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MFSA Urges Banks to Strengthen Climate-Related and Environmental Risk Management

The Malta Financial Services Authority (MFSA) has issued a [Dear CEO](#) letter emphasising the need for enhanced Climate-related and Environmental (C&E) risk management within Less Significant Institutions (LSIs).

Following a comprehensive review of LSIs' C&E risk management practices, the MFSA identified key areas for improvement, particularly in assessing the interconnectedness of C&E risks with traditional financial risks. This review underscores the critical importance of robust climate-related and environmental risk management for the long-term stability of our financial system.

The review focused on determining whether Maltese LSIs have the necessary frameworks, governance structures, and technical instruments to address these risks across their operations, portfolios, customers, and business models. The findings will guide the industry in enhancing its resilience against the adverse impacts of climate change, aligning with the forthcoming implementation of the new banking package.

Key Findings:

The review found that LSIs have made progress in assessing the materiality of C&E risks and integrating these insights into their business and management models. However, materiality assessments need to incorporate more robust quantitative and qualitative analyses to address how C&E risks intersect with traditional risk categories such as credit, operational, and market risks. Institutions must continue developing their strategies and systems to effectively manage C&E risks across short, medium, and long-term horizons.

Noteworthy Practices:

The Authority also acknowledged the good practices identified during the review, such as the establishment of specialised committees to drive C&E risk management strategies, and the development of risk registers to document and estimate the probability and severity of physical risks over different timeframes.

MFSA's Head of Banking Supervision, Catherine Galea, stated: "While recognising the progress made, this ['Dear CEO Letter'](#) underscores the need for continuous improvement in

how Maltese banks assess and manage climate-related risks. The MFSA remains committed to ensuring that Maltese financial institutions are resilient to the evolving climate landscape and will continue to work closely with the industry to facilitate a smooth and orderly transition.”

The “[Dear CEO Letter](#)” outlines detailed recommendations and areas of focus for LSIs to ensure alignment with supervisory expectations and to strengthen their resilience to these evolving risks, aiming to foster a resilient and sustainable financial sector.

For further information, please refer to the full text of the “[Dear CEO Letter](#)”.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA’s mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

