

Risk Blog

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“Banks Must Urgently Step Up Efforts” on Climate Risk — Results of ECB’s Climate Risk Stress Test 2022

The ECB provides in the chart below an indication of banks’ preparedness across the different dimensions of climate risk stress testing by showing individual scores assigned to banks.

Background

For its most recent biennial thematic stress test exercise, the European Central Bank (ECB) just concluded a **climate risk stress test (2022 CST)** with **pioneering characteristics** that it conducted **from January to July of 2022**. **Primarily** a joint learning exercise for banks and supervisors alike, the objectives of the 2022 CST are also to **contribute to the overall Supervisory Review and Evaluation Process (SREP)** qualitatively, to **increase CST information availability** and **prepare banks for upcoming regulatory changes**, among others. **Participants included more than 100 significant institutions (SIs)** and the exercise consisted of **three modules** to collect qualitative and quantitative information.

- **Module 1: Questionnaire** to assess climate risk stress-testing capability.
- **Module 2: Peer Benchmarks** of metrics on (i) the sustainability of banks' income against transition risk and (ii) exposure to greenhouse gas (GHG) intensive industries.
- **Module 3: Bottom-up Stress Test** of several physical and transitional scenarios and time horizons for a smaller subset of 41 directly supervised SIs. The stress test assesses how extreme weather events (e.g. drought/heat, floods) may affect banks over the next year, how vulnerable banks are to a sharp increase in the price of carbon emissions over the next three years and how banks are prepared for transition scenarios in the next 30 years. Transition risk is thus modeled in long-term and short-term scenarios, while physical risk scenarios are designed to occur immediately.

The whole article is available at free registration area at our PwC Plus research application: [Link to PwC Plus](#)

Keywords

ESG, Stresstest, Supervisory Review and Evaluation Process (SREP), Sustainability Risk, Sustainable Finance (SF)

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