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Op Ed

Hurricane Melissa: A Wake-Up Call for a Financial System Facing a New Climate Reality?

Bridgetown, Barbados – May 1, 2026 -- Hurricane Melissa remains a defining event for the Caribbean and demands a rigorous reassessment of climate-related risk. The storm damaged infrastructure, disrupted financial services, and exposed how climate shocks now move rapidly through economic and financial systems. While Caribbean economies confront these impacts directly, international regulatory developments reinforce the conclusion: climate risk now sits at the core of financial stability.

Regulatory action abroad reflects this shift from treating climate risk as a peripheral concern. Although the Securities and Exchange Commission withdrew its defence of a climate-related disclosure rule in the United States, European authorities moved to strengthen enforcement. Within the last six months, two European banks Abanca in Spain, and Crédit Agricole in France, faced consequences for respectively failing to assess material climate and environmental risk and for failing to identify climate exposure. The Bank of England reinforced this trajectory through a supervisory statement that strengthened climate-risk expectations for banks and insurers. These actions rest on a shared premise: crystalised climate risk can destabilize financial systems and trigger cascading failure, sometimes described as a climate Minsky moment.

Proactive climate-risk management offers a clear alternative. Institutions that anticipate environmental shocks and embed them into strategy reduce exposure to sudden disruption. This approach also counters the, so called, grey rhino problem, where decision-makers acknowledge obvious threats, such as Caribbean hurricanes, yet underestimate financial consequences until disruption reaches crisis scale.

Environmental and Climate Risk in Context

Global environmental risk assessments underscore a growing sense of urgency. The World Economic Forum's *Global Risks Report 2026* ranks environmental risk as the most severe long-term global threat, highlighting escalating pressure on natural systems and intensifying climate impacts. For more than a decade, international standard-setting bodies—including UNEP FI, the Bank for International Settlements, the Financial Stability Board, and central banks—have warned that climate forces increasingly shape financial outcomes.

Environmental risk spans pressures such as ecosystem degradation, water stress, deforestation, pollution, and biodiversity loss. Climate risk represents a distinct subset of environmental risk linked directly to climate change and the transition toward a low-carbon economy. Risk practitioners commonly frame climate risk through two channels.

The first, channel, physical climate risk, arises from both sudden events and gradual change. Hurricanes, floods, extreme heat, and wildfires cause immediate damage, while rising temperatures, sea-level rise, prolonged drought, and coastal erosion steadily reshape asset values and economic activity. The second, channel, transition climate risk, emerges from policy reform, technological change, market repricing, and legal developments required to support decarbonization. Together, these forces alter costs, revenues, and balance-sheet strength across sectors.

Intensifying Hurricanes and Scientific Evidence

Scientists continue to debate changes in hurricane frequency across the Caribbean. Evidence, however, points toward stronger storms. Long-running research from Colorado State University shows a marked rise in Category 4 and 5 hurricanes across the North Atlantic and Caribbean, including three Category 5 storms in 2025 alone.

Researchers link this intensification to warmer ocean temperatures and higher atmospheric moisture, conditions that favour rapid strengthening and extreme wind speeds. These trends have revived debate over the Saffir–Simpson scale itself. Some meteorologists argue the scale no longer captures the destructive power of today's strongest storms and propose adding a Category 6 designation for hurricanes that exceed the scale's original design limits.

Hurricane Melissa sharpened that debate. When the storm struck Jamaica in 2025 with sustained winds near 185 miles per hour, firmly in the threshold for Category 5, re-igniting dialogue on existing classification frameworks. Post-event scientific analysis by Professor Michael Taylor, Director of the University of the West Indies (UWI) Climate Studies Group and The Grantham Institute confirmed that climate change amplified Melissa's wind speeds and rainfall across the region.

Financial Stress After Hurricane Melissa

As physical and transition risks intensify, financial system resilience moves to the forefront. Financial institutions must absorb climate shocks while continuing to provide essential services. Hurricane Melissa illustrated this challenge with unusual clarity.

The storm caused immediate operational disruption. Flooded bank branches and data centres impaired transactions, destroyed automated teller machines, and restricted access to cash. These localised failures quickly escalated into broader financial impacts. Governments faced rising reconstruction costs and increased sovereign risk. Banks holding government debt absorbed higher exposure while borrowers struggled with income loss, property damage, and widening insurance gaps.

Early estimates from the World Bank and the Inter-American Development Bank placed physical damage near US$8.8 billion, roughly 41 percent of Jamaica's 2024 gross domestic product. This scale of loss signals persistent macro-financial pressure rather than a short-lived shock. Asset destruction marks only the first stage. Fiscal strain, credit deterioration, and weakened investment extend the impact long after the event itself.

These dynamics explain the growing emphasis on climate risk within financial supervision. Basel Committee principles for managing climate-related financial risks and the Financial Stability Board's analytical framework on climate-risk transmission guide institutions in tracking how climate shocks affect credit quality, collateral values, liquidity, market pricing, and sovereign–bank feedback loops.

Balance-Sheet Effects and Stranded Assets

Climate shocks transmit directly into financial balance sheets. They depress asset values, raise default probability, and amplify liabilities. Development bank assessments show Hurricane Melissa's damage concentrated across residential buildings, infrastructure, and commercial property, illustrating how rapidly physical climate events erode asset values across an economy.

Stranded assets represent a critical transmission channel. The Global Association of Risk Professionals defines stranded assets as assets that suffer unexpected material write-downs, lose economic value, or turn into liabilities due to climate impacts, regulatory change, or market shifts. After major storms, buildings and infrastructure often lose usability, generate less income, or require costly rehabilitation. These outcomes weaken collateral, impair credit quality, and strain capital adequacy.

Institutional and Regional Response

Financial institutions worldwide face similar pressures and increasingly respond through structured climate-risk approaches. Leading banks integrate physical and transition risks into enterprise risk frameworks and internal capital assessments. Credit analysis increasingly assesses climate exposure, while scenario analysis aligned with Network for Greening the Financial System pathways tests portfolios against alternative climate futures.

Supervisors across the Caribbean signal comparable expectations. Regulators increasingly ask banks to embed climate and environmental risks into standard risk-management practices, recognizing that impacts transmit through borrower stress, asset impairment, market repricing, operational disruption, liquidity pressure, and insurance availability.

Governments across the Caribbean have also taken concrete steps to manage climate exposure. Territories where CIBC Caribbean operates participate in the Caribbean Catastrophe Risk Insurance Facility, which spreads disaster risk across member states. Several governments issue blue and green bonds, develop climate data systems, map flood-prone areas, and strengthen building and energy-efficiency standards.

Within this environment, CIBC Caribbean applies an iterative approach to climate and environmental risk management. The framework aligns with global standards and regulatory expectations while addressing regional hurricane exposure. Credit assessments incorporate climate considerations, and NGFS-based scenario analysis captures both physical hurricane risk and transition dynamics. Dedicated monitoring tracks stranded-asset exposure and supports forward-looking decision-making, particularly in tourism-dependent economies vulnerable to climate shocks.

Forward-Looking, Grounded Optimism

Hurricane Melissa is a reminder of how climate risk permeates financial systems, balance sheets, and economic stability. Regulators, governments, and financial institutions increasingly recognize that climate risk demands timely and appropriate action, disciplined analysis, and continuous management. Institutions that respond with foresight can help to strengthen resilience, limit systemic stress, and protect financial stability in an era of intensifying storms and growing uncertainty. Ultimately, for climate risk management to be successful it has to be embedded in design and in systematic solutions that involve those beyond the boundaries of the financial sector. We hope all vulnerable to climate events across the region answer this wake-up – institutions, individuals and governments – to energize and sustain the necessary actions to build climate resilience.

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CIBC Caribbean

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