Guidance 19: Segment/portfolio-level scenario analysis

Steps for portfolio-level scenario analysis	***Key questions***	***Guidance***
1. Identify exposures and gather data	▪ Which sectors are we exposed to? ▪ Which assets/clients are most at risk?	▪ List all exposures by segment/sector/geography ▪ Collect internal data (see Tool 23)
2. Conduct project-level assessment (see Module 13)	▪ How do priority clients fare in each scenario archetype? ▪ Scope and document timeframe of analysis	▪ For each priority client, perform project-level scenario analysis ▪ Document key risk drivers and opportunity areas
3. Segment/sector risk/opportunities identification	▪ What kinds of risks and opportunities arise across scenarios for priority sectors?	▪ Aggregate project-level findings to segment/sector-level ▪ Involve relevant business lines to interpret risk/opportunity hotspots
4. Scenario stress testing (See Modules 14 and 22)	▪ How do these sectors fare across scenario archetypes? ▪ What is the expected financial materiality of each scenario archetype for the bank? ▪ Are these in breach of organisational risk appetite?	▪ Developing FIs may attempt to do this qualitatively or with basic rules-based assumptions at segment/sector-level ▪ Advanced FIs can attempt to quantify key metrics at project-level (e.g. revenues, default rates, asset values), with aggregation and sensitivity analysis at sector/segment-level
5. Portfolio-level aggregation	▪ What is the total impact across the portfolio in each scenario archetype?	▪ Aggregate impacts from all segments/sectors ▪ Check if there are gaps between expected organisational performance and regulatory/stakeholder requirements or other anticipated breach of materiality thresholds
6. Prioritise key risk/opportunity themes	▪ Where is the organisation most/least prepared? ▪ Where does the organisation have an advantage to leverage?	▪ Identify key gaps, areas for improvement, and risk/opportunity hotspots ▪ Assess existing adaptation/mitigation roadmap initiatives for residual risks ▪ Prioritise top risk/opportunity clusters as areas of management focus
7. Develop strategic responses	▪ What (management) actions can the organisation take to reduce risks or seize opportunities?	▪ Brainstorm organisational responses to top risk/opportunity clusters ▪ Identify initiative owners and calibrate expected resource allocation ▪ Develop directional milestones and set realistic timeframes for realising them
8. Commit resources and build capacity	▪ Which initiatives end up on the strategic roadmap and why? ▪ Which organisational strengths can support the selected initiatives, and how can the organisation achieve competitive advantage directly/indirectly?	▪ Escalate insights on top risk/opportunity clusters and proposed strategic responses to senior management ▪ Executives and board to use these as input to developing a climate strategy and implementation roadmap ▪ Recommended selection criteria: balancing competitive advantage derived from an initiative against the resources required to develop/strengthen the requisite capabilities
9. Review and iterate	▪ Who will monitor early warning indicators and/or other breaches of materiality thresholds? ▪ What is the chain of escalation?	▪ Monitor critical early warning indicators (esp. those that signal scenarios where project/segment/sector/portfolio indicators breach materiality thresholds). ▪ Iterate on indicators and/or initiatives based on learnings and feedback ▪ Expand scenario coverage as internal capacity grows ▪ Update scenarios in tandem with major evolutions in the climate risk landscape