

OCC wants US banks to prep for climate-related financial risks—which they should be doing anyway

Article

The news: The Office of the Comptroller of the Currency (OCC) is working on preparedness principles for US banks to follow for managing climate-related financial risks.

The regulator put out a call for feedback for the principles—which would **cover banks with at least \$100 billion in assets**—with a February 14, 2022 deadline.

More on this: The OCC warns that weaknesses in banks' climate-risk management could pose threats to their safety and soundness.

In its draft principles document, the regulator identifies two broad risk categories:

- **Physical disasters** like hurricanes, flooding, and wildfires.
- **Impacts of transitional steps** to deal with climate change, including from businesses, consumers, and policymakers.

The OCC also outlines climate-related risks for specific categories that cover banks, such as:

- **Credit**, which covers both underwriting for borrowers and in portfolio management of debt outstanding.
- **Operations**, such as business continuity.
- **Liquidity**, which covers threats to banks' liquidity buffers.
- **Legal and compliance**, which includes ensuring that risk management measures don't disproportionately impact people based on race or ethnicity.

The big takeaway: Severe weather events are already doing major harm across the globe to homes and businesses, including **tornadoes that went through six US states and flooding that swept through Germany, the Netherlands, and Belgium** in July. Such events can impact customers of both digital and brick-and-mortar banking:

- Customers who live in directly affected areas may be unable to withdraw cash or make point-of-sale transactions with cards.
- Damage to data centers, unless offset with backup support, can affect digital-banking services for customers that live across the country.

Banks should have **risk-management plans and business continuity plans** in place for climate-change-related events like these—regardless of what actions the OCC, or any other

regulators, decides to take. As an example, Deloitte [outlines](#) business-continuity actions that companies can take to deal with climate change threats:

- Tasking employees with sustainability to engage with people who focus on business continuity and risk management.
- Adding sustainability frameworks to business continuity management systems.
- Updating risk assessments so that climate risks are included.

**Most Important Global Business Risk Factors
According to Executives Worldwide, Nov 2020**
% of respondents

	2020	2021
Business interruptions (including supply chain disruption)	37%	41%
Pandemic outbreak (e.g., health and workforce issues, restrictions on movement)	3%	40%
Cyber incidents (e.g., cyber crime, IT failure/outage, data breaches, fines, and penalties)	39%	40%
Market developments (e.g., volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	21%	19%
Changes in legislation and regulation (e.g., trade wars and tariffs, economic sanctions, protectionism, Brexit, Euro-zone disintegration)	27%	19%
Natural catastrophes (e.g., storm, flood, earthquake, wildfire)	21%	17%
Fire, explosion	20%	16%
Macroeconomic developments (e.g., monetary policies, austerity programs, commodity price increase, deflation, inflation)	11%	13%
Climate change/increasing volatility of weather	17%	13%
Political risks and violence (e.g., political instability, war, terrorism, civil commotion, riots and looting)	9%	11%

Note: n=2,769
Source: Allianz, "Allianz Risk Barometer 2021," Jan 27, 2021