Bank of England

Responding to climate-related financial risks

Westminster Energy Forum
13 May 2026

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Increasing evidence of climate-related risks materialising

The accumulation of evidence points to climate risks relevant to financial stability becoming more proximate, albeit with significant uncertainty about when and where they will crystalise

We assess how the impacts of climate change evolve

While the policies needed to mitigate climate change are for governments, not central banks, to decide, if they have an impact on the economy and financial sector, central banks will need to understand them, just like any other shock

For example, we have been exploring two channels for how climate change could impact the financial system:

1. The potential impact of a sudden repricing of assets to reflect climate-related risks

2. The impact of increasing frequency and severity of physical risks on levels of insurance protection; where lower coverage could transfer risks to households, businesses, banks and governments

“Opening the floodgates?”

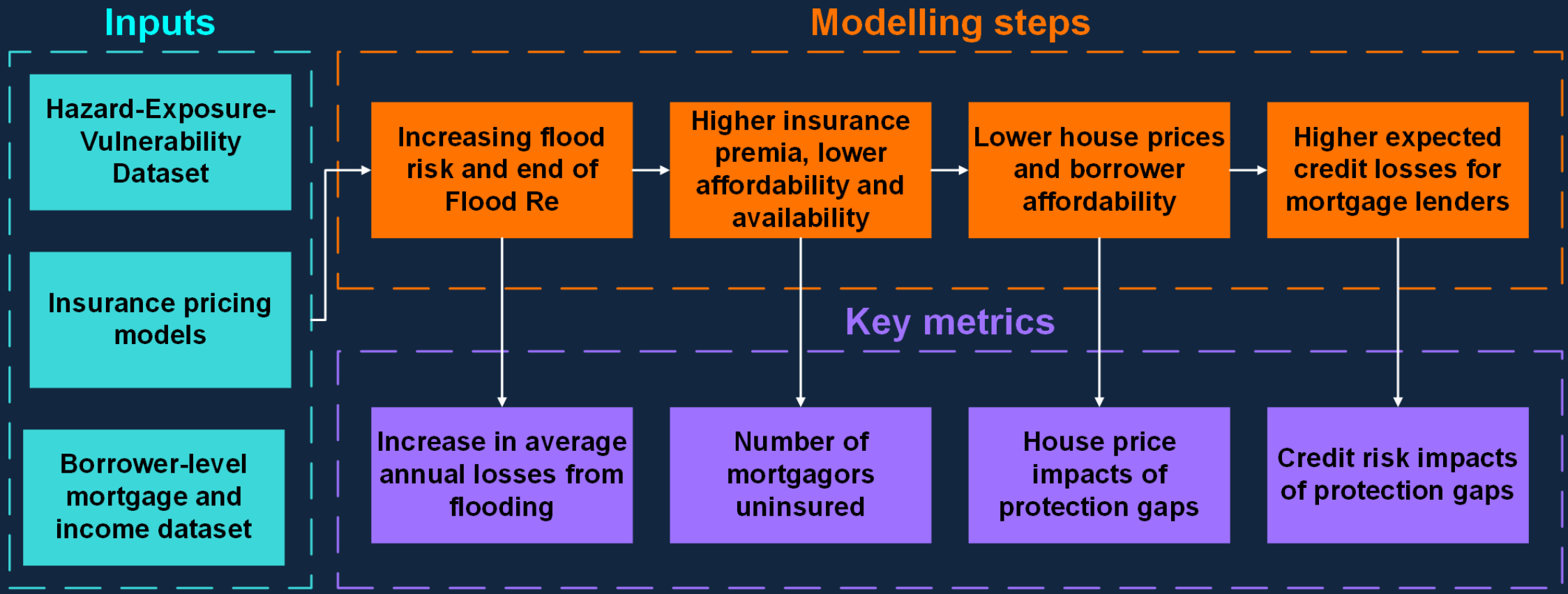
Note: The following is staff working views set out in ‘Bank Underground’

Bank underground enables staff to publish work, but the views expressed are not necessarily those of the Bank or the Financial Policy Committee

From Banks, W. and Erçevik, K. “Opening the floodgates? Modelling spillovers from flood insurance protection gaps to UK mortgages”, *Bank Underground,* 2026.

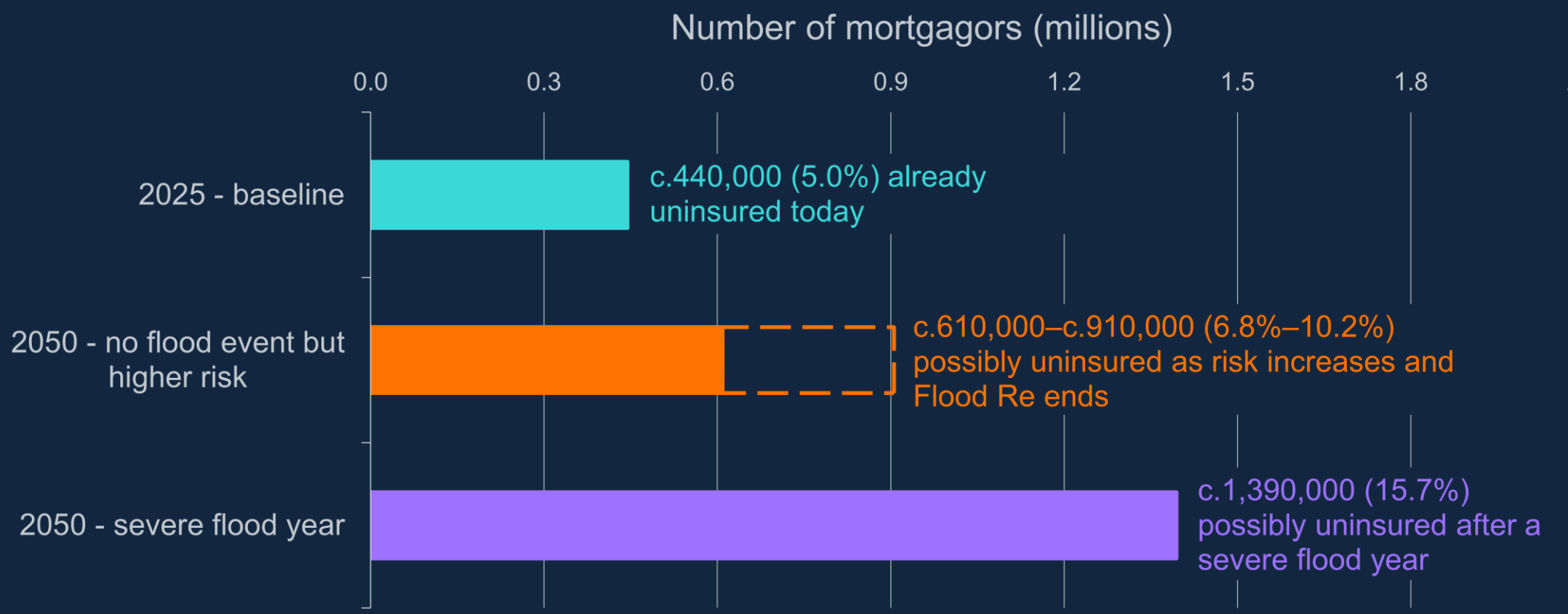
The impact of changing insurance coverage to households

A stylised figure of our insurance protection gaps model



From Banks, W. and Erçevik, K. "Opening the floodgates? Modelling spillovers from flood insurance protection gaps to UK mortgages", *Bank Underground*, 2026.

Estimates of the mortgagor insurance protection gap

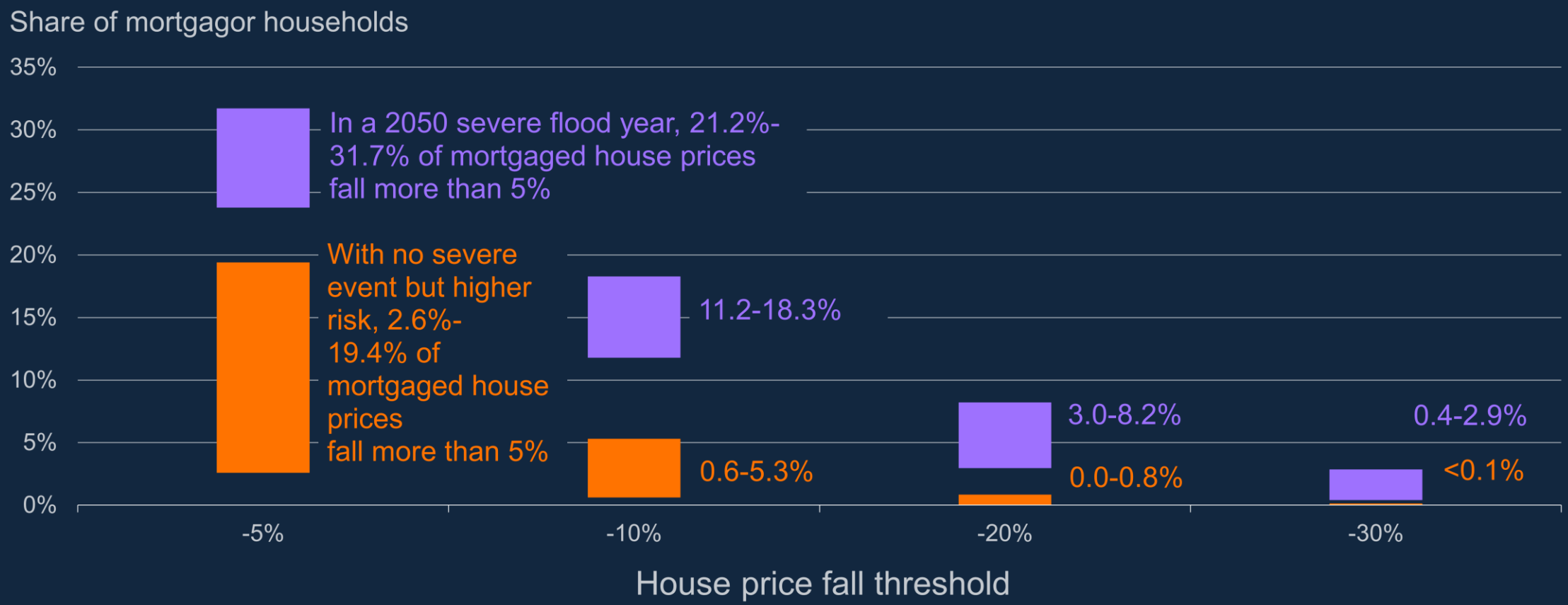


From Banks, W. and Erçevik, K. "Opening the floodgates? Modelling spillovers from flood insurance protection gaps to UK mortgages", *Bank Underground,* 2026.

Sources: FCA Product Sales Data, Mitiga, RiskLayer, ONS Living Costs and Food Survey and Bank staff calculations. Full sources are available upon request.

Note: Under scenario RCP8.5. Sample of 6.85 million mortgages has been upscaled to 8.8 million to reflect the whole UK mortgage market. Mortgage stock as of end-2024. Flood Re assumed to end in 2039. Estimates are subject to substantial uncertainty. 'Uninsured' defined as any properties for which insurance is estimated to be unaffordable (ie above a certain percentage of gross income, calibrated for each income decile using ONS Living Costs and Food Survey data) or unavailable. Aqua bar shows the approximate current coverage gap. Orange bar shows range of gap estimates under higher climate risk (RCP8.5 2050), no Flood Re and various risk reflective pricing models. Purple bar reflects houses uninsured after a 1-in-100 flood year leads to high markups in insurance premia for those houses flooded.

Distribution of falls in house prices under different scenarios



From Banks, W. and Erçevik, K. "Opening the floodgates? Modelling spillovers from flood insurance protection gaps to UK mortgages", *Bank Underground,* 2026.

Sources: FCA Product Sales Data, Mitiga, RiskLayer, ONS Living Costs and Food Survey and Bank staff calculations. Full sources are available upon request.

Note: Under scenario RCP8.5. House price falls reflect the net present value of expected increases in insurance premia, discounts for estimated insurance unaffordability or unavailability, and the value of flood damages for uninsured properties. Orange bars are consistent with the 6.8%–10.2% protection gap in Chart 1, purple bars with the 15.7% gap. Ranges reflect different discounting and insurance pricing assumptions.

Impact of different scenarios on measures of bank credit risk

From Banks, W. and Erçevik, K. "Opening the floodgates? Modelling spillovers from flood insurance protection gaps to UK mortgages", *Bank Underground,* 2026.

Sources: FCA Product Sales Data, Mitiga, RiskLayer, ONS Living Costs and Food Survey and Bank staff calculations. Full sources are available upon request.

Note: Under scenario RCP8.5. Expected impairment rates reflect changes in loss given default and probability of default due to changes in loan to value and debt-service ability ratios due to higher flooding and lower insurance coverage. Aqua diamonds reflect baseline expected impairment rates with no flood impacts. Orange bars correspond to the range of house price falls in the orange bars in Chart 2. Purple diamonds consistent with the top of the range of the purple bars in Chart 2. Green line is a weighted average of the purple diamonds. Gold line is based on the published results of the 2025 Bank Capital Stress Test. The hazard model we use suggests high flood risk in the North East and North West of England, though the relative distribution of risks differs between hazard model providers.

The Bank is taking actions in line with its mandate

In December 2025, the PRA published revised supervisory expectations for banks and insurers

It aims to help firms build resilience against climate-related risks and make informed strategic decisions that support their business interests, including through the provision of appropriate financial products that can promote sustainable economic growth

In 2024, the FPC published its framework to help identify and assess climate-related risks to UK financial stability

This assists in the FPCs work to monitor and assess how the impacts of climate change build and transmit across the system as a whole