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To: Sustainability WG, Economics & Finance Committee, Public Affairs & Communications Committee

FSB publishes a report on assessment of climate-related vulnerabilities

Latest developments

On 16 January 2025, the Financial Stability Board (FSB) published its [report](#) on the assessment of climate-related vulnerabilities. The report outlines a framework and analytical tool-kit to assess the build-up of climate-related vulnerabilities using a forward-looking approach. In a nutshell:

- The **framework** describes how climate risks (both physical risks like floods and transition risks like policy changes) could be transmitted to and amplified by the global financial system.
 - Climate shocks can spread to the financial system and real economy through climate risks.
 - Vulnerabilities reflect imbalances that increase the likelihood of shocks and can lead to systemic disruption when a shock occurs.
 - When interacting with climate shocks, climate-related vulnerabilities can cause financial losses (i.e., damaging assets, and disrupting economic activity).
 - The impact of these shocks depends on how households, companies, and governments adjust. At the same time, cross-border links can amplify or reduce the effects of climate shocks on non-financial companies.
 - Transmission of climate shocks follows traditional financial stability channels, such as credit, market, liquidity, and underwriting risks.
 - Climate shocks in the non-financial sector can spread to the financial system via financial markets and institutional interconnections (e.g., banks, investment funds, and reinsurers).
- The report applies the framework by analysing how a climate physical shock to real estate markets could impact financial stability. The scenario considers the effects of reduced insurance availability which may cause risks to shift to households and businesses or to governments.
- **Analytical toolkit** includes three tools that could be used to monitor climate related vulnerabilities:
 - Proxies providing an early signal on potential drivers of climate risks, including insights into the likelihood and severity of hazards.
 - Exposure metrics assessing how climate risk drivers might spread through the financial system.
 - Risk metrics quantifying the scale of financial impacts as climate shocks transmit through the financial system by interacting with vulnerabilities.

Next steps

- The FSB will further develop the framework by operationalising the toolkit with selected metrics and conducting in-depth analysis of specific climate-related vulnerabilities.

For more info

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