

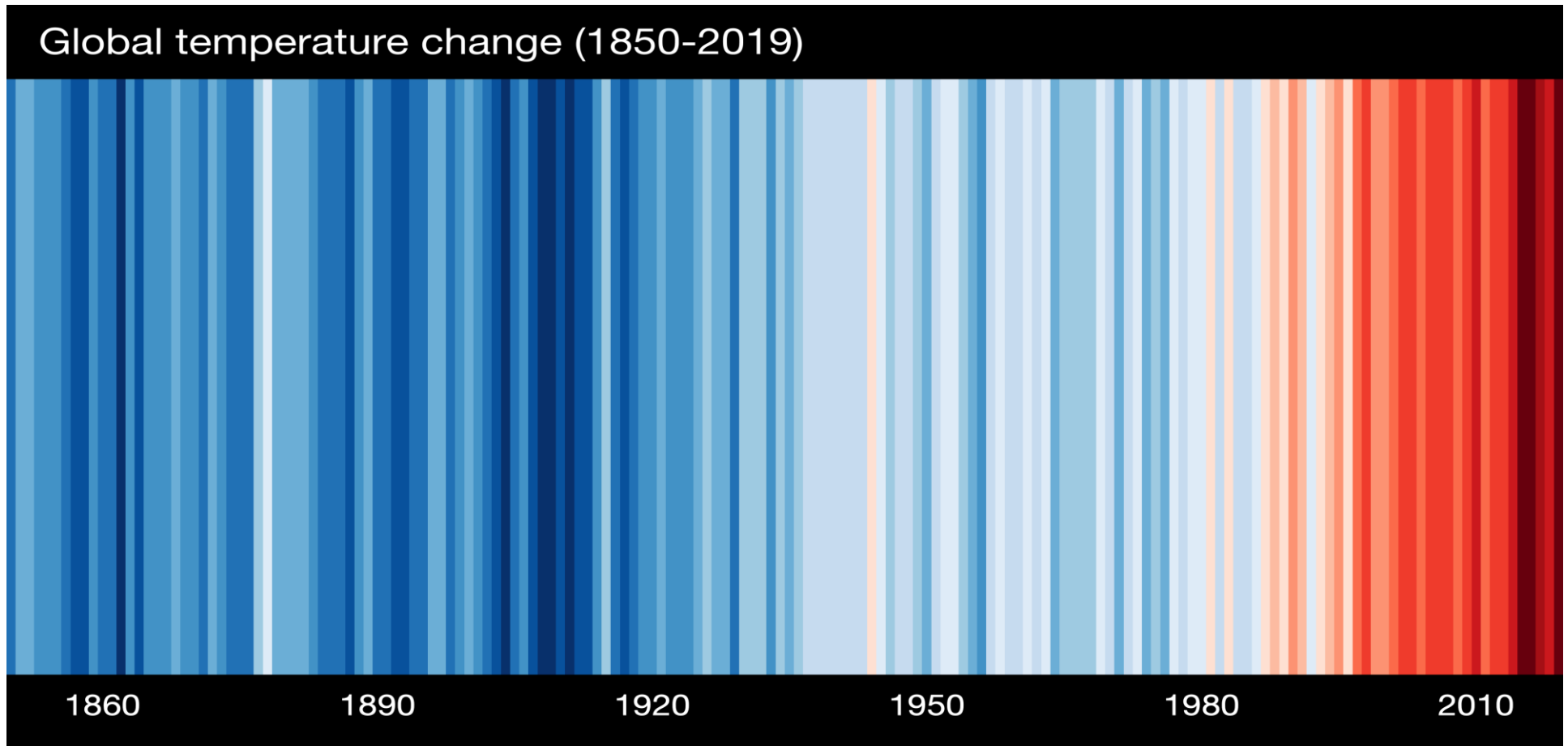
International efforts in greening the financial system – The work of the Network for Greening the Financial System

29. April 2021

Dr. David Döhrmann, Directorate General Markets, Deutsche Bundesbank

A picture is worth a thousand words

Global mean temperatures

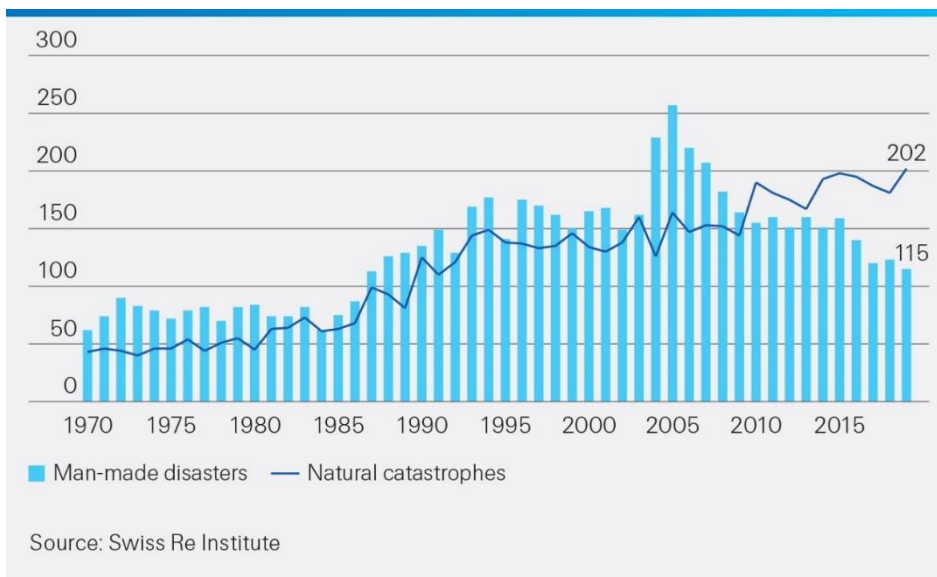


Source: Institute for Environmental Analytics, <https://showyourstripes.info/>

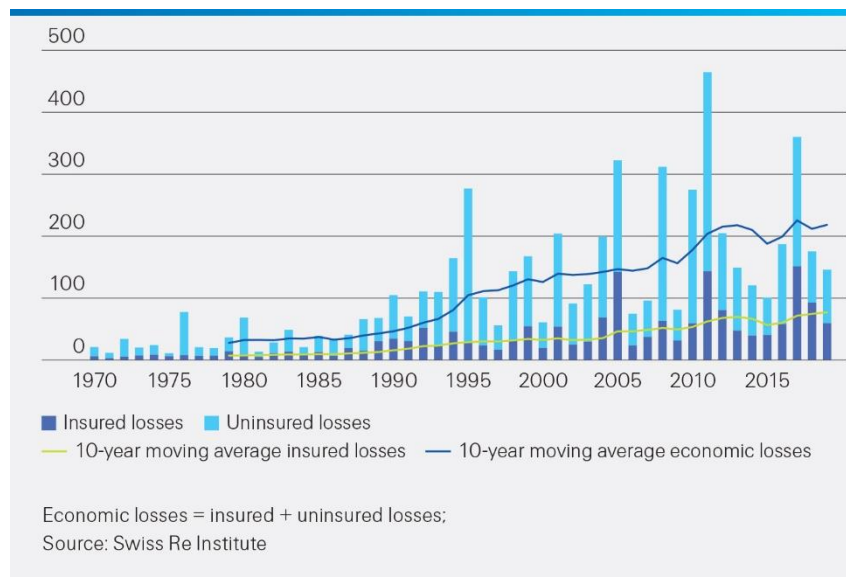
The „tragedy of the horizon“

Number of catastrophic events and associated economic losses

Number of catastrophic events, 1970 - 2019



Economic losses, 1970 – 2019 (USD billion, 2019 prices)

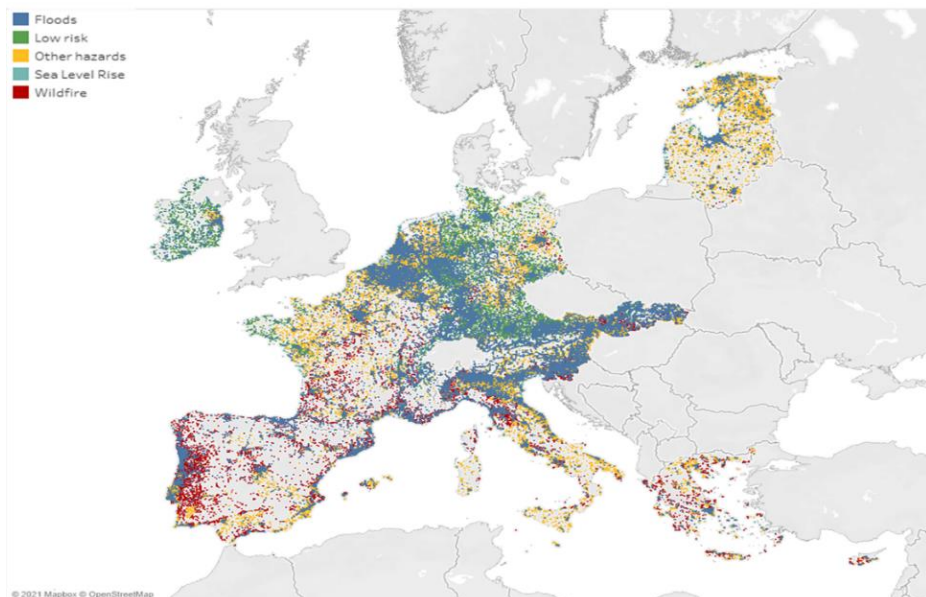


- Despite the overwhelming evidence that climate change is already inflicting staggering damages on our societies, the longer-term horizon of more devastating impacts may discourage policymakers from taking more determined action today.

Physical and transition risk in Europe

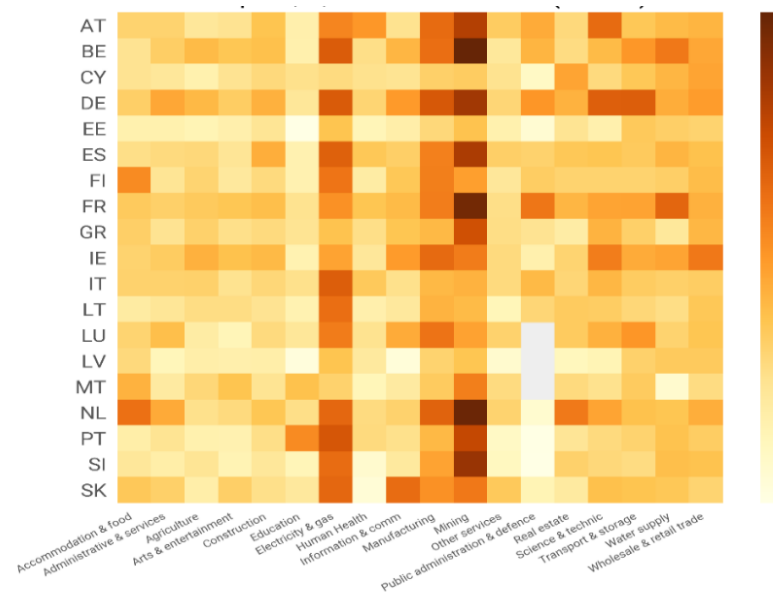
Physical and transition risk for euro area firms

Physical risk intensity



Source: Four Twenty Seven and ECB Calculations

GHG emissions by country-sector



Source: Urgentem and ECB Calculations

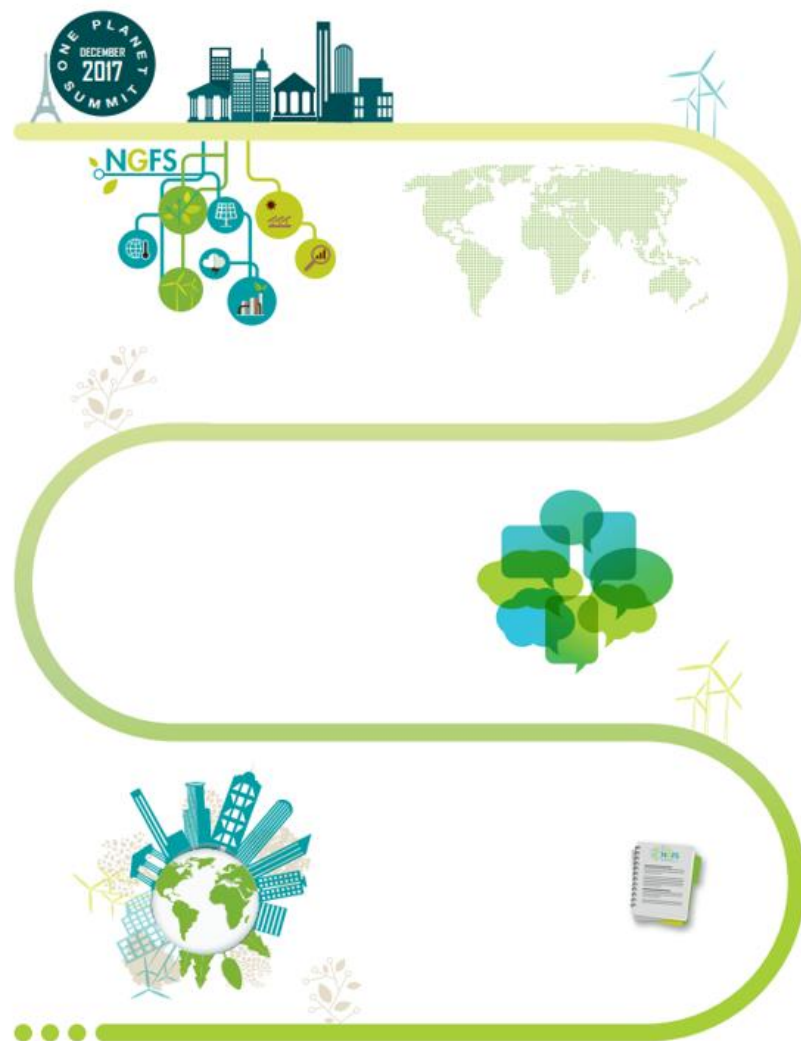
Climate risks are a source of financial risks

Mapping of climate risk categories to traditional financial risk categories

| | Financial risks | | | |
|-----------------|---|--|---|---|
| | Business | Credit | Market | Legal |
| Physical risk | Political and social risks in the aftermath of natural catastrophes | Extreme weather events might impact the solvency of credit users | Market risks on the asset side of the balance sheet of insurance/ financial companies | Uninsurability of risks due to an increase of extreme weather events |
| Transition risk | Reputation risks: Who is financing “dirty” businesses? | Risks resulting from the exposure to concerned economic sectors | Unexpected write downs on stranded assets | Liability: Financial claims as a result of an insufficient disclosure of carbon risks |

Network for Greening the Financial System

A coalition of the willing



- | Paris December 2017 One Planet Summit:
8 Central banks and Supervisors
established the NGFS

- | Today: **90 members** and **13 observers**.
Covering 5 continents.

- | **Coalition of the willing**. Not a Standard
Setting Body.

- | **NGFS members' jurisdictions cover:**
 - Supervision of **100%** of the global
systemically important banks and over **2/3**
of the global systemically important
insurers;
 - Over **75%** of global greenhouse gas
emissions.

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An answer to climate urgency



- | Climate change source of structural change in the economy/financial system with a number of specificities:
 - Far-reaching impact in breadth and magnitude;
 - Foreseeable nature;
 - Irreversibility;
 - Dependency on short-term actions for medium/long term impacts;
 - Non linearity and tipping points.





- | Climate-related risks are a source of financial risk (in particular physical risks and transition risks). It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks.

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The first NGFS comprehensive report sets out 6 recommendations



Central banks and supervisors

- 1. Integrating climate-related risks into financial stability monitoring and micro-supervision.
- 2. Integrating sustainability factors into own-portfolio management.
- 3. Bridging the data gaps.
- 4. Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing.

Policy makers

- 5. Achieving robust and internationally consistent climate- and environment-related disclosure.
- 6. Supporting the development of a taxonomy of economic activities.

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Governance structure



Steering Committee

Chair: Frank Elderson (European Central Bank)

WS1

Microprudential/
Supervision

Chair:

Gek Choo Goh
(Monetary Authority of
Singapore)

WS2

Macrofinancial

Chair:

Sarah Breeden
(Bank of England)

WS3

Scaling up Green
Finance

Chair:

Sabine Mauderer
(Deutsche Bundesbank)

Bridging the Data Gaps

Co-Chairs: Patrick Amis (SSM/ECB) & Fabio Natalucci (IMF)

Research

Chair: Ma Jun (People's Bank of China)

NGFS Plenary

Network for Greening the Financial System

Work programme and deliverables



WS1

Microprudential/
Supervision

Chair:

Gek Choo Goh (MAS)

WS2

Macrofinancial

Chair:

Sarah Breedem (BoE)

WS3

Scaling up Green
Finance

Chair:

Sabine Mauderer (BBk)

Ongoing:

- Overview of environmental risk analysis methodologies
- Risk differentials between green, non-green and brown financial assets
- Guide on integrating climate-related risks into prudential supervision

Past:

- Identified indicators of climate-related financial stability risks
- NGFS research priorities (with WS3)
- Development of NGFS reference scenarios

Ongoing and future:

- Refine and expand the scope of the scenarios

Past:

- Sustainable portfolio management practices

Ongoing and future:

- Climate change impacts on monetary policy
- Central banks' disclosure of climate-related risk
- Market transparency

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Sustainable finance market dynamics: an overview



Key takeaways

There is a need for ...

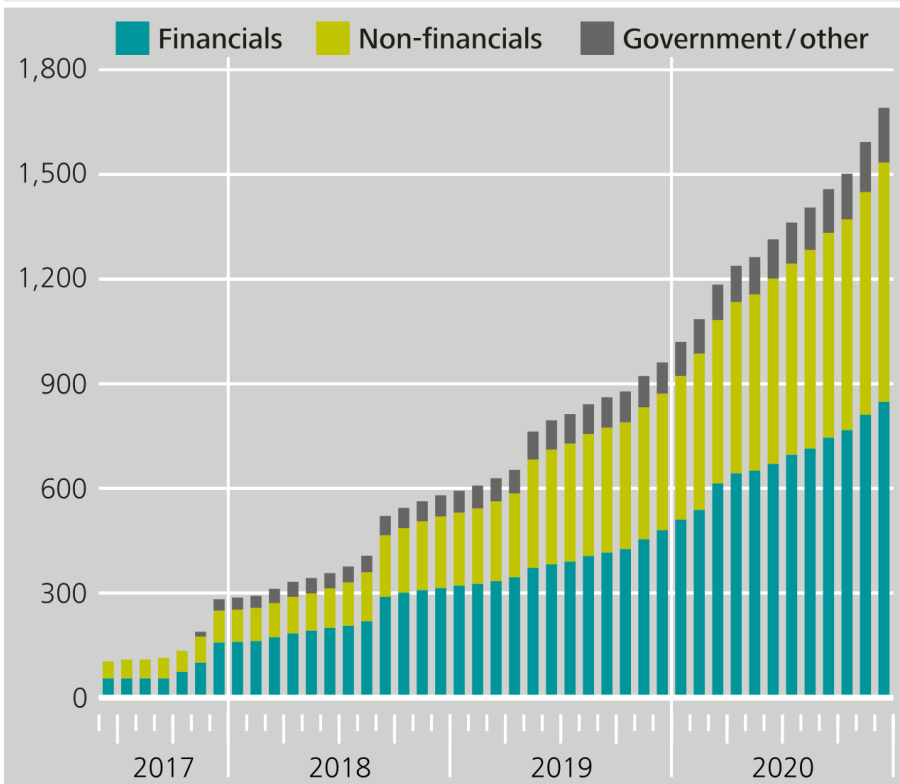
- I **financial authorities** to support: (i) global disclosure frameworks and efforts to establish a comprehensive corporate disclosure standard aligned with the TCFD recommendations; and (ii) the development of a global set of sustainability reporting standards.
- I **multinational financial institutions** to adopt and promote global voluntary sustainability standards and disclosure frameworks in the different jurisdictions in which they operate
- I **credit as well as ESG rating providers** to enhance transparency surrounding their methodologies.
- I **regulators** to require financial institutions to consider material climate and sustainability factors as financial factors. Financially material climate and sustainability factors should be part of the fiduciary duty of asset managers.
- I **national and multilateral development banks** to strengthen their support to mobilize capital towards green investment projects, particularly in developing and emerging markets.

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Sustainable finance market dynamics

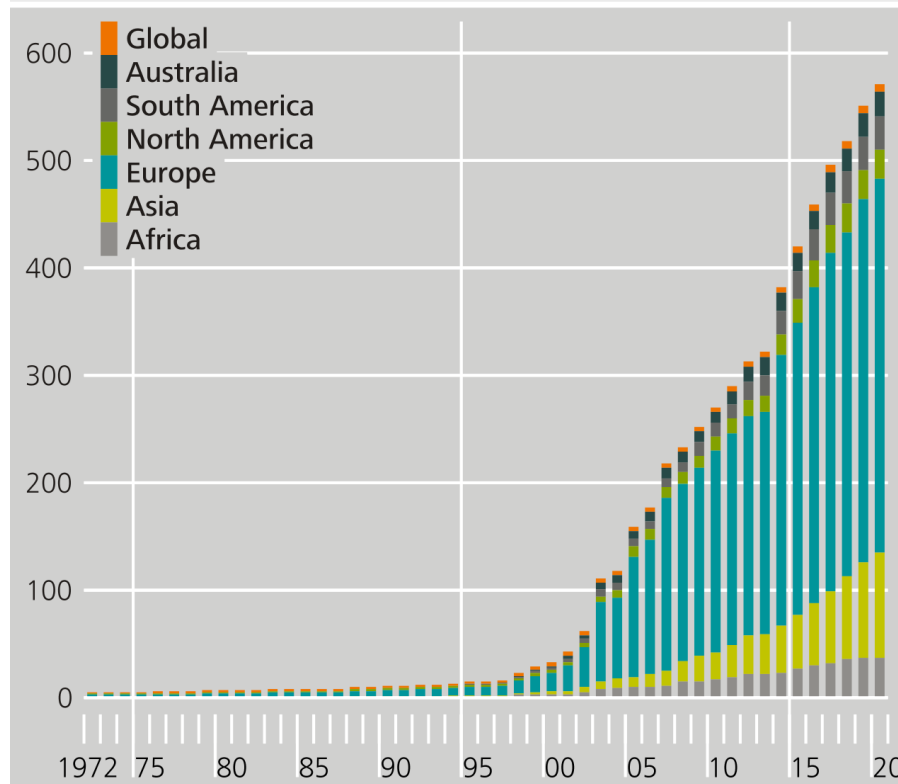


Companies and other organisations committed to supporting TCFD



Source: TCFD.
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Responsible investment-related policy instruments



Source: PRI.
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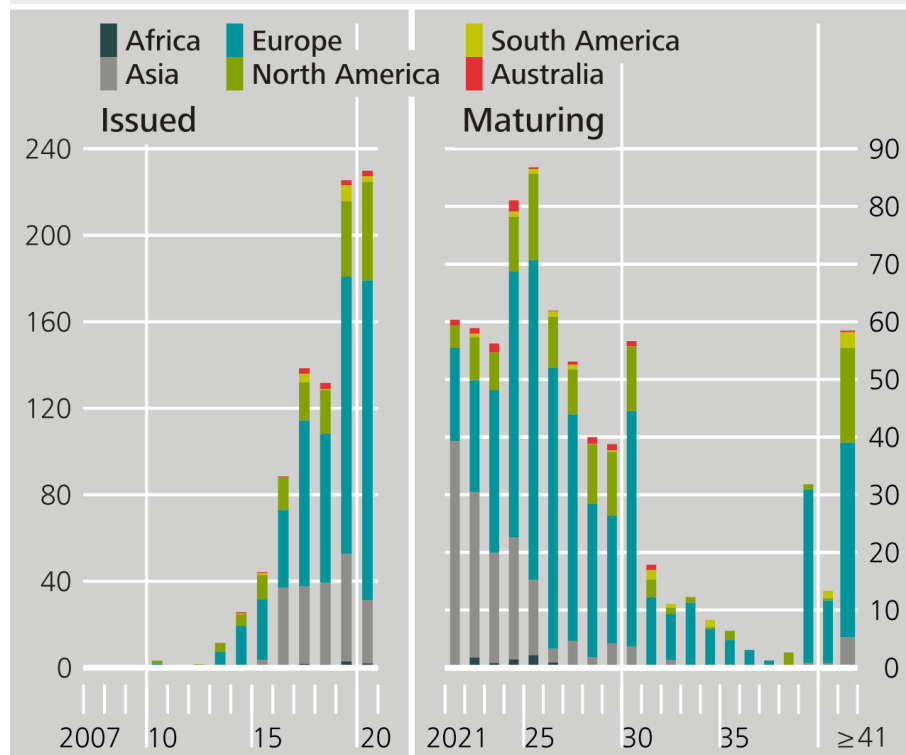
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Sustainable finance market dynamics



Volumes of green bonds issued and maturing: Total*

€ billion



Source: Bloomberg. * Includes non-financial corporations other than utilities and power generation.

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Sabine Mauderer, Deutsche Bundesbank:

“Given the unprecedented challenges posed by climate change, it is not a matter of if we need to scale up green finance, but a matter of how we go about it.”

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Further information



For more details go to
www.ngfs.net/en
www.bundesbank.de/en/bundesbank/green-finance

or to the NGFS Twitter account
@NGFS_