GARP Survey Finds Significant Increases in Use of Scenario Analysis to Manage Climate Change Risk

Regulatory scrutiny of climate-related risks continues to increase, according to respondents

JERSEY CITY, NJ, September 16, 2021 – A new global survey from the Global Association of Risk Professionals (GARP) finds that more firms than ever are incorporating scenario analysis into their risk assessments. Conducted by the GARP Risk Institute (GRI), the “Third Annual Global Survey of Climate Risk Management at Financial Firms” received participation from 78 leading financial institutions around the world, including banks, asset managers, insurers, and other firms. Participating survey respondents have an aggregate USD 46 trillion of assets on their balance sheets, and total assets under management at around USD 50 trillion.

The survey used a maturity model to score and rank the participating firms on their current climate risk management capabilities across these key dimensions: governance; strategy; risk management; metrics, targets, and limits; scenario analysis; and disclosures.

Since launching its annual climate risk survey in 2019, scenario analysis has become an important and evolving tool firms can utilize to develop climate change strategies. Seventy percent of respondents stated they use scenario analysis. There has been an increase in the number and proportion of firms using scenario analysis as a regular part of risk assessment, an indication that it is becoming more mainstream for financial institutions.

“Over the last few years, as we’ve taken a look at climate risk management and strategies developed by financial institutions, we’re seeing that firms are evolving their capabilities in a significant way,” said Jo Paisley, president of GARP Risk Institute. “More firms are undertaking climate scenario analysis and taking action on the back of it, though it is striking how little progress is being made embedding quantitative metrics within day-to-day risk management. And with few firms believing climate risk is properly priced, there is clearly an opportunity for significant changes in valuations and associated impacts on financial performance.”

Additional key survey findings include:

- **Regulatory scrutiny is increasing.** Nearly 80% of firms report that their regulators have published formal expectations for climate risk management, while 65% say that regulators are now requiring them to report their climate-related risks.

- **A majority of company boards oversee climate risk management.** Ninety-two percent of firms in the 2021 survey have board oversight of climate risk. At more than
90% of organizations surveyed, C-suite level executives are accountable for climate-risk assessments and management efforts.

- **A wide disparity exists in climate risk measurement and tracking.** The best firms are using a range of metrics, with targets and limits for their climate risk exposures. In contrast, 25% of respondents are not, in any way, measuring their climate risks.

- **Climate risk is widely seen as improperly priced.** Only 6% of firms believe that climate risk is priced correctly, with the vast majority indicating that it was either not included in the market’s pricing of products, or only included partially. Firms note the difficulty of sourcing robust and reliable climate risk data.

- **Staffing continues to grow.** Climate risk staffing levels have increased at 91% of all surveyed firms over the past two years, with nearly 90% of firms expecting levels to rise in the next two years.

- **Long-term confidence in climate strategy isn’t strong.** While 77% of firms felt their climate strategy was resilient over the next 1-5 years, only 22% of firms report long-term optimism.

“Climate risk management and scenario analysis are evolving at pace and the GARP annual survey shines a light on how firms are responding,” said Adityadeb Mukherjee, head of climate risk management at Standard Chartered Bank.

To access the full 2021 survey report, visit GARP’s [Climate Risk Resource Center](https://www.garp.org).

**About the Global Association of Risk Professionals**

The Global Association of Risk Professionals is a non-partisan, not-for-profit membership organization focused on elevating the practice of risk management. GARP offers the leading global certification for risk managers in the Financial Risk Manager (FRM®), as well as the Sustainability and Climate Risk (SCR®) Certificate and on-going educational opportunities through Continuing Professional Development. Through the GARP Benchmarking Initiative and GARP Risk Institute, GARP sponsors research in risk management and promotes collaboration among practitioners, academics, and regulators.

Founded in 1996, governed by a Board of Trustees, GARP is headquartered in Jersey City, NJ, with offices in London, Beijing, and Hong Kong. Find more information on [garp.org](https://garp.org) or follow GARP on [LinkedIn](https://www.linkedin.com), [Facebook](https://www.facebook.com), and [Twitter](https://twitter.com).
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