

Denis Beau: Emerging supervisory priorities - technology, risk culture and sustainability

Opening remarks by Mr Denis Beau, First Deputy Governor of the Bank of France, at the BCBS-BSCEE-FSI High-level Meeting for Europe on Banking Supervision, Session: "Emerging supervisory priorities: technology, risk culture and sustainability", Vienna, 21 May 2019.

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Accompanying [slides](#) of the speech.

Along with some other national central banks, in particular the Bank of England and the Dutch National Bank, the Banque de France and its supervisory arm, the ACPR has started to work on sustainability risks since 2015, in particular on financial risks arising from climate change. This willingness to take ownership of this issue was linked with the requirement from the French Energy Transition Act of 2015 to prepare a report discussing the feasibility of stress-testing exercises focusing on climate change-related risks, though the scope of the report was finally broader as it discussed the relevance of these risks for French banks.

- Our conclusions, published in March 2017, were that climate-related risks, in particular transition risks in the case of French banks, were relevant for financial stability, although the horizon of materialization was perceived way beyond the one underlying most of the risks we currently supervise and horizon of decision of banks. From this point of view, it was deemed within the mandate of the supervisor to raise awareness and enhance ownership of these potential risks throughout the banking sector via regular meetings with institutions. It also emphasized the need to collectively think how, as a supervisor and a central bank, we should deal with risks and avoid the build-up of new vulnerabilities (e.g. helping to enhance the financing shift towards low-carbon sectors). Those reflections gave birth to the Network for Greening the Financial System in December 2017.
- As a continuation of this work and also in the spirit of bringing our contribution to the reflections of the NGFS, the ACPR surveyed both main French banking and insurance companies in 2018 to take stock of progress they have achieved in dealing with climate change-related financial risks. The main takeaways from both surveys have been published last April 10th 2018 in two reports¹.
- The report dedicated to the banking sector² includes three main observations:
 - There is a shift in the governance of climate change-related risks from a "Corporate and Social Responsibility-only" perspective towards a two-pronged approach which integrates traditional risk departments. This trend is nevertheless mainly observable in the biggest and most internationally active institutions and the operational implementation could be improved significantly (lack of metrics, specification of strategic orientations at the business-line level...).
 - The development of risk analysis tools is mainly focused on transition risks as related exposures represent a potentially much larger share of their balance sheet (net credit exposure to the most carbon-intensive sectors indeed averaged 12.2% of total exposures in 2017 among 6 of the 7 main French banks) compared to physical risk-related exposures (as most of assets are located in countries displaying a low vulnerability to climate change e.g. Western Europe). A wide variety of tools have been reported but each of them has still important drawbacks arguing for further refinement and more data collection with certainly a need for support from supervisors.

Finally, liability risk is not viewed as a material one at this stage despite a growing number of climate change-related litigation cases.

- ♦ **Therefore, there is ample room for progress leading the ACPR to lay-out recommendations** directed to institutions on the one hand and to regulators and the supervisors on the other hand. In particular, as a supervisor we should be able to quickly come up with a prudential reporting of exposures to unsustainable activities. From this point of view, the forthcoming taxonomy from the European Commission will certainly be useful but not enough to achieve this as a taxonomy of unsustainable activities is needed. We should also anchor expectations of financial institutions about climate-related risks by publishing strategic roadmap about the way the supervisor intends to scale-up the supervision of these risks along the different regulatory pillars. Also, developing stress-testing frameworks remains a collective challenge about which central banks and supervisors should strengthen their works.
- ♦ At our level, the next stage of our works is to organize work streams with banks in order to specify together the best practices of the sector in terms of governance and to reflect on scenarios and metrics to best assess the vulnerability of banks, liaising with the work carried out with the NGFS. At the end, the release of these surveys and their follow-up signal the willingness of the ACPR / Banque de France to gradually “mainstream” climate change-related risks. This willingness is also growing among European Institutions as attested by the recent move from the SSM to launch its own internal network combined with an NCA Climate contact group. The ambition is to contribute to European and international fora as well as be in the position to adopt resulting guidelines or requirements (in the EBA case).
- ♦ Nevertheless, at a moment where networks or work streams are burgeoning, especially within European institutions, we should be very careful about the good coordination of these different initiatives to avoid redundancy and duplication. It is also important that the NGFS, which remains a club of the willing, ensure some minimal degree of cooperation and harmonization by issuing high-level recommendations. From this point of view, I welcome the six very important recommendation issued in April directed to supervisors, central banks and the financial sector: i) integrating climate-related risks into financial stability monitoring and supervision; ii) integrating sustainability factors into own-portfolio management; iii) bridging the data gaps ; iv) building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing ; achieving robust and intentionally consistent climate and environment related disclosure ; vi) supporting the development of a taxonomy of economic activities.
- ♦ In the longer-run, when there will be a global convergence about the necessity to issue global standards and regulatory requirements, global standard setter such as the BCBS and FSB would need to take the lead on addressing climate change-related risks.¹²

¹ Main findings : Climate change: which risks for banks and insurers? acpr.banque-france.fr/sites/default/files/medias/documents/as_cover_note_en.pdf Analysis and synthesis no. 102: “French insurers facing climate change risks” April 2019 acpr.banque-france.fr/sites/default/files/medias/documents/as_102_climate_change_insurers_en.pdf

² Analysis and synthesis no. 101, “French banking groups facing climate change-related risks”, April 2019 acpr.banque-france.fr/sites/default/files/medias/documents/as_101_climate_risk_banks_en.pdf