



Creating climate risk programs for today—and tomorrow



Financial institutions are building out their climate risk programs in response to stakeholder expectations and regulatory initiatives. To offer insight into these demands, KPMG has created this series to explore how banking organizations are approaching these programs, including specific considerations for global systemically important banks (GSIBs), superregional organizations, and regional organizations.

In this initial article, we focus on how climate risk programs are structured today across a variety of banking organizations and their path to maturity in order to meet stakeholder expectations and anticipated regulatory disclosure requirements in the United States. In future posts, we will examine key program components, including peer benchmarking, data assessments, technology considerations, risk ID and scenario analysis, roadmap design, and external reporting from different organizational perspectives (i.e., GSIBs, superregional, and regional).

U.S. regulators haven't yet issued mandatory climate risk disclosure requirements. However, we expect the U.S. will soon join regulators in other countries and adopt the regulations and disclosure requirements recommended by the Task Force on Climate-Related Disclosures (TCFD). To prepare for this adoption, financial firms need to begin assessing their exposure to climate-related risk and how these risks will ultimately be integrated into their enterprise risk management program through the development of a climate risk program.

Today, many climate risk programs are in their infancy, with small groups of individuals responsible for analyzing, measuring, and reporting the organization's climate-related risks. This reporting is typically seen in company annual environmental, social, and governance (ESG) and corporate social responsibility (CSR) reports. In these reports, most organizations reveal that they are behind the curve and highlight the need for future reporting to apply additional rigor in the assessment of exposure to climate-related risks, including wholesale and retail lending portfolios with a focus on geographic hotspots with frequency of climate-related events.

With elevated awareness across the globe and the threat of climate change accelerating with some of the most extreme weather events in our history occurring within the last five years, organizations can no longer

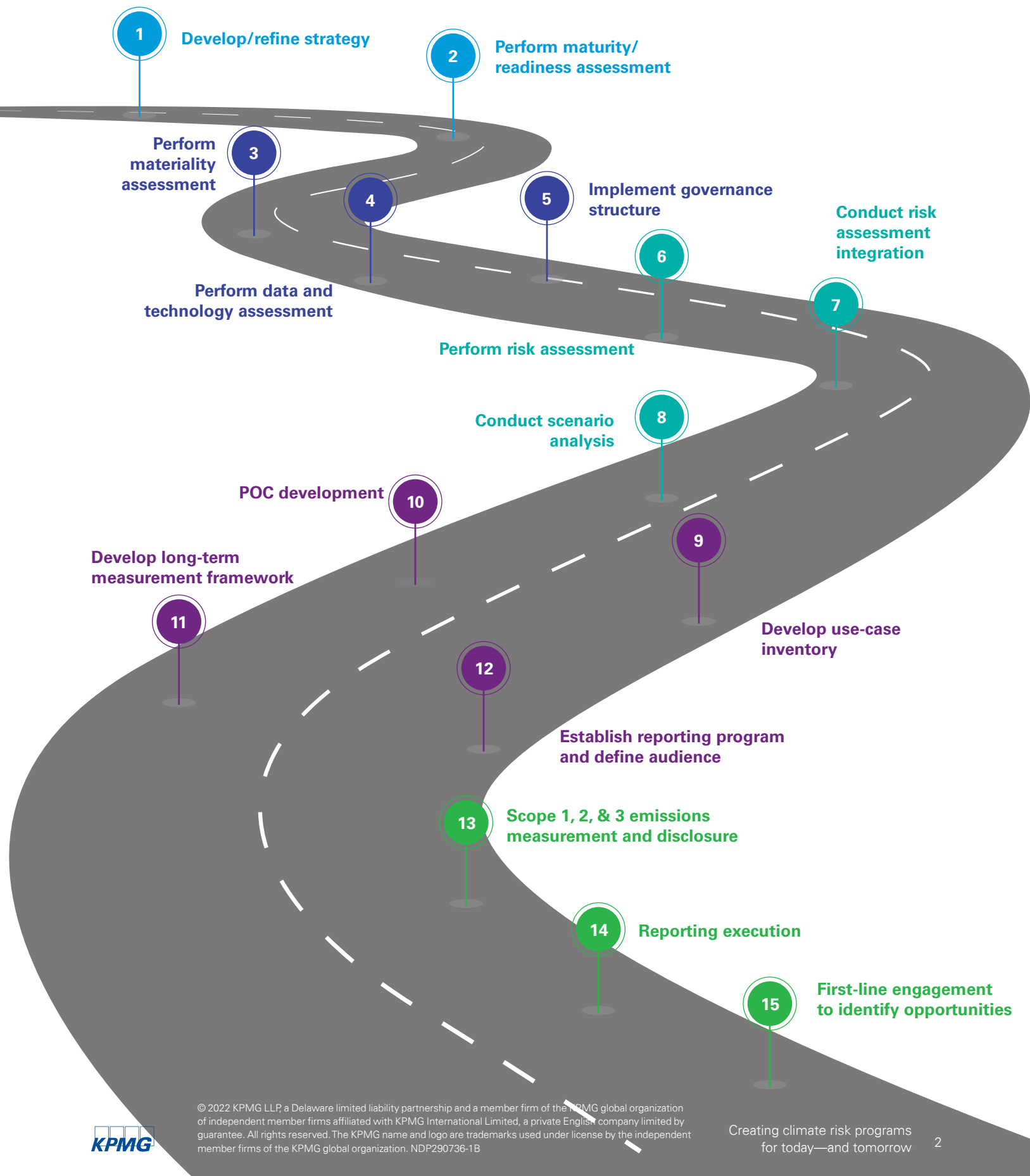
delay enhancing their capabilities to assess and mitigate the financial impacts of climate-related risk across all lines of business.

To begin, these financial institutions may want to focus on building capacity and competency—through hiring or contracting—to further develop a team of climate professionals to support the creation of a climate risk program. As this program develops, firms will likely be required to evolve beyond their small group reviewing and assessing climate-related risks to where climate risk is integrated into all risk stripes (i.e., credit, reputational, operational, market, etc.) across the organization.

As a starting point, organizations should consider performing risk identification assessments to determine where the most material risks are within the business. After this, organizations can begin to develop strategies and scenarios to understand the impacts of climate risk on its business from both a qualitative and quantitative perspective. These initial steps will allow organizations to be better positioned to keep pace with the market in assessing climate-related risks and will serve as the building blocks of a climate risk program in anticipation of regulatory oversight.

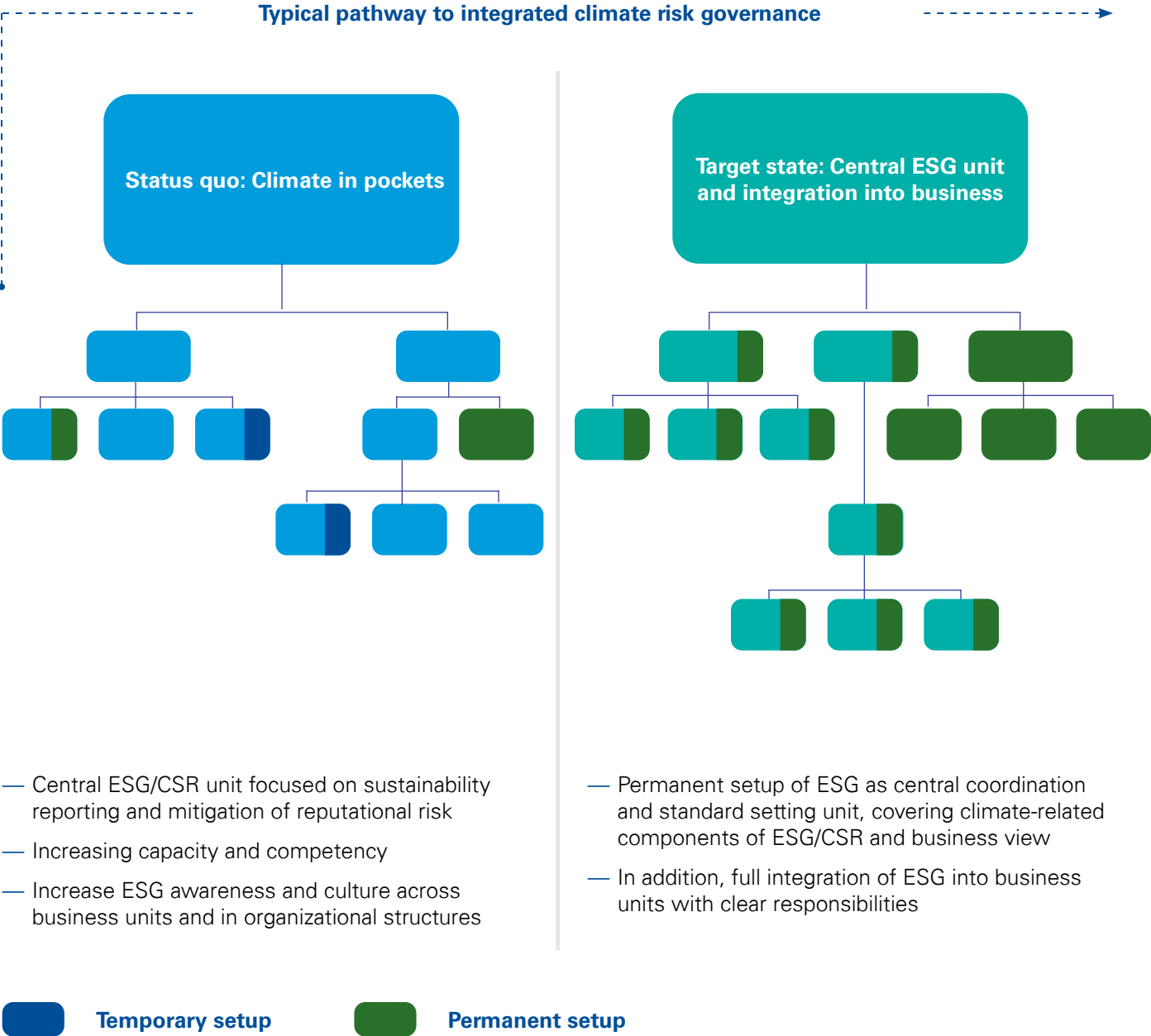


The graphic below is an example of a roadmap to develop a climate risk management strategy with the understanding that implementation is not a “one-size-fits-all” exercise and should be adjusted to align with internal expectations, organizational strategy, and progress to date.



To transition from the current state to target state, firms should consider a central climate risk program that assists the broader organization with climate risk integration within each business unit and across all risk stripes. This program would have representation across all business units with clear responsibilities for climate risk management. In this model, reporting on climate-related risks would be reported upon in a TCFD report, which would focus exclusively on the financial impacts of climate risk.

To continue evolving the firm’s assessment and reporting on climate risk as it moves to the target state, organizations may want to consider setting up a temporary task force consisting of representatives from ESG, strategy, and key business, risk, and finance units. This group would likely focus on assessing firmwide climate risk impact, supporting ambition setting, and supporting the gradual integration of climate risk across the entire business. The image below depicts a firm’s journey through these three phases.



In the next article, we will provide an in-depth analysis of key climate program components focusing on specific considerations for GSIBs.

If you are ready to take the next step in transforming your climate risk program, reach out to the following contacts for more information:

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