



# BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY

## **JURISDICTION: UK** **AUTHORITY: BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY (PRA)**

### **Background**

The Bank of England (BoE) is the UK's central bank, whose mandate is to maintain monetary and financial stability. The BoE's monetary policy mandate is to keep prices stable and to maintain confidence in the currency. To accomplish this, the central bank has an inflation target of 2%.

The Bank keeps the UK's financial system stable by keeping a close watch on any risks and taking action, if they need to. Their [Financial Policy Committee](#) (FPC) identifies and monitors risks in the financial system, and takes action to reduce or remove them where necessary. Every six months it publishes a [Financial Stability Report](#) to highlight possible risks and explain what they're doing about them. They gather and analyse data from banks and building societies, credit unions, insurers and mortgage companies.

The BoE also regulates and supervises financial services firms through the [Prudential Regulation Authority](#) (PRA). Prudential regulation rules require financial firms to maintain sufficient capital and have adequate risk controls in place. Close supervision of firms ensures that the BoE have a comprehensive overview of their activities so that the BoE can step in if they are not being run in a safe and sound way or, in the case of insurers, if they are not protecting policyholders adequately.

The Prudential Regulation Authority at the Bank of England is responsible for this prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms.

### **Sustainability objectives**

Climate change, and society's response to it, present risks relevant to the BoE's objectives. The Bank is carrying out ongoing work to embed climate change into financial decisions and macroeconomic analysis.

The Bank published its own [climate-related financial disclosure](#) for the first time in June 2020. This sets out the Bank's approach to managing the risks from climate change across its entire operations, and explains what it's doing to improve its understanding of these risks. This forms part of the Bank's work under its strategic goal on climate change. It reflects the importance that the Bank attaches to climate-related risk disclosure, and the high standards that it expects both of itself, and the firms it regulates.

The Bank is utilising its stress testing framework to assess the impact of climate-related risks on the UK financial system. In June 2019, the PRA published details of its [Insurance Stress Test for 2019](#), which included an exploratory exercise in relation to climate change. The set of climate scenarios explored the impacts to both firms' liabilities and investments stemming from physical and transition risks. Building on the Insurance Stress Test, the Bank announced plans to test the UK financial system's resilience to the financial risks from climate change as part of the 2021 Biennial Exploratory Scenario. This was set out in the [July Financial Stability Report](#).



In December 2019, the Bank published a discussion paper setting out the proposal for the 2021 [Biennial Exploratory Scenario \(BES\) on climate-related risks](#). The objective of the BES is to test the resilience of the largest banks, insurers and the financial system to different possible climate pathways and provide a comprehensive assessment of the UK financial system's exposure to climate-related risks. The deadline for responses was 18 March 2020.

### Membership of any other initiatives/networks working on sustainability

- IAIS
- NGFS (Bank of England is a member)

### Recent engagement with SIF

The Bank of England is a member of the drafting team of the SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, which will be published in early 2021. Previously, it has contributed case-studies to the [SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures](#) and to the [SIF/IAIS Issues Paper on Climate Change Risks to the Insurance Sector](#).

