risky events.

At Generali, being a Lifetime Partner means offering protection to our clients with solutions to actively help mitigate risks. This includes leveraging advanced climate risk models, AI-driven loss projections, and satellite-based claims management. Innovative products, such as parametric solutions tailored to SMEs, more vulnerable than large corporations yet essential to Europe's economy, are crucial.

However, individuals and private sector cannot achieve climate resilience alone. Governments and policymakers must step in with fiscal incentives, urban planning reforms, and public awareness programs.

Key to this effort is also Public-Private Partnerships (PPPs), which can help distribute losses across a broader base. However, PPPs should be seen as temporary mechanisms, because true long-term solutions lie in CO₂ reduction and energy efficiency measures.

Achieving these measures requires substantial investments: governments must create conditions for competitive returns, encouraging capital to foster penetration of mature technologies and scale up the emerging ones, but also to push research and development of innovative solutions (e.g. low emission production of fertilizer), especially with the advent of new enablers like Artificial Intelligence and Quantum Computing.

Industrial decarbonization, especially in high-emission sectors, must be financially sustained to prevent economic stagnation caused by stranded sectors from further hindering climate action, creating a negative feedback loop. Simply excluding high-carbon industries from investment portfolios is not a solution.

The Fit-for-55 package specifically warns of such unintended economic side effects, which could be further exacerbated if solvency capital charges are introduced for investments in high-emitting sectors. It highlights the need for comprehensive transition strategies, but it should also consider a wider range of scenarios, including policy failures and different global transition speeds, especially outside the EU.

Private investments and public interventions are key to achieve climate goals and insurability.

Generali has implemented a robust decarbonization strategy, both on investment and underwriting portfolios, complemented with green bonds issuance, green financing strategy and the engagement of the emitting counterparties to contribute to investments in mitigation.

Given the systemic nature of climate change, the private sector can do a lot, but not alone. Without coordinated government policies to support both mitigation and adaptation efforts, the economic viability of climate action remains at risk. And the longer we delay, the more painful the necessary adjustments will become.



NEIL ACRES

Managing Director, Global
Regulatory Affairs – MSCI

The new risk playbook: Adapting to the evolving definition of sustainability

The old proverb says fortune favours the bold, but in today's world, fortune favours the prepared. Businesses must navigate an ever-expanding landscape of sustainability risks that directly impact operations, financial performance, and long-term resilience. While risks like climate change, resource scarcity, and shifting regulations aren't new, their complexity is intensifying. Sustainability is no longer about compliance—it's a strategic imperative for resilience, innovation, and competitive advantage.

Sustainability risks evolve alongside technological advancements and market shifts. The digital revolution has introduced new challenges, from data privacy and cybersecurity threats to the ethical dilemmas of artificial intelligence (AI). Meanwhile, transition risks - like inadequate decarbonisation pace - lead to stranded assets while slowing down take up of green technologies. As some risks escalate and others diminish, businesses must continuously adapt to a risk landscape where sustainability is increasingly synonymous with success.

In developing programmes to address the shifting dynamics of sustainability risk, we have found three areas of intense focus by the market, reflecting

major new trends: the financial impact of climate change on the insurance sector, the growing influence of social risks, and the increasing complexity of AI governance.

Insurance faces the storm: The rising cost of extreme weather risks

Extreme weather is reshaping economies, disrupting supply chains and real estate markets. As climate change accelerates both the frequency and severity of these events, insurers are facing mounting financial pressures. The cost of claims is soaring, forcing some providers to withdraw coverage from high-risk areas, leaving businesses and communities vulnerable.

Research shows that adaptation costs due to extreme heat could quadruple under a 3°C warming scenario compared to 1.5°C.¹ Rising temperatures will increase infrastructure damage, lower labour productivity, and drive-up healthcare costs—further amplifying insurance liabilities. Recognising the urgency, 98% of insurers now integrate climate risk into underwriting, up from 88% in 2021, signaling a shift toward proactive risk management.²

From talent to trust: Why social risks matter more than ever

Social risks are reshaping financial markets, with human capital, data privacy, and cybersecurity emerging as key challenges. Over the past decade, tech giants have transformed equity indexes, with the ICT sector now comprising over a third of global market value—double its share from a decade ago. This shift has exposed new vulnerabilities, where talent retention, supply chain stability, and operational safety are no longer abstract concerns—they have direct financial implications.

Businesses must navigate an ever- expanding landscape of sustainability risks.

According to MSCI's research, companies with high social scores have consistently outperformed their lowest-scoring peers across North America, Europe, and Asia-Pacific over the past 11 years.³ Among social risks, human capital management has proven most financially significant, affecting 99% of public companies in the past five years. Other key risks—product liability, social opportunities, and stakeholder opposition—are increasingly shaping financial performance.

AI, accountability, and the new corporate risk frontier

The rapid rise of AI presents both opportunities and risks that businesses are only beginning to grasp. As AI systems grow more complex and autonomous, they generate decisions that even their creators struggle to predict. Companies leveraging AI—especially in data-driven industries—face intensifying scrutiny over privacy, bias, and ethical transparency. Meanwhile, rising cybersecurity threats are pushing businesses to rethink AI governance.

Yet, our research shows that nearly half of major consumer-facing companies lack a responsible AI policy addressing privacy, discrimination, and copyright risks. Even among companies with AI policies, only a third cover both privacy and discrimination, exposing critical oversight gaps.⁴

The question now is whether governance will evolve to meet these challenges—or if another disruptive shift will redefine AI-related risks again. Businesses that fail to adapt risk being blindsided by the next wave of AI accountability demands.

AI is no longer an emerging risk—it is a central concern shaping the future of corporate sustainability, regulatory compliance, and ethical responsibility.

Rather than debating what sustainability means or its relevance, we must focus on equipping ourselves with the right tools to identify and measure the materiality of evolving financial and non-financial risks. In a shifting landscape, adaptability and precision drive resilience.

1. *Mapping Extreme-Heat Costs for the World's Largest Cities - MSCI*
2. *MSCI ESG Research, September 2025.*
3. *Social Risks and Opportunities for Corporates: Long-Term Performance in Global Equity Markets - MSCI*
4. *Sustainability and Climate Trends to Watch for 2025 - MSCI*



HIROTAKA HIDESHIMA

Counsellor on Global Strategy to President and the Board of Directors – The Norinchukin Bank

Time to take a step back on sustainability-related issues: Back to the basics?

It might be a good time to take a step back and think about sustainability risks from the basics.

Don't mix risk management and transition strategies

The first thing to emphasise is that risk management and transition strategies should be treated separately as these are totally different issues and should not be mixed.

Let us start from risk management.

Sustainability risks should be captured through traditional risk categories

First, one important point to revert to is the explanation by the BCBS and the NGFS that climate-related financial risks or nature-related financial risks should be captured through the traditional risk categories, and not as new risk categories. Thus, we should be thinking about how to capture sustainability risks within the context of credit, market, operational, or liquidity risk.

Second, it is always useful to remind ourselves that risk has always been about the future. Risk is the estimated potential maximum loss that the bank may incur in the future using certain assumptions.

Third, although better quality and more relevant data is important, it is likely that there will never be perfect data that will allow us to calculate risk with certainty. Data is observation about the past, and it is only useful as the starting point in estimating the future. We all know that the future will not be the same as the past. This is not only the case for sustainability risk, but for all types of risk.

Where does this all lead to?

Let us take the case of credit risk, as it is probably the easiest to understand.

Rating downgrades (and upgrades) should be the method

In the case of credit risk, sustainability risk should be understood as how these types of risks would impact the bank's borrowers' ability to repay. Then, this will be a question of whether or not there is a need to downgrade (or upgrade) a borrower in the internal rating scale. This can be a question on whether a downgrade is needed because of climate-related risk, nature-related risk, or even for geopolitical risk. In the case of climate- or nature-related risks, it might be useful to think about this need both in the context of transition and physical risk.

Treat sustainability risks through traditional risk categories, don't mix with transition strategies.

Paragraph 36.33 of the Basel Framework states "Credit scoring models and other mechanical procedures are permissible as the primary or partial basis of rating assignments, and may play a role in the estimation of loss characteristics. Sufficient human judgement and human oversight is necessary to ensure that all relevant and material information, including that which is outside the scope of the model, is also taken into consideration, and that the model is used appropriately." This is within the section on the minimum requirements to use the IRB approach, and the paragraph on the use of models for rating assignment. Although this is the minimum requirement for the use of the IRB approach, similar thoughts can be applied to banks using the standardised

approach for regulation, since most, if not all, of them will use internal rating systems for risk management purposes.

Assessment for each entity, not at the sector level

As with any structural changes to the economy, regardless of whether it is due to geopolitical or sustainability risks, there will be those entities that will adapt better and those that will not. This would probably be true within those sectors that find the changes favourable, as well as within those that find them unfavourable. The challenge for banks would be to assess whether each of their borrowers are capable of adapting to the forthcoming changes. There is a need to make such assessments for individual entities, and not at the sector level.

Check the appropriateness with back testing

The appropriateness of rating downgrades (or upgrades) should be tested with back-testing comparing the actual default rate and the estimated probability of default for each rating grade (note: do not try to adjust individual PDs of the borrowers since this will make back-testing impossible).

In the case of market risk, the relevant question should be whether the distribution of potential future losses change as a result of sustainability risk. Since this is an empirical question, we may have to wait until we have relevant observations, and stick with the current methodology for the time being.

The real economy needs to transition

On transition strategies, either for net zero or nature positive, we believe the important point is not to try to superficially align our portfolios with the transition target, for example by divesting from those clients that are deviating from the pathway and maintaining our relationship only with those that are aligned. Instead, we should do our most to engage with our customers and try to work with them so that they can revert to the desirable pathway. It is important to keep in mind that the real economy needs to transition, and making the portfolios of financial institutions superficially aligned is not going to solve the problem that we are trying to solve.



SYLVIE MIET

Partner Lead Regulatory
& Sustainable Banking
Hub – KPMG

Creating long-term value through ESG: How financial institutions navigate climate

Financial institutions are adjusting their strategies to manage the physical and transition risks associated with climate change by integrating environmental, social, and governance (ESG) criteria into their business models. This integration is essential to reduce risks and ensure the sustainability of their operations as well as identifying new sustainable lending opportunities. Banks identify areas vulnerable to physical risks and transition risks and adjust their loan and investment portfolios to comply with climate goals. They finance renewable energy and green technologies and work with all their customers to help them on their transition to net zero. The concept of transition and the understanding of detailed, sector specific transition pathways are increasing all the time.

The EU's "Fit-for-55" scenario aims for a 55% reduction in greenhouse gas emissions by 2030 compared to 1990 levels. This scenario is crucial for assessing the resilience of banks to transition risks. It includes policy measures such as increasing renewable energy, promoting sustainable mobility, and introducing carbon taxes. Banks use it to steer their financing and investment portfolios by

reducing exposure to carbon-intensive sectors and favoring sectors aligned with these goals. The analysis of this scenario helps measure banks' and investors' exposure to transition risks, particularly in fossil fuel sectors, while identifying opportunities in green technologies. This guides financial decisions and strengthens business resilience in the face of a rapid transition.

Banks play a key role in financing the energy transition. They finance green infrastructure projects and invest in decarbonization companies, aligning their portfolios with the EU's climate goals. They actively support low-carbon technologies such as renewable energy, electric vehicles, and energy efficiency. Aligning portfolios with climate goals while maintaining profitability is complex, especially for certain sectors such as aviation or heavy industry. Banks must face the challenge of adapting to a rapidly evolving environment, particularly with uncertainties regarding global climate policies. To meet these challenges, institutions are developing CO₂ emission forecasting models and continuing their commitment to the "Net-Zero Banking Alliance," aiming for carbon neutrality by 2050. Maintaining these voluntary commitments is essential to reduce long-term risks and ensure business model competitiveness. Even though US banks are leaving NZBAs, they are still managing climate risks. Public and private approaches are diverging. US banks will lag while EU and ASPAC banks take advantage or transition opportunities.

In January 2025, the EBA published its guidelines on ESG risk management, requiring banks to formalize climate transition plans. These plans must integrate ESG-related financial risks and align with the EU's 2050 climate neutrality goals. They must also be consistent with other transition plans set out in European legislation. The new requirements will apply to GSIBs from 2026 and to smaller, non-complex institutions by January 2027. In addition, EBA launched a public consultation on its draft guidelines on ESG scenario analysis, which precise the use of scenario analysis to test business model resilience to the negative impacts of ESG factors. All those require rapid implementation of transition strategies to meet climate commitments.

The publication of the EU Competitiveness Compass has led to easing some reporting requirements for businesses, particularly regarding the CSRD, CS3D, and the EU Taxonomy. While this reduces the regulatory reporting burden, it is crucial that banks continue to fully integrate ESG criteria into their business models, as

this remains a key lever for reducing long-term climate risks and preserving the viability of business models. The election of Donald Trump in November 2024 has major implications for global climate policy. His decision to exit the Paris Agreement has a non-zero effect, but the work continues even though it complicates international climate cooperation. This creates tensions for Europe, which continues to promote ambitious climate policies despite this geopolitical shift.

**Address climate
challenges is a key lever
to protect business
models and create value.**

Integrating ESG criteria into financial institutions' strategies is more essential than ever to reduce climate-related risks and ensure the sustainability of banks' business models. Strengthened EBA requirements, the analysis of the "Fit-for-55" scenario, and evolving regulations are pushing banks to formalize climate transition plans and prepare for the risks of the energy transition. Although the publication of the EU Competitiveness Compass offers reporting relaxations, it is essential that banks maintain a strong commitment to integrating these criteria into their operations. This approach is strategic to address global climate challenges while protecting banking business models and creating value.