Building Societies Association

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Response to the PRA CP10/25: Enhancing Banks' and Insurers' Approaches to Managing Climate-Related Risks

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, as well as 2 mutual-owned banks and 7 credit unions. Building societies and mutual–owned banks have total assets of almost £650 billion. They hold residential mortgages of over £485 billion, 29% of the total outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £485 billion of retail savings, accounting for 23% of all cash savings in the UK. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services they operate approximately 1,300 branches, holding a 30% share of branches across the UK.

The mutual sector is a vital part of the UK financial system, supporting competition, regional economic growth, and financial inclusion. Regulatory approaches that are not appropriately tailored could stifle the government's ambition to double the size of the mutual sector and increase home ownership.

Employee and branch data relate to building societies only and do not include mutual–owned banks. This data is currently unavailable.

Executive summary

The BSA welcomes the PRA's focus on climate-related financial risks and supports a proportionate, risk-based regulatory approach. We also support that the updated SS3/19 should incorporate the PRA's findings of previous thematic reviews which have been communicated via Dear CEOs and Dear CFOs, such that the PRA's expectations sit all in one place.

We agree that the PRA's expectations should be proportionate to a firms' actual exposure to climate risk, rather than firm size alone, and appreciate the PRA's intention to tailor its framework accordingly. However, we are concerned that some of the proposals, as drafted, risk driving firms to treat climate risk as separate when some may prefer to integrate it within other risk types and existing risk management frameworks, so we call on the PRA to adopt a flexible approach. This is important to avoid layering additional complexity and cost onto building societies whose low risk, monoline mortgage business models and statutory constraints already mean that they aren't financing the fossil fuel industry in any meaningful way, nor are they high risk firms more generally.

We ask the PRA to ensure that any new requirements are properly calibrated for mutuals where climate change can be an opportunity as well as a risk, as societies have an important role to play in financing the retrofit of UK properties and the transition to net zero. This can be particularly relevant for underserved regions, and any excessive or costly requirements may undermine the government's ambition to grow the mutual sector, increase home ownership and support the transition to net zero.

PRA Proposals

Governance and proportionality

We support the PRA's intention to anchor proportionality to climate risk exposure rather than firm size. However, to aid understanding and consistency of implementation, our members request clearer definitions, perhaps with sector-specific case studies to guide firms in assessing materiality. For example, what might the regulator's expectations be for a regional building society lending to properties that are exposed to flood risk vs a similarly sized UK bank that conducts trade finance with oil-producing countries? This might best be demonstrated through a series of high-level case study examples. Without this, there is a risk of either over-interpretation or under-application of requirements, which could lead to greater compliance costs or gaps in risk management.

Senior Management Function oversight

CP10/25 proposes that management responsibilities for identifying and managing climate-related risks are assigned at an appropriate level of seniority within the organisation such as a relevant SMF holder or Board member. This is already an expectation in paragraph 3.4 of the existing SS3/19 published in November 2024. However, there is no prescribed responsibility for managing climate risk in SYSC24. This means there is a risk both under the current and updated SS3/19 that firms miss the requirement to make this allocation under the Senior Managers Regime as the requirement sits in SS3/19 and not SYSC.

Any PRA expectation to allocate climate-related risk to an SMF can imply that climate risk is more important than other principal risks under the firm's risk management framework. We request that the PRA and FCA consider how their requirements for SMFs are joined up and communicated in one place within the regulatory framework so that the components are not inadvertently missed. We also propose that the regulators are careful not to undermine firms' development of the structure of their own risk management framework, including ownership of certain risks by SMFs.

Related to this point, we observe a diversity of practice among BSA members regarding the management of climate-related risks. Some societies have assigned responsibility within existing SMF roles, such as the Chief Risk Officer (SMF4), while others question the need for elevation to a standalone function, particularly where climate risk is not a principal risk. We believe the PRA should allow firms to determine the most appropriate governance arrangements based on their business model and risk profile, rather than mandating a uniform approach.

Risk management and risk appetite

BSA Members report a range of approaches to climate risk management, with some treating it as a cross-cutting risk and others as a principal risk. For example, flood risk can be treated as a component of geographic credit concentration risk. We propose that the PRA should be flexible to recognise both approaches as valid, provided that climate-related risks are adequately identified, monitored, and managed. Any one-size-fits-all approach by the PRA could undermine ownership of the risk management framework and suitable tailoring to individual firms which improves embeddedness.

CP10/25 proposes that firms should set a specific risk appetite statement for climate risk. We agree that it is important for firms to understand and demonstrate their exposure to, and appetite for, climate-related risks. However, setting a specific risk appetite statement will drive firms towards thinking that climate risk should be a separate risk from other risks rather than integrated it into existing risk categories such as geographic credit concentration risk or other parts of operational risk.

The BSA is generally supportive of qualitative risk appetite statements, however more quantitative targets may be more challenging, particularly for smaller societies with limited data and exposure. As such any shift in the PRA's expectations towards a quantitative risk appetite will need to be proportionate to the risks of the firm in question and how exposed they are to climate-related risks.

Scenario analysis, data and disclosures

The BSA believes that proportionality is critical in scenario analysis and data requirements. We would like to highlight that the cost of data collection and scenario analysis can be significant, especially the relative cost and value when the impact on portfolios is limited. Most societies already include climate-related scenarios in their stress testing frameworks as part of ICAAP and ILAAP. We ask the PRA to clarify expectations and streamline documentation requirements, maybe by providing standardised example scenarios for non-systemic firms, to facilitate simplified approaches where justified.

In terms of disclosure obligations, these should be aligned with existing statutory and regulatory frameworks. Members also seek greater clarity on disclosure requirements to avoid duplication and confusion.

Supervisory consistency and predictability

We propose that the PRA publishes clear, sector-specific guidance and case studies, and commits to regular reviews of its approach as industry practice and climate science develop. Predictable, transparent supervision is essential for effective planning and investment.

Transition and implementation timelines

CP10/25 proposes that the updated SS3/19 will apply immediately the day it is published. However, supervisors would not ask firms to evidence compliance for a period of six months thereafter. The BSA does not support this approach. Our members tend to have a low tolerance for non-compliance with regulations and it's not reasonable or feasible to set expectations that apply immediately. A far preferable approach would be for the PRA to publish the updated expectations but with an implementation date of at least six months later from when the expectations apply.

Conclusion

The BSA supports the PRA's objectives for climate risk management and welcomes the focus on proportionality and flexibility. We encourage the PRA to provide clear, practical guidance and to recognise the diversity of business models and risk exposures across the sector. We urge the PRA to ensure that the final framework is genuinely proportionate, avoids unnecessary regulatory layering, and supports the long-term resilience and growth of building societies and the communities they serve. We further recommend that the PRA commits to regular, holistic reviews of the climate risk framework and provides sufficient predictability and transition periods, so that societies can plan effectively as they support the transition to net zero.