

Press release

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Nature-related financial risks: FINMA launches consultation on new circular

In a new circular, the Swiss Financial Market Supervisory Authority FINMA sets out its supervisory practice on the management of nature-related financial risks. It does so in line with the recommendations of international standard-setters. The circular will only apply to banks and insurers. The public consultation on this will run until 31 March 2024.

Financial institutions have a duty to take adequate account of material financial risks resulting from climate change and nature degradation. FINMA's "Nature-related financial risks" circular specifies the risk management requirements for financial institutions with regard to these risks. FINMA will conduct a public consultation on the new circular up to 31 March 2024.

International standards provide a basis

The circular is based on the current recommendations of the international standard-setters, in particular the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS), as well as some of the recommendations of the Network for Greening the Financial System (NGFS). The BCBS and the IAIS published principles and recommendations for the management of climate-related financial risks between 2021 and 2023. FINMA shares the assessment of the NGFS that an integrated approach to climate risks and other nature-related risks such as the loss of biodiversity makes sense ([FINMA press release of 4 December 2023](#)).

Focus on risk management

In its circular, FINMA specifies the extent to which nature-related financial risks must be taken into account in corporate governance and institution-wide risk management by banks and insurance companies.

In particular, it specifies criteria for assessing the materiality of risks and how scenario analyses are to be incorporated. It also sets out how the main nature-related financial risks are to be embedded as risk drivers in the

existing management of credit, market, liquidity and operational risks as well as in insurance activities.

Banks and insurance companies are exposed to nature-related financial risks in different ways. For example, in addition to transition risks, non-life insurance and reinsurance companies are primarily exposed to physical risks through their balance sheet liabilities. Affected insurance companies already identify, measure and manage these in exposed areas and are supervised by FINMA in this regard. Banks often have the greatest exposure to credit risks, which can be further increased due to nature-related financial risks.

The clarification of FINMA practice by means of the new circular helps banks and insurance companies integrate nature-related financial risks holistically and systematically into their risk management. It also allows for more effective supervision and increased efficiency and transparency for the supervised institutions.

Scope of application

The circular is aimed at banks and insurance companies and is due to enter into force on 1 January 2025 with transitional provisions. FINMA applies its risk-based approach to the scope of application. Institutions participating in the small banks and small insurers regimes, securities firms and asset managers are exposed to lower risks overall and are therefore excluded for reasons of proportionality. However, nature-related financial risks can also have an impact on these institutions. FINMA therefore recommends that these institutions also take into account the circular's requirements.