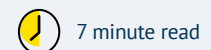


PRA climate risk expectations for boards

**A PRE-READ FOR NON-EXECUTIVE DIRECTORS
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Although political winds may shift, climate risk remains a significant financial risk. Prudential regulators have acknowledged this reality and the need for better management of physical climate risks and transition risks. This is reflected in the updated supervisory statement from the Bank of England's Prudential Regulation Authority (PRA), [SS5/25](#). Published at the end of 2025, it replaces supervisory statement SS3/19 and reflects years of learning across the financial system about scenario analysis and the integration of climate risks into strategy and operations.

Climate risks continue to mount. [Temperatures are now over 1.5°C above pre-industrial levels](#) and new concerns about climate tipping points are coming from the climate science community. On the transition side, new policy, technology, and geopolitical conditions are changing both how energy is produced as well as the economic calculus of how that energy is used. These shifts affect nearly every sector of the economy.

In response, the PRA's expectations set a high bar not just for the identification of these risks, but also for their governance, assessment, and management. Firms were [expected to complete an internal review and a plan to address gaps by early June 2026](#). Now many firms are undertaking the much

longer process of addressing these gaps across their strategy and operations. NEDs have a clear role to play, not just in navigating this new regulation, but in helping to develop approaches to address underlying risks and seize emergent opportunities.

This briefing focuses on five tangible ways NEDs can use the SS5/25 requirements to challenge assumptions and ensure climate risk informs decisions across their firm. The five areas below provide practical starting points. Paragraph references refer to SS5/25; the board questions in panels at the end of each section are suggested prompts for internal discussion.

STARTING POINTS FOR ACTION INCLUDE:

- 1 Integrate climate-related risks into the business model and strategy.
- 2 Develop a proportionate response to climate-related risks.
- 3 Strategically embed climate scenario analysis into business decisions.
- 4 Consider applicable regulations in the firm's strategic response.
- 5 Establish regular review points and iterate the firm's approach.



1 Integrate climate-related risks into the business model and strategy

Some struggle to define integration. However, perhaps the most straightforward way to assess climate risk integration is to see where and how information about those risks could impact a decision. That could mean revisiting a credit assessment, considering the vulnerability of a trading position, examining a critical supplier, or strengthening business continuity arrangements. Existing governance structures and risk management processes provide the means to bring these considerations into the heart of the business.

Board oversight is essential. The PRA identifies several responsibilities that NEDs should understand and help act on. These include assigning responsibility for climate risk at an appropriate level of seniority, with clear objectives and performance reflected in appraisal and reward arrangements (paragraph 4.6). In addition, reviewing and agreeing on the material climate-related risks in the risk register and approving the corresponding risk appetite statements (paragraph 4.7). Boards should also oversee setting risk appetite through limits against quantitative metrics, informed by analysis of losses under climate stress scenarios (paragraphs 4.8–4.9). Finally, reviewing business strategy under a range of climate scenarios where material risks are identified, considering financial impacts and potential triggers for strategic change (paragraph 4.15).

The connection between analysis and action matters. If a scenario identifies a vulnerability in a major lending portfolio, what does that mean for lending strategy, client engagement, or risk limits? Management should be able to explain its response, including why it considers the existing approach appropriate where no change is proposed.

NEDs need timely information to make those judgments. Paragraph 4.3 expects management to provide information that supports discussion, challenge, and decisions. A useful board paper should make the exposure, its financial significance, and the proposed response easy to follow.



A QUESTION FOR THE BOARD:

Where has our assessment of climate risk influenced a material business decision?

2 Develop a proportionate response to climate-related risks

Firms differ in size, complexity, and exposure. A proportionate response starts by understanding which climate risks could have the greatest financial consequences for the business, and then deciding how those risks should be assessed and managed. A smaller firm with concentrated exposure to flood-prone properties may be highly exposed to climate risks, despite its size.

The PRA expects the board to understand, at a high level, how climate-related risks could affect its business model across different time horizons and scenarios (paragraph 4.2). For NEDs, this means being able to trace how a risk reaches the firm. Which business lines are affected? Through which exposures? When might the impact become material?

A helpful way to think about this is as a translation exercise from climate risk to financial risk. Physical and transition risks emerge from real-world developments, but they impact financial institutions through changes in their customers, counterparties, assets, and operations. Flooding might interrupt a borrower's trading, reduce cash flow, and weaken its ability to repay. A technological shift might undermine demand for a client's products and reduce the value of its assets. Understanding those transmission channels enables NEDs to explain the risk to other board members and assess management's response.

SS5/25's paragraph 3.17 links the assessment approach to the scale of the risks, their likelihood, and the time horizons over which they may emerge. Paragraph 3.19 similarly connects the management response to the firm's assessed risk profile. NEDs should expect management to explain the choices it has made about analytical depth, data, and resources, including the limitations of its approach. That explanation should follow from the risks identified.



A QUESTION FOR THE BOARD:

Can management trace our most material climate risks through to financial impacts and explain why its response is proportionate?

3 Strategically embed climate scenario analysis into business decisions

Scenario analysis has a central place in SS5/25. There is one table in the entire SS5/25 regulation, and it covers the use cases of scenario analysis. Those four uses are business strategy, risk management, capital setting, and valuation. These are familiar board concerns. NEDs should help shape the questions the analysis addresses and challenge how the findings of scenario analysis are applied.

Climate change and the transition will expose firms to conditions they have not experienced before. As the PRA acknowledges, historical data alone cannot provide a sufficient basis for assessing those futures. Forward-looking scenarios allow firms to explore what could change, where vulnerabilities lie, and which responses might be desirable. An initial guiding question when it comes to scenario selection is: what decision are we trying to inform with this analysis?

The approach should fit the purpose. Narrative scenarios can help a board explore how a market or business model might change, while quantitative analysis can investigate the financial consequences of particular risks. The PRA recognizes the value of combining both qualitative and quantitative approaches (paragraphs 4.49 and 4.56). Larger firms with material exposures are likely to need more sophisticated quantitative methods (paragraph 4.51). Firms exposed to material climate risks should also consider reverse stress testing to examine conditions under which their business model could become unviable (paragraph 4.59).

NEDs should ask why the scenarios were selected, what the results show, and what the analysis leaves uncertain. A mild

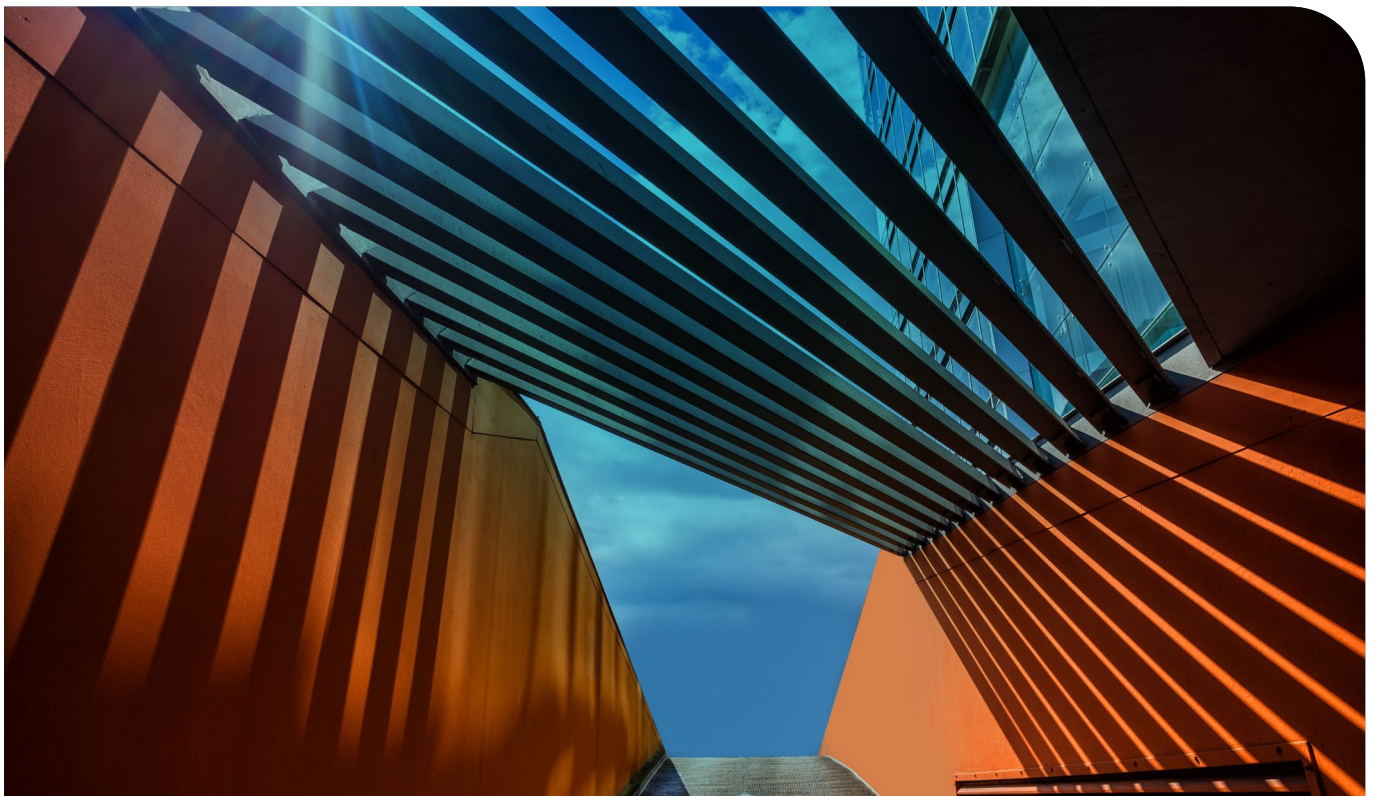
aggregate result may conceal an exposed business line or a risk the model used is unable to capture. Paragraphs 4.67–4.73 address review, model limitations, uncertainty, board understanding, resources, and the credibility of management actions. Boards need enough knowledge of these assumptions to challenge both the analysis and the proposed responses.

A wider consideration is whether strategic responses are viable if the industry at large acts in a similar way. For instance, if resilience depends on selling assets, changing underwriting, or obtaining reinsurance in difficult market conditions, would those actions remain achievable when other firms are trying to do the same? NEDs can bring a systems view to these strategic responses and prompt discussion about what course of action to choose.



A QUESTION FOR THE BOARD:

How have the climate risk scenarios influenced our decision-making, and which previously planned management actions now need closer scrutiny?



4 Consider applicable regulations in the firm's strategic response

NEDs need to be informed of the regulations relevant to the firm's operations. NEDs should stay attuned to consultations, final rules, and approaching implementation dates. A useful board discussion concerns how those developments affect the analysis the firm needs, its operating environment, and its strategic options.

Within SS5/25, the implications differ by business. For banks, material climate risks need to be reflected in capital and liquidity assessments through the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process (paragraphs 4.103–4.107). For insurers, the Own Risk and Solvency Assessment should address material climate risks and the management response (paragraphs 4.124–4.128). NEDs should look for consistency between these assessments, risk appetite, and the business strategy.

For firms with relevant European operations, the [EBA's final environmental scenario-analysis guidelines](#) apply from 1 January 2027. They cover both stress testing and analysis of the longer-term resilience of business models and strategies. The European Commission also [adopted revised European Sustainability Reporting Standards](#) in July 2026, subject to the EU scrutiny and entry-into-force process. These regulations, and especially the EBA requirements, provide a similarly ambitious set of requirements to SS5/25 when it comes to the integration of climate risks.

Transition-planning rules and guidance also continue to develop across jurisdictions, as tracked by the International Transition Plan Network. Their scope varies:

in some jurisdictions the requirements are about disclosing an existing transition plan, while in others the requirement is to create a transition plan. NEDs should understand what strategic planning requirements apply to their firm and how it connects with existing strategy.

The wider policy environment requires consideration as well. Changes in subsidies, energy policy, or industrial priorities can alter a sector's prospects and challenge assumptions behind the firm's strategy. Regular updates from management should explain what has changed and what that means for the business.



A QUESTION FOR THE BOARD:

Are we clear on how current regulatory or policy changes could materially affect our strategy within the next few years, and are we tracking emerging policy signals to review how we respond and engage?



5 Establish regular review points and iterate the firm's approach

A climate risk response needs to evolve as the conditions change. NEDs can bring a valuable outside perspective to this process, drawing attention to developments that may challenge the firm's assumptions or suggest a better way to assess its exposures.

Regular board and committee discussions provide natural review points. Quarterly updates may be useful, with deeper reviews tied to strategy and risk appetite decisions. The cadence should reflect the firm's circumstances. The PRA expects periodic review and triggers for earlier reassessment where needed (paragraphs 4.7 and 4.14).

It can be helpful to start with the assumptions: what hypotheses existed before the analysis, and has subsequent evidence supported or challenged those beliefs? That could involve insurance availability, the pace of technology adoption, policy support, or the vulnerability of particular clients. There is something of the scientific method here. Set out the assumptions, test them against evidence, and update the approach.

Paragraph 3.23 expects firms to keep pace with developments in knowledge and capabilities, refining their approaches

as data, tools, and practice improve. The Bank of England's own [2026 climate disclosure](#) reinforces its continued focus on practical scenario analysis and capability development. NEDs should ask whether improvements in their firm's understanding are feeding through into better decisions and whether outstanding gaps have clear owners and sufficient resources to address them.



A QUESTION FOR THE BOARD:

Are we holding outdated assumptions based on our last review, and what should we do differently as a result?

Conclusion

In a warming world, NEDs have a critical role to play in supporting effective climate risk management. The PRA sets expectations for that work, yet the strategic reasons for board involvement are also compelling. Understanding how climate risks materialize,

challenging the scenarios used to assess them, and effectively reviewing the firm's responses are important ways that NEDs can provide support and guidance in this time of change.



5 BOARD QUESTIONS TO INCREASE INVOLVEMENT:

- 1 Where has our assessment of climate risk influenced a material business decision?
- 2 Can management trace our most material climate risks through to financial impacts and explain why its response is proportionate?
- 3 How have the climate risk scenarios influenced our decision-making, and which previously planned management actions now need closer scrutiny?
- 4 Are we clear on how current regulatory or policy changes could materially affect our strategy within the next few years, and are we tracking emerging policy signals to review how we respond and engage?
- 5 Are we holding outdated assumptions based on our last review, and what should we do differently as a result?

