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# UNEP FI Risk Centre's Approach to Sustainability Risk Integration



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# About the Risk Centre

The UNEP FI Risk Centre is a UN centre-of-expertise that provides financial institutions with a coherent and practical approach to systematically integrate sustainability considerations into their existing risk management frameworks and practices.

Launched in 2024 at the World Economic Forum (WEF) meeting in Davos by Inger Andersen, Executive Director of UNEP, the Risk Centre undertakes research and develops knowledge resources to inform various aspects of sustainability risks. The Risk Centre works closely with financial institutions, academic institutions, data providers, modellers, tool developers, regulators and other stakeholders to create actionable insights and practical resources chiefly for risk professionals within banks and insurers.

The Risk Centre develops tools, methodologies and guidance to help financial institutions understand how sustainability factors affect prudential risk and provides practical support irrespective where they are on their sustainability risk integration journey.

More information about the Risk Centre can be found here: [unepfi.org/risk-centre/](https://unepfi.org/risk-centre/).



# About this report

The UNEP FI Risk Centre's *Approach to Sustainability Risk Integration* offers practical, prudential risk-focused support for embedding sustainability across the full risk life cycle in banks. It complements existing supervisory, disclosure, and voluntary frameworks by focusing on how to operationalize sustainability inside core risk processes. The *Approach* is built on enhancing existing risk systems, covering climate, nature and social issues holistically, and grounding everything in materiality. The *Approach* has three parts: a *Conceptual Framework* outlining core risk management elements; a modular *Playbook* with practical tools, templates and role-specific guidance; and a set of *Resources and Tools* focused on the most urgent capability gaps. Together, these components give banks a structured, usable pathway to achieve consistent and credible sustainability risk integration. Ninety per cent of UNEP FI Member Banks (in a 2026 consultation by the Risk Centre) indicated that a common reference framework for sustainability risk integration would be of value to them. This *Approach* outlines how the Risk Centre will provide banks with clear, practical and relevant support for their sustainability risk integration journey.

# Acronyms and abbreviations

<b>BaFin</b>	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>BII</b>	British Investment International
<b>CMJ</b>	Climate Mitigation Journey
<b>CRD</b>	Capital Requirements Directive (EU)
<b>CRR</b>	Capital Requirements Regulation (EU)
<b>EBA</b>	European Banking Authority
<b>ECB</b>	European Central Bank
<b>ECL</b>	Expected Credit Loss
<b>EMDEs</b>	Emerging Markets and Developing Economies
<b>EP / EP4</b>	Equator Principles (Fourth Edition)
<b>ESG</b>	Environmental, Social and Governance
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>IFRS</b>	International Financial Reporting Standards
<b>ILAAP</b>	Internal Liquidity Adequacy Assessment Process
<b>ISSB</b>	International Sustainability Standards Board
<b>KRIs</b>	Key Risk Indicators
<b>LCR</b>	Liquidity Coverage Ratio
<b>MAS</b>	Monetary Authority of Singapore
<b>NGFS</b>	Network for Greening the Financial System
<b>NSFR</b>	Net Stable Funding Ratio
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OSFI</b>	Office of the Superintendent of Financial Institutions (Canada)
<b>PBOC</b>	People's Bank of China
<b>PCAF</b>	Partnership for Carbon Accounting Financials
<b>PRA</b>	Prudential Regulation Authority (UK)
<b>PRB</b>	UN Principles for Responsible Banking
<b>SDGs</b>	Sustainable Development Goals (UN)
<b>UNEP FI</b>	United Nations Environment Programme Finance Initiative
<b>VaR</b>	Value at Risk
<b>WEF</b>	World Economic Forum



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# The UNEP FI Risk Centre's Approach to Sustainability Risk Integration

## Introduction

The World Economic Forum's Global Risks Report 2026 (WEF, 2026) suggests that sustainability risks are important for decision makers. It is becoming increasingly clear that we are operating in a rapidly changing world where sustainability risks are no longer slow-burn-issues sitting at the periphery of financial decision-making. They have become immediate, material and financially transmissible. For financial institutions, this is not just about being sustainable; it is also about being prepared. The institutions that integrate sustainability risks into their core risk management frameworks will be able to better protect capital, maintain resilience and remain competitive. To that end, sound risk integration and management is a key component of their business case, and one that can help drive sustainability-related actions.

However, sustainability risk integration is not straightforward. These risks unfold over varied time-horizons, with potentially non-linear and indirect impacts, and with high levels of uncertainty in measurements and modelling. Moreover, sustainability risk drivers are cross-cutting: a single driver—such as physical climate stress, biodiversity loss or failures to respect labour rights—can transmit simultaneously into multiple traditional risk categories, including credit, market, operational and liquidity risk. This cross-cutting nature, combined with long- and uncertain time-horizons and non-linear dynamics, stretches the boundaries of conventional risk measurement and modelling. While there has been progress on sustainability risk integration by financial institutions, some major gaps still remain.

The UNEP FI Risk Centre's *Landscape of Sustainability Risk Integration Report* (June 2026) reveals that sustainability risk management in banking has undergone a fundamental shift over the past decade. What began as a largely reputational and compliance concern—managed through selective exclusions, transaction-level due diligence and voluntary disclosure—has progressively entered the core of prudential risk management. Supervisory expectations on climate risk have been issued in every region, including much of the Global South and across most G20 countries. The European Banking Authority's (EBA) *ESG Risk Management Guidelines*, effective from January 2026, now embed sustainability risk into Pillar 2 as a binding legal requirement. The European Central Bank (ECB) has imposed periodic penalty payments on banks failing to meet climate and environmental risk management expectations (ECB 2025b, 2026a). Other countries with prudential regulatory requirements or supervisory guidance include Brazil, China, Canada, Ghana, Mauritius, and Singapore.

At most large banks, board oversight structures, high-level risk policies and sustainability governance frameworks are in place. Climate risk is increasingly treated as financially material, and the use of scenario analysis and stress testing to assess resilience has become standard supervisory practice. Nevertheless, progress has been uneven, incomplete and—for large parts of the sector—not yet fully

operational. A wide gap still exists between supervisors' expectations and what institutions have embedded into their risk processes.

## Progress and challenges

The banking sector has made more progress establishing the architecture of sustainability risk management than embedding it into the decisions, models and metrics that drive capital allocation and risk management. Governance is the most mature dimension; nearly one quarter of consulted UNEP FI member banks report full integration of sustainability into their governance frameworks. Risk scope and taxonomy is also relatively well-established, with half of consulted member banks reporting sustainability risks as largely or fully embedded in their classification frameworks. But maturity falls away sharply beyond these structural elements; notably, over half of consulted member banks report only minimal or partial integration of sustainability into risk materiality assessments, while nearly one third report minimal or no integration of sustainability into risk appetite frameworks. Overall, only 10 per cent consider sustainability fully integrated into their risk strategies.

Nearly all surveyed member banks identify credit risk as the primary entry point for sustainability integration. Furthermore, supervisory exercises across multiple jurisdictions confirm that climate considerations are increasingly factored into credit assessment. Yet full integration of sustainability drivers into International Financial Reporting Standards (IFRS) 9, Pillar 1, or Pillar 2 credit risk models remains limited to a minority of institutions globally.

Supervisory assessments of sustainability risk materiality have differed from banks' own conclusions. Bundesanstalt für Finanzdienstleistungsaufsicht (the German Federal Financial Supervisory Authority, or 'BaFin') (2024) found that only 10 per cent of German credit institutions consider physical climate risks to be substantially influencing their material risk types. In a similar vein, the Prudential Regulatory Authority (PRA) (PRA, 2024), found that no bank based in the United Kingdom of Great Britain and Northern Ireland had raised a material post-model adjustment for climate in Expected Credit Losses (ECL). Integration into market, liquidity, and operational risk frameworks lags further behind.

While climate risk integration is most advanced, the integration of nature and social risks is still nascent. Despite growing recognition that nature loss and ecosystem degradation can be financially material, operational integration remains embryonic. Among surveyed UNEP FI member banks, 50 per cent report no integration of physical nature risk into their liquidity, market or strategic risk processes whatsoever. Over half have either not integrated or only minimally integrated transition nature risk. When it comes to incorporating social and nature risk into borrower creditworthiness in credit risk frameworks, integration of the former is more advanced than the latter among surveyed member banks. But social risk remains outside the prudential perimeter for most institutions and therefore it is addressed principally through due diligence, exclusion policies, and reputational controls rather than being embedded in risk measurement and modelling.

The *Landscape Report* (UNEP FI, 2026) documented five structural constraints that recur across banks and geographies:

- i. **Data:** Counterparty-level sustainability data are sparse, sector-level proxies dominate, and the data infrastructure for nature and social risk is far behind even the imperfect climate data environment. Surveyed member banks report that even where third-party tools are available, the dominant challenge is translating tool outputs into financial metrics compatible with existing risk models and in-house data ecosystems.

- ii. **Lower model maturity:** Existing risk models were not built to capture non-linear, long-horizon, cross-cutting risks, and the absence of historical loss data for sustainability risk events makes back-testing and validation very difficult.
- iii. **Scarcity of specialist skills and capacity:** They remain scarce, with many banks building relevant expertise largely from scratch.
- iv. **Fragmented internal coordination:** Across risk, sustainability, finance, and business functions particularly for nature and social risks.
- v. **Regulatory uncertainty** in several jurisdictions has led some institutions to pause capability investment pending clearer expectations.

The *Landscape Report* (UNEP FI, 2026) suggests that sustainability risks are financially material, sustainability risks are financially material, and supervisory expectations are rising faster than institutional capabilities. The risk landscape is expanding from climate to nature and social issues, and at a pace that outstrips current methods and data infrastructure. A narrow or piecemeal approach that is focused on climate alone, or on individual risk types, or on structural governance without operational depth, leaves banks exposed across market, liquidity, operational, and strategic risk frameworks in ways that are increasingly visible to supervisors.

## The need for a solution

Many UNEP FI member banks themselves are clear on what is needed. Ninety per cent of those who participated in the Risk Centre's 2026 consultation believe their current risk management practices would benefit from the availability of a structured reference framework to guide the integration of sustainability risks. Over half already have some form of sustainability risk integration framework in place. This confirms that the question is no longer whether to integrate, but how to do so coherently, consistently and with sufficient operational depth to withstand supervisory scrutiny.

The UNEP FI Risk Centre's *Approach to Sustainability Risk Integration* (henceforth called the *Approach*) is designed to meet this need. It provides financial institutions with a clear, coherent and practical framework for systematically embedding sustainability considerations across the risk management life cycle. The *Approach* builds on the governance and structural progress the sector has already made, while extending that progress into the operational, quantitative and strategic dimensions where the most significant gaps remain. Through this work, the UNEP FI Risk Centre aims to help close these gaps and provide banks with a clearer and more structured path towards sustainability risk integration.

## Approach to Sustainability Risk Integration

The UNEP FI Risk Centre's *Approach* supports banks to fully integrate sustainability risk into prudential risk management frameworks and practices. It is informed by regulations in multiple jurisdictions, as well as the needs and current practices of UNEP FI member banks that have been solicited through a consultation process. (For more details of these needs and practices, see the *Sustainability Risk Integration Landscape Report 2026*). The *Approach* sets out a coherent framework for how sustainability can be integrated into prudential risk management and duly operationalized. It is not prescriptive in nature but rather intended as a practical reference that banks can use to assess their current integration efforts, identify gaps, and sequence further work, in line with the principles of proportionality and materiality.

## Who the Approach is for

The *Approach* is primarily targeted at risk professionals in banks. This includes: Chief Risk Officers and their teams; second-line risk managers across credit, market, liquidity, operational and other prudential risk types; those leading enterprise risk management; teams covering environmental & social (E&S) risk, climate risk and nature risk; and members of board risk committees. This document is also intended to be useful to supervisors, standard-setters and risk practitioners in financial institutions other than banks that are developing comparable approaches. It is not primarily aimed at sustainability functions, disclosure teams or front-office relationship managers, although these readers may find it informative.

## What the Approach offers

The sustainability risk integration landscape is populated by a wide range of frameworks and guidance. The *Approach* draws on, complements and extends an established body of supervisory, disclosure and industry-led guidance. This includes work published by international organizations such as the Basel Committee on Banking Supervision (BCBS) and the Network for Greening the Financial System (NGFS), banking supervisors in many countries, disclosure standard-setters such as the International Sustainability Standards Board (ISSB), and industry-led initiatives such as UNEP FI's Principles for Responsible Banking (PRB), the Equator Principles (EP), and the Partnership for Carbon Accounting Financials (PCAF). It also builds on the work of development finance institutions that have played a pioneering role, particularly in operationalizing sustainability risk integration in markets with data, capacity and regulatory constraints.

Each piece of the existing guidance plays a valuable role in the sustainability risk integration landscape. Collectively, they also interact in complex ways. Supervisory frameworks set expectations but not implementation architecture, for instance, while disclosure-led frameworks structure external reporting but not internal risk management. Meanwhile, voluntary commitment frameworks address ambition and target-setting but not the embedding of sustainability into core risk processes. Focused on banks and oriented towards prudential risk, the *Approach* provides a comprehensive **architecture for integration** that incorporates multiple sustainability dimensions and that covers the full risk-management life cycle. It is also a jurisdiction-neutral structure for banks operating across multiple regulatory regimes, helping them reconcile overlapping expectations into a single internal architecture. Operational toolkits provide implementation guidance for specific audiences, contexts or risk types. Further, the *Approach* bridges the gap between sustainability ambitions and prudential risk management by addressing how voluntary commitments interact with core prudential risk management processes, including risk appetite, lending criteria, client engagement and credit modelling—a tension that most frameworks acknowledge implicitly but few address directly.

## How the Approach is being designed

The *Approach* is being developed in line with the guiding principles of UNEP FI Risk Centre:

- **Existing:** It emphasizes the enhancement of **existing** risk management frameworks and processes in financial institutions rather than recommending a complete overhaul. In particular, it enhances existing processes for governance, risk appetite, risk identification, and measurement and monitoring.

- **Comprehensive:** It encourages a **comprehensive** approach to sustainability that recognizes the interconnections across climate change, nature loss and degradation, pollution, social issues and related factors.
- **Systematic:** It supports the development of **systematic** methods for integrating sustainability considerations into financial, non-financial and strategic risks. This includes capturing interactions across sustainability themes (e.g. climate–nature, climate–social) and understanding how these themes influence specific risk channels (e.g. climate–credit, nature–market).
- **Financially material:** It is grounded firmly in **financial materiality**, which relates to the outside-in implications of sustainability factors on prudential risks. It helps assess how dynamic and emerging environmental and social factors translate into different financial, non-financial and strategic risks that can undermine a financial institution’s capital adequacy, liquidity position, resilience or overall safety and soundness.

## How the Approach interacts with other guidance

The *Approach* is designed to complement and enhance existing frameworks. It aligns with prudential supervisory expectations in many countries. It is intended to interoperate with other UNEP FI frameworks including the UNEP FI Principles for Responsible Banking (PRB) and Climate Mitigation Journey (CMJ). Similarly, it is designed to be compatible with toolkits published by third parties like the ‘BII Climate Risk Management Toolkit’ as well as with measurement standards such as PCAF.

As with these extant frameworks and guidance, the *Approach* treats sustainability as a driver of existing prudential risks, not as a parallel risk type. Further, it adopts financial materiality as its primary lens, while at the same time recognizing dynamic and double materiality. In line with supervisory frameworks, it emphasizes proportionality and integration into existing risk management processes. Where the *Approach* uses different language or structure, the aim is to surface concepts that are implicit in existing frameworks rather than to introduce competing constructs.

## What to expect

This overview document sets out the UNEP FI Risk Centre’s *Approach* for banks. The *Approach* has broadly three parts that will be published over time between 2026 and 2027. Figure 1 below shows these different components.

Part A will outline a *Conceptual Framework for Sustainability Risk Integration* containing the seven core elements that provide banks with the building blocks for integrating sustainability considerations systematically into their existing risk management frameworks and processes.

Part B will deliver a *Sustainability Risk Integration Playbook*—a modular set of operational guides, templates, and checklists that translate the seven core elements into practical methodologies, sequenced actions and role-specific guidance for day-to-day use. Grounded in the principle that sustainability risk integration extends established risk management practices, the Playbook will show how existing frameworks can be adapted to capture sustainability-related drivers. Designed for **selective role- and task-driven use**, it will offer two navigation routes:

- **By core element**, for practitioners working on materiality, risk appetite, governance or other components; and

- **By role**, with tailored entry points for chief risk officers, second-line risk managers and three-lines-of-defence functions, plus members of board risk committees.

Each module will provide methodologies, decision trees, templates and action checklists. These will be supported by case examples from UNEP FI member bank consultations. Signposts to supervisory expectations and industry frameworks will also be included. Recognizing that integration is both a technical and organizational change programme, the Playbook will be **published in phases** to reflect banks’ differing stages of progress and to support proportional adoption across institutions of varying size and maturity.

Part C will be a suite of *Resources and Tools* delivered over time. These will provide operational guidance on topics where the gaps identified by the *Landscape Report* are most acute. The specific topics covered will be shaped by the priorities and needs of the UNEP FI Risk Centre participants and UNEP FI member banks, as surfaced through ongoing consultation and the Risk Centre’s Sustainability Risk Integration Programme. Work is currently underway in a variety of areas, including: incorporating sustainability factors into scorecards for credit risk applications; setting and calibrating risk appetite for sustainability risks; assessing and managing physical climate and nature risks; enhancing capabilities on sustainability risk disclosures; and using client transition plans for risk management use cases.

<p><b>The Landscape of Sustainability Risk Integration Report 2026</b> Sets out the problem statement that the Approach aims to address: Regulatory landscape for SRI globally and regionally SRI practices and progress in banks Challenges and gaps in SRI</p>	
<p><b>UNEP FI Risk Centre’s Approach To Sustainability Risk Integration 2026</b> Purpose, context and structure of the approach Case for SRI, challenges and industry progress</p>	
<p><b>Conceptual Framework 2026</b> Address the ‘What’ of the Approach: Core elements of risk management Building blocks of SRI</p>	<p><b>Operational Playbook 2026/27</b> Address the ‘How’ of the Approach: Modular support to operationalize the conceptual framework. By element and risk role/function</p>
<p><b>Resources and tools 2026 and beyond</b> Technical tools, case studies and more</p>	

**Figure 1:** Approach to Sustainability Risk Integration (SRI) – planned outputs

In summary, the *Approach* will provide financial institutions with a coherent and practical approach to bring sustainability into the heart of risk management as a fundamental part of how risks are understood and managed.

### Box 1: Defining sustainability risk

The UNEP FI Risk Centre defines sustainability risks as environmental and social conditions or events that, if they occur, can cause significant negative impacts on a financial institution and its counterparties. This is not a stand-alone risk category, but a driver and amplifier of traditional financial risk types—including credit, market, liquidity, operational and reputational risk—across short-, medium-, and long-term horizons.

Sustainability risks are deeply interconnected and mutually reinforcing. For example, climate change accelerates nature loss through rising temperatures and more frequent and extreme weather events. Meanwhile, nature loss undermines climate resilience by degrading the ecosystems that absorb carbon and buffer communities against physical impacts. Both can drive social disruption through displacing people, causing food insecurity and destroying livelihoods. This can increase liability exposure for banks, and governance failures can compound these dynamics by delaying necessary responses.

As a risk driver, sustainability risk is treated as transversal rather than stand-alone. That is, environmental and social factors are considered drivers and amplifiers of established prudential risk types rather than as a new risk category that sits alongside them. From this perspective, sustainability does not introduce a separate risk universe, but instead changes the severity, timing and distribution of familiar risks. For instance, climate transition could drive credit risk through the impairment of carbon-intensive assets, or market risk through repricing; whereas nature degradation may affect collateral values and operational resilience.

This framing has two implications. First, it shapes where and how sustainability considerations are embedded across the framework; namely, into existing risk strategy, governance, materiality assessment, appetite and reporting processes rather than into parallel structures. Second, it aligns the *Approach* of the UNEP FI Risk Centre with the prevailing direction of supervisory frameworks; i.e. treating sustainability as a driver of existing risk categories.

This framing also motivates the Risk Centre's primary objective, which is to help financial institutions integrate sustainability considerations systematically into existing risk management frameworks and practices. It encourages a comprehensive approach to sustainability that recognizes the interconnections across sustainability themes such as climate change, nature loss and degradation, pollution and social issues. The insights from its work help deepen the understanding of how sustainability themes link to one another and how they transmit into traditional risk types. This includes capturing interactions across sustainability themes and understanding how they influence specific risk transmission channels.

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UNEP Finance Initiative brings together a large network of banks, insurers and investors that catalyzes action across the financial system to deliver more sustainable global economies.

For more than 30 years the Initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. We've established the world's foremost sustainability frameworks, helping the finance industry achieve sustainability goals, address sustainability risks and identify the business opportunities in taking a responsible approach to banking and insurance.

Convened by a Geneva, Switzerland-based secretariat, more than 550 banks and insurers are individually implementing UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis to apply these industry frameworks and

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develop practical guidance and tools that drive institutional change, shaping the future of sustainable finance and positioning their businesses for the transition to a sustainable and inclusive economy. In parallel, UNEP FI also drives systems change and fosters enabling conditions in service of the broader mission to mobilize and align private finance to help achieve the UN Sustainable Development Goals.

Founded in 1992, UNEP FI was the first organization to engage the finance sector on sustainability and incubated the Principles for Responsible Investment, now the world's leading proponent of responsible investment.

Today, we cultivate leadership and advance sustainable market practice while supporting the implementation of global programmes at a regional level across Africa & the Middle East, Asia Pacific, Europe, Latin America & the Caribbean, and North America.



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**UN Environment Programme Finance Initiative**