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Enhancing resilience through governance

The role of sound governance in addressing nature-related financial risks

In the second article of our series we focus on the key considerations for banks and insurers as they integrate nature-related financial risk processes and controls through a robust governance framework.

Nature-related financial risks are complex, long-term, and often systemic. They can manifest both physically (e.g., through flooding, heatwaves, landslides, biodiversity collapse) and through transition dynamics (e.g., regulatory shifts, reputational impacts, market changes). Without clear governance structures, financial institutions risk underestimating or mismanaging exposures that could significantly affect their resilience and profitability. Addressing these risks begins with awareness of them. But to effectively manage the risks, banks and insurers must get all hands on deck – the business and control functions, management and Board. Appropriate upskilling is vital across the organisation.

An effective governance structure enables strategic oversight by ensuring that nature-related risks are embedded into the institution's long-term planning and risk appetite. These risks, while environmental in origin, translate into tangible financial exposures across the credit, market, operational, liquidity and reputational domains. Governance therefore serves as the mechanism by which these interdependencies can be identified, prioritised and managed over time. Without the involvement of the Board there is a risk that nature-related risks remain peripheral, rather than being integrated into core decision-making processes.

Effective governance also ensures accountability. Within a robust governance framework the responsibilities for nature-related risks are clearly defined across executive leadership and relevant business units. This clarity prevents fragmentation and supports coherent responses across the organisation. Many financial institutions are now establishing dedicated sustainability or ESG committees that report directly to the Board. In parallel, senior management is often mandated to oversee the development and execution of nature-related strategies, ensuring that the topic is not isolated within a single department such as sustainability or risk management, but coordinated across the institution.

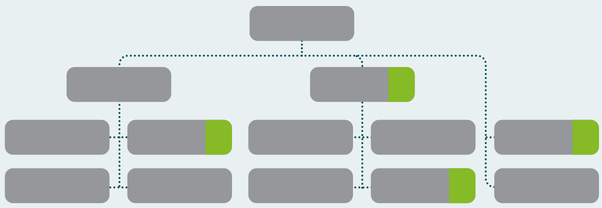
Banks and insurers must also ensure that policies, risk frameworks, and internal controls explicitly reflect their nature-related risk exposures. This includes setting clear objectives, thresholds, escalation procedures, and reporting lines with regard to nature-related financial risks, and integrating them into credit assessments, investment evaluations, and portfolio reviews. Internal audit and control functions should play an active role in testing and validating the implementation of these policies and supporting the organisation connect the dots. Additionally, senior management and the Board of Directors who are responsible for the oversight of those risks, should be able to timely monitor the exposures of the institution to material risks though risk reports and risk dashboards provided by the relevant functions.

Successful integration of nature-related risks depends heavily on cross-functional collaboration. Governance must demand and facilitate cooperation among departments such as risk management, credit, sustainability, legal, and data analytics. This ensures consistency in how risks are assessed, measured, and managed, particularly in light of evolving regulatory requirements.

Finally, building institutional capacity and skills is another vital element of governance. Staff across all levels, including senior management and the Board, should be equipped with the necessary knowledge and tools to understand and manage nature-related risks. Training and development programmes, tailored to various functions within the organisation, foster a shared understanding of how environmental risks translate into financial implications.

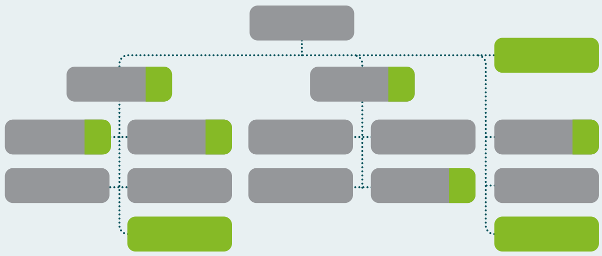
Examples of different approaches to the governance of nature-related financial risks

1. ESG Working Group
Representatives from various departments and functions such as finance, risk and the business (e.g. clients / products) form a Working Group dedicating part of their time specifically to ESG-related activities.



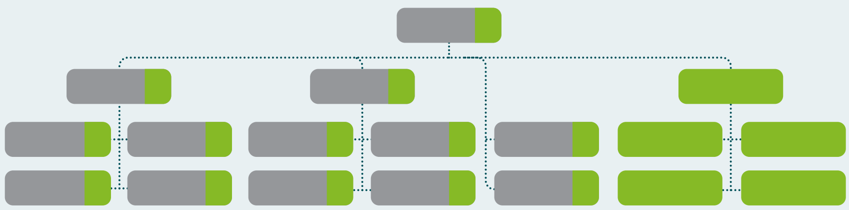
ESG working group is represented by the green box in the figure

2. ESG Specialists
ESG is addressed by dedicated specialists with ESG-related backgrounds who work closely with the institution’s business units. An ESG-related role that reports directly to the Board of Directors, such as a sustainability officer, can be present.



ESG specialists are represented by the green box in the figure

3. ESG Integration
A dedicated and separate ESG department is responsible for new activities arising from ESG risks, opportunities and related regulations. ESG-related activities are part of the day-to-day business-as-usual for all other employees in the organisation. The ESG team acts as a knowledge centre for ESG issues and questions within the organisation.



ESG integration with a separate ESG department is represented by the green box in the figure

Examples of integration of roles and responsibilities across the three lines

1. First Line: responsible for assessing nature-related risks during client onboarding, credit applications, credit reviews, and investing processes. Staff should have adequate knowledge to identify potential nature-related risks and consider materiality and proportionality.
2. Second Line:

- o Risk Management: independently assesses and monitors nature-related risks, ensuring adherence to risk limits and challenging initial assessments made by business relationship officers.
- o Compliance: oversees adherence to the legal requirements and internal policies for nature-related financial risks, advising the management body on compliance measures. It also provides advice on reputational and conduct risks related to nature or environmental claims and commitments. Furthermore, it should be consulted regarding the approval of new products with nature or environmental features or significant changes to existing products.

3. Third Line: the Internal Audit function provides an independent review of the quality and effectiveness of the overall internal control framework and systems concerning nature-related risks. This includes evaluating the first and second lines and the nature-related risks governance framework.

Refresher: the requirement from the Circular

A. Governance

(14) The institution shall define and document the tasks, competencies and responsibilities for the identification, assessment, management and monitoring of nature-related financial risks, as well as for their internal – and, if applicable, external – reporting. In particular, this shall concern the tasks, competencies and responsibilities of the most senior management body or the board of directors including its committees, the executive board, the independent control bodies or functions, the internal audit function, as well as the other relevant business or organizational units, in accordance with their roles under FINMA Circular 2017/1 "Corporate governance – banks" and 2017/2 "Corporate governance – insurers".

(15) The bodies, functions and units listed in margin no. 14 shall possess sufficient expertise and experience in relation to nature-related financial risks and how to deal with them to be able to fulfil their defined role.

Conclusion

Governance is not just an organisational function, it is the foundation upon which a credible and effective response to nature-related financial risks must be built. Through strong Board engagement, clear internal structures, coherent policies, and transparent reporting, banks and insurers can ensure that they are well positioned to navigate the growing complexities of environmental and financial interconnection.

How can Deloitte help you?

- Assessment of your current governance framework to identify potential areas of improvement (including the maturity of your framework and completeness of your policies and procedures)
- Facilitate, through workshops, cross-departmental collaboration and provide tailored training programmes, to enhance knowledge and skills
- Supporting your other control functions with the implementation of their new responsibilities, e.g. upskilling or supporting your Internal Audit teams.

Key takeaways

- Nature-related risks can impact your long-term viability. Governance ensures these risks are considered at the highest level, aligning risk management with business strategy.
- Your BoD and top management should be educated on nature-related risks and actively oversee their integration into your risk management framework (including through regular updates, scenario analyses, risk monitoring dashboards, and oversight of nature-related strategy alignment).
- It is important to establish dedicated ESG or sustainability committees reporting to the BoD, or appoint senior executives with explicit mandates for nature-related risk, in order to institutionalise responsibility and ensure leadership accountability.
- Develop and implement policies that explicitly cover nature-related risks, ensuring alignment with internal risk appetite and sustainability goals. Your Internal Audit functions should regularly review adherence to these policies.
- Foster collaboration across departments, such as risk, credit, compliance, and sustainability, to ensure consistent application of nature-related risk assessments and data usage throughout the organisation.
- Equip staff at all levels with the knowledge and tools needed to identify and assess nature-related risks, promoting a culture of environmental awareness and risk sensitivity.

Contacts

Christian Jung
Director,
Sustainable Finance Lead
cjung@deloitte.ch

Greta Cenotti
Manager,
Sustainable Finance
gretacenotti@deloitte.ch

Cederic van Renterghem
Manager,
Financial Risk Management
cvanrenterghem@deloitte.ch