

Bank of England consultation

'CP10/25 - Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19'

A response from Global Canopy | 29 July 2025

Global Canopy is a data-driven not for profit that targets the market forces destroying nature by promoting transparency and accountability. Global Canopy provides innovative open-access data, metrics and insights to leading companies, financial institutions, governments and campaigning organisations worldwide, to help them make better decisions about nature, forests and people.

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This submission is not confidential and Global Canopy agrees to the publication of our name in the PRA's feedback response to the consultation.

Global Canopy's key recommendations

CP25/10 significantly improves SS3/19 by clarifying banks' and insurers' responsibility to assess and respond to climate change risks in their governance, risk management, scenario analysis and disclosure policies. However, the PRA should update the Statement further by recognising the role of nature loss in compounding the risks posed by climate change. Droughts, floods, wildfires, extreme heat and disease are all made more likely and intense by nature loss, which plays a critical role in heightening banks' and insurers' market, credit and operational risk both locally and globally, and influences the geographical spread of those risks. **The PRA should follow the European Central Bank's (ECB) lead and adjust its governance, risk management, scenario analysis, disclosure and entity-specific requirements to reflect the risks posed by nature loss. It should also strengthen its provisions for enforcement in its supervision.**

Nature loss increases the likelihood and intensity of climate change-related events.

All of the risks highlighted by CP10/25 are exacerbated by nature loss. Critically, nature loss also influences the geographical spread of those risks - locations more impacted by nature loss are more exposed to acute and chronic events.

Acute events

CP10/25 references flooding, wildfires, extreme heat and drought as possible acute events leading to financial risks that entities need to manage. Nature loss - both in

itself and through interaction with climate - makes these types of events more likely, as recently shown in a [Global Canopy-Taskforce on Nature-related Financial Disclosures \(TNFD\)- University of Oxford evidence paper](#). For instance:

- Flooding: Loss of wetlands in Florida exacerbated the impact of Hurricane Irma in 2017, contributing to an estimated US\$430m of insurance claims on property damage.
- Wildfires: Monocrop tree plantations in Canada exacerbated the risk of fire during the 2022 Fort McMurray fires and played an important role in their intensity, contributing to CA\$3.64bn in insured losses.
- Drought: Deforestation exacerbates the risk of drought in Brazil, which has led to a local decrease in average hydro-powered energy generation of between 2.5% and 10% in Brazil, and an estimated US\$760m of lost soybean production between 2006 and 2019.
- Disease: Across the world, loss of vegetation in and around urban areas affects local temperatures, which in turn affects occupational heat stress. Forest fragmentation also increases the risk of human illness by exacerbating the transmission of zoonotic disease such as coronaviruses and Ebola.

Chronic events

CP10/25 mentioned general temperature rises and sea level rises as possible chronic events caused by rising CO₂ levels leading to financial risks. As in the case of acute events, these are made more likely by nature loss (both in itself and through its interactions with climate). Deforestation [alters regional rainfall patterns](#) with strong effects on temperature rises. It leads to reduced carbon capture, [contributing to 12-20% of global CO₂ emissions](#). Ocean pollution, particularly from nitrogen and microplastics, [damages key organisms](#) involved in CO₂ absorption by oceans.

Tipping points

Nature loss makes some tipping points more likely. In the Amazon basin, deforestation could lead to such widespread drought that the rest of the Amazon rainforest would not survive, leading to what ecology scientists term ["Amazon dieback" by 2050](#). This would in turn make [climate change tipping points more likely](#) due to the near complete loss of carbon capture in the Amazon.

Transition risks

Recognition of the above physical risks by the international community is leading to a tightening of nature-protecting regulation (for instance, the EU Deforestation Regulation, France's Duty of Vigilance Law, and China's Basic Guidelines for Corporate Sustainability Disclosure) which can lead to nature loss-specific transition risks.

Recommendation 1: The PRA should integrate nature loss into its supervision

Currently, CP10/25 assumes that climate change acting in isolation will lead to such acute, chronic and tipping point events. As well as overlooking the intensification of systemic risk caused by nature loss, this approach can lead to under- or over-estimation of risks locally and regionally, which additionally depend on firms' and economies' exposure to nature loss and the state of nature in those areas.

The PRA should follow the [Network for Greening the Financial System's guidance](#) and ensure that nature loss and its exacerbating effects are properly taken into account in banks' and insurers' risk assessments. Similar to climate change, nature loss should be embedded in governance, risk management, climate scenario analysis, data, disclosures and entity-specific requirements. **We recommend that nature loss and climate change are examined both together** – to ensure that interactions between them are fully accounted for – **and in isolation from each other** – to ensure that nature-specific data and modelling challenges are addressed.

Other regulatory institutions worldwide have already taken significant steps in this direction. In 2020 the ECB issued a [Guide on Climate-related and Environmental Risks](#), formally expanding supervisory expectations to cover nature-related risks as integral to risk governance, strategy, and risk management frameworks within banks by 2023. Banks were [asked to include climate-related and environmental risks](#) in their stress testing and Internal Capital Adequacy Assessment Processes (ICAAPs) by the end of 2024. In June 2025, the ECB added a ['nature loss' exposure indicator](#) to its climate-related financial disclosures for Eurosystem corporate bond holdings and its own funds portfolio. This tracks exposure to sectors with material dependencies on nature (e.g., utilities, real estate, food). On the insurance side, the European Insurance and Occupational Pensions Authority (EIOPA) published a [public consultation](#) on the integration of biodiversity risks into Own Risk and Solvency Assessment (ORSA) in 2024.

Outside the Eurozone, in Switzerland [FINMA](#) communicated about nature-related financial risks, specifying risk management requirements for institutions with regard to climate- and other nature-related financial risks in 2024, which will apply proportionally to banks and insurance firms with transitional periods from 1 January 2026. [Brazil's central bank](#) has included biodiversity degradation as part of its prudential review framework under the broader category of environmental risks since September 2021.

Recommendation 2: The PRA should strengthen enforcement provisions

Without clear enforcement measures, the PRA's supervisory climate and nature requirements will be ineffective. There are strong precedents of other regulators applying more robust enforcement, linked to time-bound requirements. In March 2023, [28 banks under the supervision of the ECB received binding supervisory decisions](#) for failing to include climate and nature-related risks in materiality assessments, with 22 warned of periodic penalty payments (e.g. one-day breach fines) if issues remained unresolved by specified deadlines. All banks were expected to include climate and nature-related risks more broadly in their governance, strategy and risk management by December 2023. [A group of banks received binding supervisory decisions in autumn 2024](#), warning of the potential imposition of periodic penalty payments if they failed to meet the requirements in a timely manner. Assessment regarding the 2024 deadline for integrating climate and nature in banks' stress tests and ICAAPs is ongoing.

In-chapter recommendations

Chapter 1: Governance

- Boards should integrate nature-related risks, and make it an explicit part of management responsibilities and reporting lines.

Chapter 2: Risk Management

- Likewise, firms should periodically carry out structured nature-related risk identification and assessment, and develop nature risk appetite metrics and limits, generally incorporating nature within and alongside climate risk assessments.

Chapter 3: Climate Scenario Analysis (CSA)

- Scenarios should integrate nature to understand its interactions with climate, non-linearities and tipping points.
- Firms should be able to justify the selection and conceptual soundness of scenarios, including based on their treatment of nature-related risks.

Chapter 4: Data

- Data gaps, including those related to nature-related risks, should not prohibit risk management. Entities need to identify gaps and have plans for closing them.

Chapter 5: Disclosures

- Disclosures on climate-related risks should integrate nature-related risks. In the short term, we recommend firms follow the TNFD recommendations and guidance alongside those of the Task Force on Climate-related Financial Disclosures (TCFD), though in the long term, a more holistic approach to disclosure is desirable.

Chapter 6: Bank-specific issues

- Banks should integrate nature-related risks in Expected Credit Losses (ECL), Internal Capital Adequacy Assessment Processes (ICAAPs) and Internal Liquidity Adequacy Assessment Processes (ILAAPs).

Chapter 7: Insurance-specific issues

- Insurers should include nature-related risks in ORSA and Solvency Capital Requirement (SCRs).

Website: globalcanopy.org

Contact: press@globalcanopy.org

Charity number: 1089110