



In Conversation with

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1. When and why did APRA join the NGFS?

The Australian Prudential Regulation Authority (APRA) joined the NGFS in 2021 as part of its broader development of climate risk capabilities and engagement, both domestically and internationally. APRA sees real value from collaborating with peer supervisors on climate risk. The NGFS offers a diverse and inclusive forum for collaboration and produces tangible outputs that support the work of supervisors globally.

APRA began a two-year term as a member of the NGFS Steering Committee in January 2023, and earlier this year took on the role of co-Chairing the NGFS Adaptation Task Force, together with the Bank of Rwanda. Our increased engagement reflects the value that we see in the NGFS and its role in supporting and uplifting the understanding of climate risk across a wide range of supervisors globally.

2. Can you share with us the key elements of APRA's climate strategy and how it fits into the broader national strategy in the Australian jurisdiction?

APRA focuses on the financial risks arising from climate change and how the banks, insurers and superannuation trustees (private pension providers) that we supervise are addressing these risks. With this in mind, we have developed a multi-pronged approach to addressing climate risk governance and risk management which includes:

- **Guidance to regulated entities:** APRA published climate risk guidance for its supervised entities in November 2021¹, which leveraged the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. This guidance supports regulated entities in meeting their risk management and governance requirements.
- **Cross-industry insights on the climate risk maturity of APRA’s regulated entities:** APRA published its first Climate Risk Self-Assessment Survey in 2022², which provided insights into the maturity with which larger APRA-regulated organisations are addressing climate risk. APRA will shortly publish a 2024 update to the Survey, covering a much broader cross-section of APRA-regulated entities.
- **Specific industry deep-dives:** APRA published its Banking Climate Vulnerability Assessment (CVA) in 2022³. For this Climate Vulnerability Assessment, APRA worked with the five largest banks in Australia to explore how climate change may impact different aspects of the banks’ business under two of the NGFS climate scenarios. Since 2023, APRA has been working on an Insurance Climate Vulnerability Assessment, this time with Australia’s five largest general insurers to better understand household insurance affordability challenges under two NGFS climate scenarios: insights from this work will be published by APRA in 2025.
- **Inclusion of climate risk into routine supervision activities:** including better integrating climate risk in APRA’s supervisory risk methodology, training and support for front-line supervisors. Planning is also underway to publicly consult on bringing climate risk into APRA’s Risk Management Standard⁴.

3. To which extent did APRA leverage the work of the NGFS in its own domestic journey? Any concrete examples?

Yes, two very concrete examples: the Banking and Insurance Climate Vulnerability Assessments mentioned earlier.

The NGFS scenarios provide an internationally reputable basis for this type of exploratory climate risk assessment that is relevant to the financial sector. In both cases we selected the Current Policies and the Delayed Transition scenarios as a starting point for our work and tailored them for use in Australia. For both the banking and the insurance initiatives, APRA drew on external macro-economic modelling support to provide greater insight into how these scenarios would impact transition risks in Australia, as well as providing additional guidance on potential changes to physical risks. This was a particular focus for the Insurance CVA, where natural peril risk is a key driver of insurance premiums. APRA worked with a range of experts to provide greater localised detail on how physical climate risk may evolve in Australia under the NGFS climate scenarios.

For the Insurance CVA initiative we have adapted one of the NGFS scenarios to represent a “tail-risk” physical climate outcome. This allowed us to retain core elements of the NGFS scenario, such as the

¹ <https://www.apra.gov.au/sites/default/files/2021-11/Final Prudential Practice Guide CPG 229 Climate Change Financial Risks.pdf>.

² <https://www.apra.gov.au/sites/default/files/2022-08/Information paper - Climate risk self-assessment survey.pdf>.

³ <https://www.apra.gov.au/sites/default/files/2022-11/Information Paper - Climate Vulnerability Assessment Results 0.pdf>.

⁴ <https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-220-Risk-Management-%28July-2017%29.pdf>.

emissions and global economic trajectory, while adjusting other aspects to reflect a future where climate-driven natural peril risk increases more rapidly (but within the range forecast by the NGFS model data).

4. *One last word?*

The NGFS brings significant value to APRA as a financial regulator and supervisor, both from a collaboration and from a technical perspective. Its convening power is a valuable addition to central bank and supervisor actions to address climate risk. The fact that the NGFS is not a standard-setting body frees it to be a pathfinder exploring new topics, including climate-adjacent topics such as nature risk, or delve deeper into specific aspects of climate risk such as the development of short-term scenarios, and the role of adaptation and resilience in addressing future climate challenges.