Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

SSF Annual Conference 2025, 17 June 2025

Stefan Walter, CEO FINMA

Addressing nature risks

Ladies and Gentlemen

Thank you very much for your kind invitation to the SSF Annual Conference 2025.
I am delighted to be here with you. A whole range of topics feature on both of our radar screens, so I am very pleased to have the opportunity to talk to you about FINMA's view of some of these issues.

I would like to cover three things today:

1. Why should banks and insurers proactively address climate and other nature-related risks?
2. What is FINMA expecting banks and insurers to do specifically on these risks?
3. What are FINMA's current activities on this topic?

First, let me make clear what the focus of FINMA is. It is not to make climate policy – that is for the political process to determine. The focus of supervisors is to ensure that financial institutions identify, measure, manage and control all the *material* risks to which they are exposed. Also, we are dealing with a risk driver that affects the standard financial and non-financial risk categories. It is not a separate new risk category.

So why should Swiss banks and insurance companies address risks stemming from climate change and nature degradation?

The answer is simple: because they are increasingly materialising and present various financial and non-financial risks for them.

The impacts of climate change on the frequency and severity of extreme weather events are increasingly well documented[1], as well as the growing economic cost of these events.[2] The reality is that in any future scenario, we are faced with rising financial and non-financial risks stemming from the physical impacts of climate change.

Switzerland is no exception to this: we are familiar with towns such as Brienz, Kandersteg and Blatten, where mountains crumble and threaten entire towns. Or exactly one year ago, severe thunderstorms led to high water, flooding, and landslides in various regions of Switzerland. Buildings and highways were flooded, a bridge collapsed, power lines were destroyed. Science tells us that such events will become more commonplace in the future.

On the transition risk side, a fragmented and disorderly transition in the medium or long term is still in the cards. The risk is not going away.

[1] Interactive map of extreme weather affected by climate change: https://interactive.carbonbrief.org/attribution-studies/index.html
[2] sigma 1/2025: Natural catastrophes: insured losses on trend to USD 145 billion in 2025 | Swiss Re

Laupenstrasse 27
3003 Bern
Tel. +41 (0)31 327 91 00
www.finma.ch

→ What does this mean for a Swiss bank or a Swiss insurance company?

Since climate change and nature degradation are risk drivers, the financial risks can show up in various ways. Depending on the business model of a bank or insurance company, risks from climate and other nature-related events are quite diverse. Let me give you a few examples:

- In a 2-degree warming scenario, scientists estimate that extreme flooding events could double in Switzerland.[3] We also know that many banks have a very large mortgage portfolio, and many properties are situated in risk zones. So extreme flood events can affect the ability of households to repay their loans. They can also have a lasting effect on the value of the properties as collateral. So, the credit risk could be significant for some banks, even if insurance schemes should mitigate the risk to a large extent in Switzerland. We also need to keep in mind that the risk is not the same for all banks. Especially cantonal and regional banks face higher geographical concentration levels. Smaller size doesn't necessarily mean less risk.

- At another level, the same type of physical events can also affect corporate counterparties and their production sites here and abroad. Or such events can affect them through their supply chain. For example, last years' thunderstorms in Wallis flooded aluminum factories which stopped production for weeks. This quickly led to critical car components not being delivered to Porsche in Germany. They had to halt production as well. So, both firms were affected significantly. This is another type of credit risk for financing banks.

- Then there is the issue of insurance risk. Insurers need to consider the impact of climate change on their underwriting and pricing models. Global insured losses from natural catastrophes are seven times higher than they were in the mid-1990s. We see an exponential trend, according to Swiss Re data. Climate change is expected to increasingly drive this growth and lead to more weather-related insurance claims. However, pricing models may not accurately reflect climate-related physical risks, as these are not fully captured by historical data.
- On the transition risk side, financial institutions need to stay cautious as well. For example, the building sector is not on track to meet the Swiss climate policy goal of net zero by 2050 and progress is slow. According to the 2024 PACTA-Test,
  42% of properties secured by mortgages in Switzerland are still heated with oil and around 23% with gas. That's about two thirds of the mortgage portfolio with fossil fuel heating.

→ A further question is: What about nature risks beyond climate risks?

The broader perspective of all nature-related risks is more challenging. But it cannot be ignored. In our view, climate risk is a subcategory of nature-related risks. And both are very interconnected. That's why we favour an integrated approach to addressing climate and nature related financial risks in our supervisory framework.

Let me go a little deeper here, as it was a key discussion point in the development of our new circular.

[3] Munz, L., Mosimann, M., Kauzlaric, M., Martius, O., and Zischg, A. P. (2024). „Storylines of Extreme Precipitation Events and Flood Impacts in Alpine and Pre-Alpine Environments under Various Global Warming Levels." Sci. Total Environ., 957, 177791.

First, the economy's dependence and impact on nature is widespread, complex and diverse.

Research tells us that nature is being damaged faster than it can regenerate. We also know that many sectors and companies have a high dependence on ecosystem services. Various sources estimate that this is true for roughly 30 to 50 percent of larger corporates. That's a significant proportion. This exposure needs to be looked at. Now, nature dependence does not automatically mean that it is a material risk. Raw materials can be substituted, factories can be relocated. However, it may become a material risk in the future, especially if ecosystem services deteriorate and are hard to substitute. We are already aware of the fluctuations in global food production and prices due to global water stress. It is estimated that half of the world's food production is at risk of failure by 2050 due to the accelerating global water crisis.[4] This crisis is worsening and by 2050, water problems could shave about 8 percent off global GDP. And the water risk doesn't just affect agriculture. Many industrial production processes are very water intensive. For example, Tesla's large lithium plants faced significant water supply challenges in Texas and Germany.[5] Soil deterioration and deforestation represent other nature-related risks affecting various industries. In fact, firms in many sectors (such as pharma or food) with complex supply chains and limited traceability of raw materials are still trying to assess their exposure to physical and regulatory nature-related risks.

Then there is transition risk. Regulatory measures aimed at protecting nature and people also constitute a key nature-related risk. Environmental laws and protected areas are not new, but they will increase over time. For example, Europe is currently evaluating a proposal to ban the chemicals known as PFAS altogether. [6] This would impact more than 10,000 chemicals across many industries such as tech hardware, food, semiconductor manufacturing or the pharmaceutical industry. Those are some compelling examples. But there is also evidence signalling that nature-related risks are material on a larger scale.

A recent study[7] of the perception of corporates around nature-related risks showed that nearly half of a sample of 400 large companies view nature risks as financially material. Overall, they deem nature risks as relevant over the long term as climate risks. That confirms the WEF's Global Risk Report, where corporate leaders rank biodiversity loss and ecosystem collapse as the second most severe long-term global risk. That cannot be ignored.

How can nature-related financial risks be assessed?

Supervisors and the industry face some challenges to assess such risks. Limited availability of data, challenges in developing analytical approaches and quantitative assessments, lack of resources, and competing priorities are all significant hurdles.

[4] Global water crisis leaves half of world food production at risk in next 25 years | Water | The Guardian

[5] Musk's Massive Tesla Lithium Plant Hunts for Water in Drought-Hit Texas | Financial Post

[6] Forever Chemicals | UBS Global

[7] Gjerde, Snorre and Sautner, Zacharias and Wagner, Alexander F. and Wegerich, Alexis, Corporate Nature Risk Perceptions (April 21, 2025). European Corporate Governance Institute – Finance Working Paper No. 1056/2025

The good news is that new methods and data sets are emerging. Data providers and academics are developing metrics such as "nature dependency ratings" or "biodiversity footprints".

They can be used for example to identify counterparties that have a high dependence on ecosystem services. Or to identify specific nature-related risks that need to be looked at in more detail. As a good starting point, the Task force on Nature-related Financial Disclosure's guidance and case studies can help banks and insurers get started.

Of course, these methods and metrics are not as robust and mature as we would like at the moment. But dealing with uncertainty and managing various risks is what the financial industry is good at. We are confident that it can make progress in this area as well.

What is FINMA expecting banks and insurers to do to address these risks?

((Slide 6))

Now FINMA, along with its peers, has recognized the relevance of nature (including climate) based risks as material for the financial sector. We have moved ahead to specify our supervisory expectations around the governance and management of climate and other nature-related risks in a specific circular.

When developing the circular we had a few goals in mind:

- Raising awareness around nature-related financial risks.
- Providing more clarity to the market on our specific expectations in this area.
- In the end: making sure banks and insurers under our supervision adequately measure and manage the relevant risks and remain resilient to them.

The result is the circular published last December. An extensive period of time was dedicated to consulting all stakeholders and finalising the requirements. The circular is applicable to all banks and insurers with the exception of those subject to the small banks' regime and the small insurers' regime.

It will enter into force in a staged way, starting in 2026 for the largest institutions, initially focusing on just climate-related risks. A year later, the same applies to banks and insurers of our supervisory categories 3 to 5.

With regards to other nature-related risks – beyond climate risks we decided to provide more time to prepare given the slower development of sound practices in this area. We expect firms to implement the circular in full by 2028.

Now as the main components of the regulation are well known, let me point out a few key aspects that are important in our view:

As usual, we adopted a **Principle based approach**

- o The circular is about 7 pages long. That is very short compared to similar publications by other supervisors. It includes all the supervisory requirements. The circular is accompanied by an explanatory report
(48 pages) that is meant to offer useful additional information but this is not mandatory.

  - That means that firms have a large degree of flexibility in the way they implement the requirements. We encourage them to apply judgment and make use of this flexibility. That brings me to my second point:
- Focus on **financially material risks**
  - We want supervised entities to focus their attention and limited resources on the risks that are material for them. A large part of the circular only applies to risks identified as financially material to the specific circumstances of the bank or insurer. Potential risks that are assessed as not material can be deprioritized.
- Solid **materiality assessment**
  - The flipside of this approach is that the materiality assessment has to be solid. The assumptions have to be as reliable as possible and prudent.
    A superficial or partial materiality assessment can leave significant risks unchecked.
- **Proportionality** wherever appropriate

We have implemented proportionality in various ways. The smallest and well-capitalised institutions of the small banks and insurers regimes are exempt. The integration of nature-related risks into stress testing is only applicable to the largest firms. The requirement for quantitative methods in scenario-analysis is also different among smaller, larger and very large institutions. But there are certain limits to proportionality in this area, as key risks are not always correlated with the size or complexity of firms. In fact, small regionally concentrated or very specialized institutions can be exposed to higher nature-related risks than larger, more diversified ones. Such smaller institutions should adapt their risk management accordingly.

Robust integration in risk management

  - When a firm identifies material risks, it should be diligent in how it integrates them into the relevant risk management processes. That is why, in line with international recommendations, we have laid out expectations for the specific risk categories in the second part of our circular.

FINMA's current activities on nature-related risks

Now as firms are in the process of implementing the requirements, let me say a few words about FINMA's current supervisory focus on this topic.
Initially, we placed emphasis on the disclosure of climate-related financial risks. We communicated our expectations in 2021 and reported on the progress of the largest institutions in this area in the following years.
Now our attention is shifting to the proper governance and risk management of climate and other nature-related risks. We will focus more on the aspects covered in our new circular: proper governance arrangements, solid materiality assessment and effective integration of material risks into risk management processes.

We have been looking at some of these topics in more detail with the largest banks and insurance companies in the recent past. Here are some findings of this process:

- On the **positive side**, all institutions are well underway to implement the circular and, for example, have already carried out qualitative scenario analyses in at least one relevant portfolio. They have also made progress on governance aspects, for example by assigning specific responsibilities relating to sustainability risks for the three lines of defences.
- But there is **still work to do**. We also observed that a majority of firms have some gaps in their materiality assessments. That can be a lack of clarity about the materiality of risks, insufficient scope of the analysis or multiple, uncoordinated approaches. On Governance, we found that large firms have risk controls in place, but it is often unclear if their scope is sufficiently broad and how effective they are implemented in practice.

We have already communicated specific findings to some of the institutions and will keep doing so as our supervision under the new circular progresses. Our intention is to give financial institutions feedback on their implementation of the circular as well as to communicate sound practices. That will also include peer benchmarking to highlight where a supervised institution stands relative to its peers.

To support a risk-based approach in our supervision of all banks and insurers in scope, we have implemented initial data collection on climate-related risks. This covers qualitative as well as quantitative information. It will enable us to compare banks and insurers on specific metrics such as exposures to emission-intensive sectors. That way we can focus our attention on firms with potentially higher risk exposure to relevant risk factors.

The data collection will also enable us to comply with the new public reporting requirement on climate-related financial risks in the revised CO2-law. We will be able to provide an overview of the risk assessment from the perspective of the market.

((Slide 9))

In Summary, my message today is the following:

Climate and nature related risks are not going away; rather they will continue to grow. We will keep our focus on all relevant risks, including the ones related to climate change and nature degradation. To the extent the risks are material, firms need to reflect them in their risk management frameworks. This approach provides consistent supervisory guidance and stability of expectations over the long term.

Many firms are well underway in preparing for the new circular. However, there still is work to do.
On our side, we not only plan to report on our findings on climate-related risks to the public, as required by Parliament, but also intend to share peer perspectives and emerging sound practices and insights from our data collections directly with the supervised entities.

It is important that banks and insurers continue to improve their resilience in the face of the mounting challenges of climate- and nature-related risks, better reflecting the risks and rewards associated with their particular business models.
Thank you for your attention - and for your continued commitment to this important work.