

Climate Change and the Financial Sector



New sense of urgency, public awareness shaping expectations

- IPCC reports confirm human influence on climate, document ongoing impacts on the natural and human environment, and forecast major consequences to come
- Stern Report, IPCC, and other reports show emissions rising and R&D declining -- but economic and technologically feasible mitigation opportunities exist
- California Governor Schwarzenegger: *We need "legislation to fight global warming . . . setting very tough goals with a cap in place like we have done in California. . . What we do [in California] will have such an unbelievable influence on the rest of the globe."*

Disclosure and accounting

- Identifying and reporting greenhouse gas emissions is increasingly fundamental to sustainability reports
- Carbon Disclosure Project questionnaire of 2400 largest companies by market cap on behalf of 284 institutional investors with total assets of \$41 trillion, initial circulation to emerging market companies
- Legal requirements for disclosure of “material risk” may be triggered
- IFC Performance Standards apply to emissions of 100,000 tons CO2 equivalent per year, about 7 percent of investments during past 12 months

Climate Response Policy risk

- Aggressive new climate policies increasingly likely, potentially large impact on carbon intensive portfolios (e.g., coal sector, utilities, railroads)
 - Environment for policy process evolving rapidly, e.g., serious regulatory proposals and state legislation in Australia, Canada, U.S. (e.g., Boxer bill)
- Within sectors, relative risk varies and will be differentiated by the market

Risks of climate change to investments

- Insurance losses due to weather related events at record levels (exceeding 9/11) premiums and coverage already undergoing substantial revision
- Agriculture, water systems, and coastal properties most obviously at risk
 - Kenya tea ex: change in timing of rainfall reduced production 20 percent
- New science needs to be integrated with financial models to allow better evaluation of investments most at risk – IFC initiating pilot studies

Opportunities to Partner with IFC

- Carbon delivery guarantees, financial instruments for continuity post-2012, premium carbon avoidance products (\$20 billion market and growing)
- Financing clean energy investments
 - Huge untapped opportunities in emerging market banking
 - Sector approaches in energy intensive industries (cement, primary metals)
- Developing methods for evaluating financial risks of climate change
- Renewables and carbon capture and storage attracting major investment with enormous growth opportunities