



## Press Release

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Paris, 4 May 2021

### **The ACPR publishes the results of the first climate pilot exercise covering the banking and insurance sectors**

**The Autorité de contrôle prudentiel et de résolution (ACPR) publishes today the results of its climate pilot exercise. This exercise is a world first, and consists of an assessment, conducted by a supervisor, of the financial risks associated with climate change with the banking groups and insurance undertakings under its remit. It illustrates the commitment and efforts of the Banque de France, the ACPR and the Paris financial centre to combat climate change. It also underlines the need for financial institutions and supervisors to step up their response to the climate emergency.**

The exercise was conducted from July 2020 to April 2021. This is the first climate exercise conducted by a supervisor based on a bottom-up approach, i.e. using assessments made individually by banks and insurers based on common macroeconomic assumptions defined by the ACPR. Its unprecedented nature also lies in (i) the time horizon of the assessed risks (30 years, from 2020 to 2050, as opposed to 3 to 5 years for traditional financial stress-tests, (ii) the methodologies used and (iii) the inclusion of both the physical and transition risks associated with climate change.

In order to assess the financial risks associated with climate change, the ACPR drew on the recommendations published by the network of central banks and supervisors for the greening of the financial system (NGFS), which provides a common framework for assessing the financial risks associated with climate change, and used two of its transition scenarios published last June. The work of the ACPR is based on an analytical framework developed specifically for this exercise, jointly with Banque de France staff<sup>1</sup>.

The NGFS network was created in Paris in 2017, and its global secretariat is provided by the Banque de France.

The scenarios of the NGFS will serve as a basis for other exercises that are currently under preparation, such as those of the Bank of England and European Central Bank, respectively scheduled in 2021 and 2022. The ACPR and the Banque de France **encourage all supervisors to build on these achievements and initiate their own exercises and contribute to the development of a common knowledge and climate risk assessment base.**

“We want to highlight the strong involvement of the Paris financial centre: Nine banking groups and 15 insurance groups took part in it on a voluntary basis, which has enabled us to present high value-added results, representing 85% of the total balance sheet of banks and 75% of the total

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<sup>1</sup> Allen et al. (2020): [Climate-related scenarios for financial stability assessment: An application to France](https://publications.banque-france.fr/en/climate-related-scenarios-financial-stability-assessment-application-france), Banque de France Working Paper, No 774, July. <https://publications.banque-france.fr/en/climate-related-scenarios-financial-stability-assessment-application-france>

balance sheet of insurers”, said Jean-Paul Faugère, Vice Chairman of the ACPR. It has also increased awareness of the risks associated with climate change and accelerated the mobilisation of teams and resources.

- The main lessons to be learned concerning the exposure of French financial institutions to climate risks are: **The exposure of French institutions to the seven sectors<sup>2</sup> most affected by the transition risk is rather moderate.** These sectors account for around 9.7% of the credit portfolio of banks and 17% of the portfolio of insurers (11% of which for the manufacturing sector alone). Nevertheless, it is in these sectors that the cost of risk and probabilities of default increase the most (the cost of risk are tripled in these sensitive sectors), and it is also where portfolio losses for banks and insurance undertakings are concentrated.
- **Subject to the limits of the assumptions and models used in this exercise, which will be progressively refined, banks and insurance undertakings appear moderately exposed to the risks associated with climate change by 2050.** This conclusion should also be put in perspective given the uncertainty surrounding the pace and impact of climate change.
- **The expected increase in claims and premiums for certain insurance risks is particularly noticeable:** over the entire French territory, claims related to natural disasters are projected to increase 2 to 5-fold for the most affected departments, and premiums would increase by 130 to 200% over 30 years to cover these losses.

**“In the light of these results, banking institutions and insurers now need to step up their efforts to combat climate change** by integrating the risks associated with climate change into their financial risk assessment process”, reminds Denis Beau, Deputy Governor of the Banque de France.

This exercise reveals a number of methodological limitations which the increased regulatory requirements for non-financial accounting should help to overcome. The main areas of improvement identified by the ACPR relate to the assumptions used to design the scenarios and identify sensitive sectors, the consideration of the "physical risk", and, lastly, to the models used by institutions as well as to data gaps.

It marks the starting point for further work to improve climate stress-tests. As a follow up to this exercise, new working groups will be organised with banks and insurers, and this climate stress-testing exercise will be renewed regularly. The next one is expected to take place in 2023/2024. In addition, experts from the ACPR and the Banque de France actively contribute to international work led by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the Financial Stability Committee.

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<sup>2</sup> Crop and animal production, extractive industries, coking and refining, chemical industry, manufacture of other non-metallic mineral products, metallurgy, waste water collection and treatment, waste collection, treatment and disposal, decontamination and other waste management services.