

Sustainable Banking Network (SBN)

Climate Risk Management Pillar

SBN Webinar

January 2021





Climate change and the management of climate risk is an urgent global priority

- Physical and transition risks and impacts from climate change can lead to major economic and financial disruption and losses
- Momentum is building behind international good practices and standards for climate risk management, in addition to net zero targets / commitments
- Now is an opportune time to harness SBN's unique peer learning and benchmarking model to *accelerate* development of climate risk management approaches, and *unlock* sustainable finance opportunities
- SBN will continue to play a leading role and bring emerging market perspectives and regional innovation to global approaches to climate risk

SBN progress on Climate Risk Management



Excerpts from the SBN Global Progress Reports in 2018 and 2019



A major gap exists within the sample 15 countries when it comes to climate risks. Climate risks are yet to be subject to a dedicated strategy, or a given focus, in E&S risk management in most national policies or principles. None of the policies ask FIs to develop a climate strategy, although many members acknowledge their national climate change can affect financial markets. In terms of carbon risks, only two countries have requirements on monitoring carbon risk of FIs' portfolios. In the future, the measurement framework will include climate reporting requirement based on the work of FSB Task Force on Climate-related Financial Disclosures (TCFD).



Assessment of climate risk exposure is increasingly encouraged by SBN members, although operational guidelines are lacking. A limited but growing number of SBN countries ask FIs to monitor climate risk

More work is urgently needed to enable financial market players to understand and manage both physical and transitional climate-related risks. The World Bank is piloting an assessment module of climate change and environmental risks as part of the Financial Sector Assessment Program (FSAP). Global initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Network for Greening the Financial System (NGFS), could provide much-needed technical resources for emerging markets.

- The 2018 and 2019 SBN Global Progress Reports captured approaches to climate risk and signaled the intention to accelerate these efforts due to **the urgency of climate change** and the financial sector's response. In the 3rd Global Progress Report (2021), **Climate Risk Management** is a standalone Pillar of the SBN Measurement Framework
- SBN member's nationally appropriate sustainable finance frameworks policies, strategies, regulations, and guidelines may include climate risk as part of an ESG framework, or as a stand-alone framework, or in multiple frameworks
- For the **2021 Global Progress Report**, SBN members can report policy and regulatory information on climate risk from any relevant SF framework, as applicable

Climate Risk Management – Physical and transition risks & impacts



More than 190 countries have signed the **2015 Paris Agreement** to limit average global temperature rises to 1.5 – 2 degrees C

Physical risks of climate change: increasing severity/frequency of extreme weather events (e.g., heat waves, floods) and longer-term climate shifts (e.g., sea level rise) resulting in economic and financial disruption and business losses ¹



- Agriculture/forestry product sectors are vulnerable to limitations imposed across supply chains from **changes to habitats and ecosystem services resulting from climate change** as well as drought, flooding, wildfires and storms.
- Hydroelectricity and other water dependent industries (e.g., farming, food processing, textiles and garments) vulnerable to a **lower precipitation levels and impacts to water quality** compounded by competing water demands (social and ecological).
- Industrial operations, infrastructure or real estate situated in low lying areas close to coastlines, rivers or floodplains, may experience disruption to operations, physical damage and community health and safety impacts in **flooding** incidents.
- Workforces in hot climates requiring outside work (e.g., agribusiness, construction or mining) susceptible to heat stress from **extreme hot weather**.
- Capacity to safely transport resources and goods limited by low precipitation and **extreme weather patterns**.

Transition risks of climate change: major policy, legal, technology, and market changes as economies and the financial sector adjust to a lower carbon / net zero status, impacting the economy and financial asset values

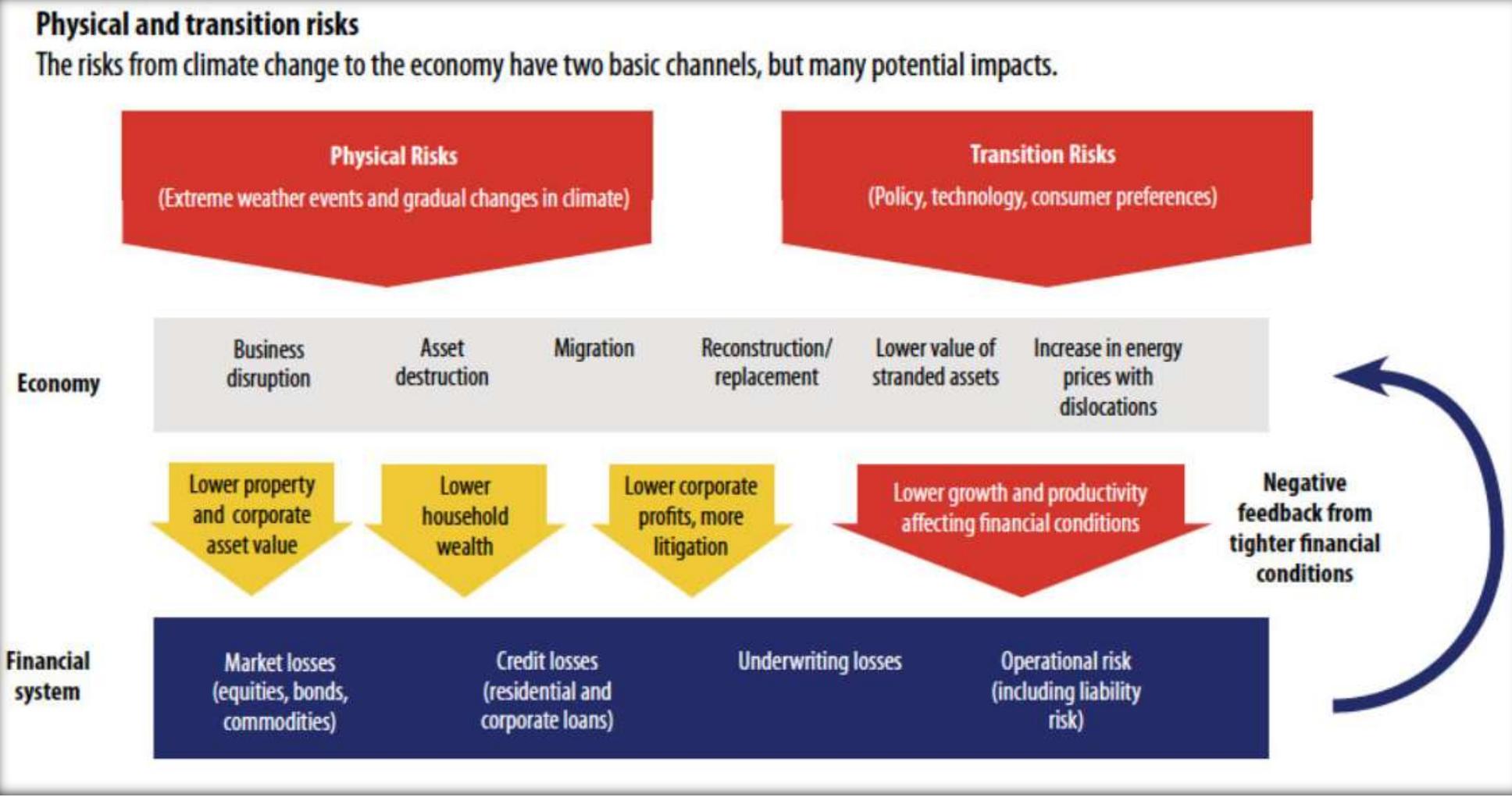
- Policies/regulations to address climate changing and changing market preferences may result in stranded assets, business disruption, and reduced financial valuations: e.g., energy sector policies to reduce GHG emissions; forestry / agribusiness / sector policies related to reduce water use, land conversion, and protect ecosystems (including protection of carbon sinks)
- Low carbon / clean technology adoption may impact existing industries via rapid changes in competitive landscape

Climate Risk Management – Climate related economic/financial sector risks



Without action to reduce emissions average global incomes may fall by up to a quarter by 2100; financial value at risk could be up to 17% depending on temperature rise; stranded assets could exceed USD 20 trillion across a broad range of sectors ²

SBN sustainable finance frameworks can drive positive action from the regulatory level to financial intermediaries to the real sector



Note: See Annex (Slide 8) for a more detailed view of climate related risks and impacts in economic and financial sectors

Climate Risk Management – Momentum for financial sector action



- **Global approaches to climate risk management / disclosure are gaining traction at all levels**
(Via international networks, banking associations, and at the financial institution-levels)



- **Task Force on Climate-related Financial Disclosure (TCFD):** 1,440 organizations; market cap ~ \$12.6 trillion ³
- **Network for Greening the Financial System (NGFS):** 72 members (14 of which are SBN countries) ⁴
- **NGFS:** Guidance for Supervisors, macro-economic / financial analysis ⁵; **TCFD:** Disclosure guidance for financial sector ⁶
- **UNEP FI:** Pilot Projects on Implementing the TCFD Recommendations for Banks ⁷
- **Equator Principles :** Climate risk assessment (physical and transition risks) at project-level in (Equator Principles IV) ⁸
- **FI-level actions:** Morgan Stanley first U.S. bank to join Partnership for Carbon Accounting Financials (PCAF) ⁹

- **Central banks / regulators / financial supervisors are building on voluntary approaches**



- **Central Bank of Philippines:** Sustainable Finance Framework banking regulation incorporating climate risk management ¹⁰
- **Central Bank of Brazil:** Launched "Sustainability dimension" to embed green / climate issues into policies and supervision ¹¹
- **Central Bank of Mexico:** Climate and Environmental Risks and Opportunities in Mexico's Financial System (2020) ¹²
- **China: CBIRC, PBOC, CSRC, MEE and NDRC:** Guidance Note on Promoting Climate Change Finance (2020)
- **South Africa Treasury:** Financing a Sustainable Economy (joint regulator-industry roadmap for green/climate risk) (2020) ¹³
- **Colombia Fin. Reg:** Developing climate risk approaches for banking & pension funds; stress testing; taxonomies (w/WB/IFC)
- **Bank of England:** PRA issued climate risk supervisory expectations for implementation by UK banks by 2021 ¹⁴
- **European Banking Authority / ECB / EC Commission** developing guidance on climate stress testing/climate risk disclosure ¹⁵
- **New Zealand** (September 2020): introducing mandatory climate disclosure law (TCFD-based) for financial sector (2023) ¹⁶

Climate Risk Management – Opportune time for SBN engagement



Climate risks and impacts can be minimized through early and orderly actions



- At the national framework level, climate risk management positions SBN members to deepen nationally appropriate frameworks and improve readiness of economy and financial sector to manage climate change risks
- At the FI-level, effective climate risk management can ‘protect the balance sheet from uncertainty’: McKinsey analysis of 46 EU banks showed that, at any one time, around 15% carry increased risk from climate change ¹⁷

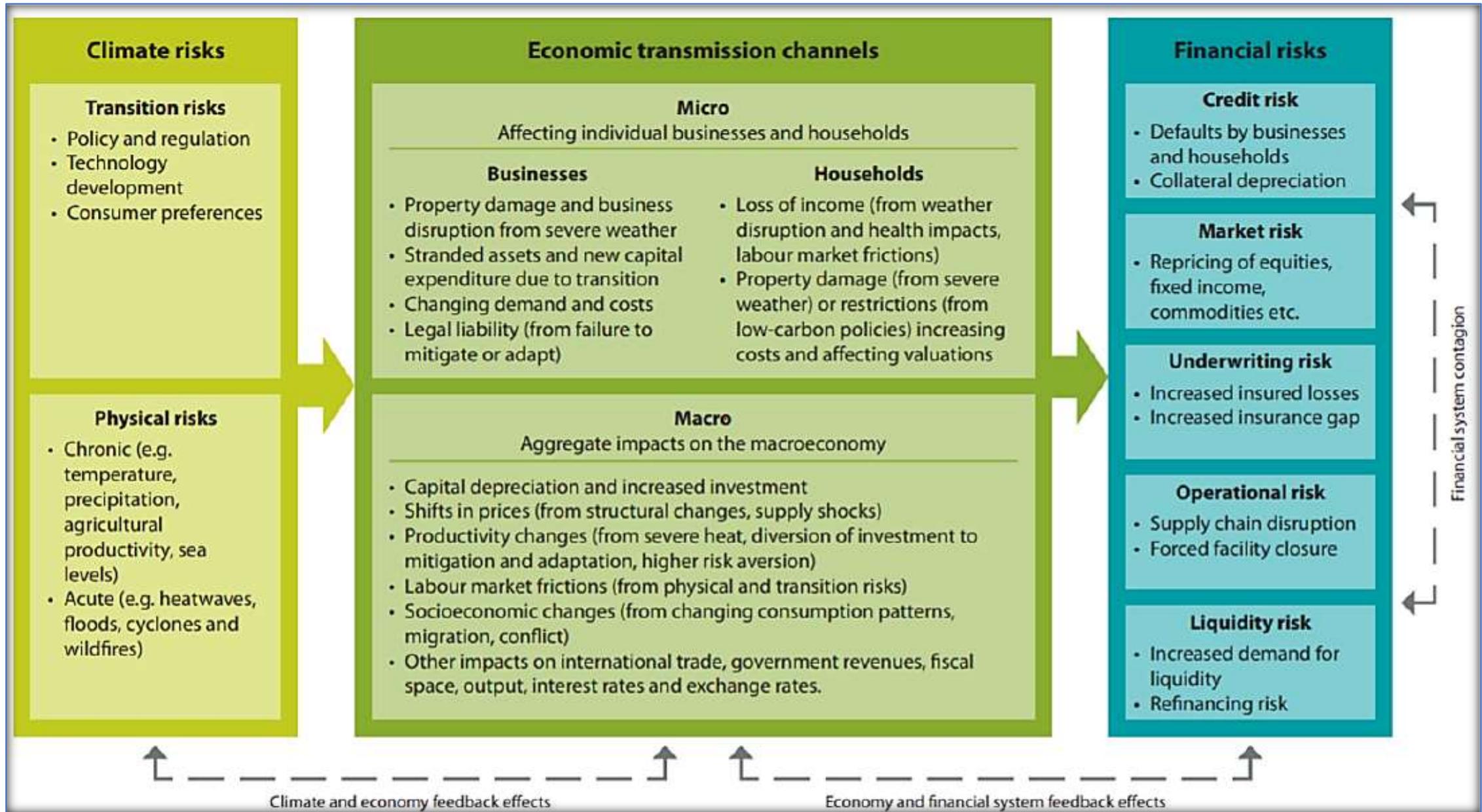
SBN’s benchmarking and knowledge sharing / collaboration approach accelerates framework development

- Strategic alignment with national and international goals and strategies for climate change and climate risk. SBN can continue to play a leading role and bring emerging market perspectives and regional innovation to global approaches to climate risk (e.g., NGFS, TCFD)
- Regulatory and industry association actions for financial sector strategy, governance, risk management / technical guidance, supervision activities and disclosure elements of climate risk management
- Expectations for financial intermediary (FI) actions for governance, organizational structure and capacity, policies and procedures, and reporting elements of climate risk management approaches by FI(s)

Climate risk management unlocks sustainable finance opportunities across sectors

- Buildings  Industry  Transport  Energy  Agriculture / Forestry / Waste 

OECD: USD 90 trillion in global investment needed to finance low carbon, net zero transition) ¹⁸



Climate Risk Management – References



▪ Slide 4

1. Examples drawn from Equator Principles IV, Guidance Note on Climate Risk Assessment

<https://equator-principles.com/documents-resources/>

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▪ Slide 5:

2. Network for Greening the Financial System (NGFS). First Comprehensive Report: A call for action Climate change as a source of financial risk. April 2019. Pgs. 13, 14, and 17.

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Figure from Grippa et al. Climate Change and Financial Risk. IMF Finance and Development Vol 56, No.4 (December 2019):

<https://www.imf.org/external/pubs/ft/fandd/2019/12/climate-change-central-banks-and-financial-risk-grippa.htm>

▪ Slide 6:

3. Task Force on Climate-Related Financial Disclosures (TCFD): <https://www.fsb-tcfd.org/tcfd-supporters/>

4. Network for Greening the Financial System (NGFS): <https://www.ngfs.net/en/about-us/membership>

5. Network for Greening the Financial System (NGFS): Guide for Supervisors: integrating climate-related and environmental risks into prudential supervision

<https://www.ngfs.net/en/guide-supervisors-integrating-climate-related-and-environmental-risks-prudential-supervision>

▪ NGFS. Technical supplement to the First comprehensive report: Macroeconomic and financial stability Implications of climate change. (July 2019).

▪ https://www.banque-france.fr/sites/default/files/media/2019/08/19/ngfs-report-technical-supplement_final_v2.pdf

6. Task Force on Climate-Related Financial Disclosures. <https://www.fsb-tcfd.org/publications/>

▪ Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures

▪ Annex: Implementing the Recommendations of the TCFD

▪ Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities



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- **Slide 6 (continued)**

7. UNEP FI: Pilot Projects on Implementing the TCFD Recommendations for Banks

<https://www.unepfi.org/banking/tcfid/>

8. Equator Principles IV. Implemented October 1, 2020.

- Climate risk assessment requirements (physical and transition risks at project-level) included in Principle 2: Environmental and Social Assessment, and Annex A: <https://equator-principles.com/wp-content/uploads/2020/05/The-Equator-Principles-July-2020-v2.pdf>
- Guidance Note on Climate Risk Assessment: https://equator-principles.com/wp-content/uploads/2020/09/CCRA_Guidance_Note_Ext_Sept_2020.pdf

9. Bloomberg. Morgan Stanley to Show How Loans Contribute to Climate Change. July 20, 2020:

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Partnership for Carbon Accounting Financials:

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10. Central Bank of the Philippines. Sustainable Finance Framework:

<http://www.bsp.gov.ph/downloads/regulations/attachments/2020/c1085.pdf>

11. Central Bank of Brazil: Sustainability Dimension:

<https://www.bcb.gov.br/estabilidadefinanceira/sustentabilidade>

12. Central Bank of Mexico: Climate and Environmental Risks and Opportunities in Mexico's Financial System:

https://unepinquiry.org/wp-content/uploads/2020/05/Climate_and_environmental_risks_and_opportunities_in_Mexicos_Financial_System.pdf

13. South Africa National Treasury: Financing a Sustainable Economy.

<http://www.treasury.gov.za/publications/other/Sustainability%20technical%20paper%202020.pdf>



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- **Slide 5 (continued)**

14. Bank of England:

- BoE's PRA issued supervisory expectations in 2019 (TCFD-based), with full implantation by UK firms by 2021
- <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.pdf?la=en&hash=7BA9824BAC5FB313F42C00889D4E3A6104881C44>
- <https://www.bankofengland.co.uk/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change>

Other Bank of England resources:

Assessment using TCFD of BoE's own climate risk management and lending (June, 2020)

<https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/climate-related-financial-disclosure-report-2019-20.pdf?la=en&hash=5DA959C54540287A2E90C823807E089055E6721B>

BoE's Climate Financial Risk Forum: <https://www.bankofengland.co.uk/climate-change/climate-financial-risk-forum>

BoE's 2021 Biennial Exploratory Scenario to explore financial risks of climate change:

<https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper>

15. European Banking Association: <https://eba.europa.eu/financial-innovation-and-fintech/sustainable-finance>

- European Commission: Report on Climate-related Disclosures: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190110-sustainable-finance-teg-report-climate-related-disclosures_en.pdf
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- https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/climate-related_risks/ssm.202005_draft_guide_on_climate-related_and_environmental_risks.en.pdf

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- **Slide 7:**

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- <https://www.mckinsey.com/business-functions/risk/our-insights/banking-imperatives-for-managing-climate-risk>

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- **Annex slide**

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