

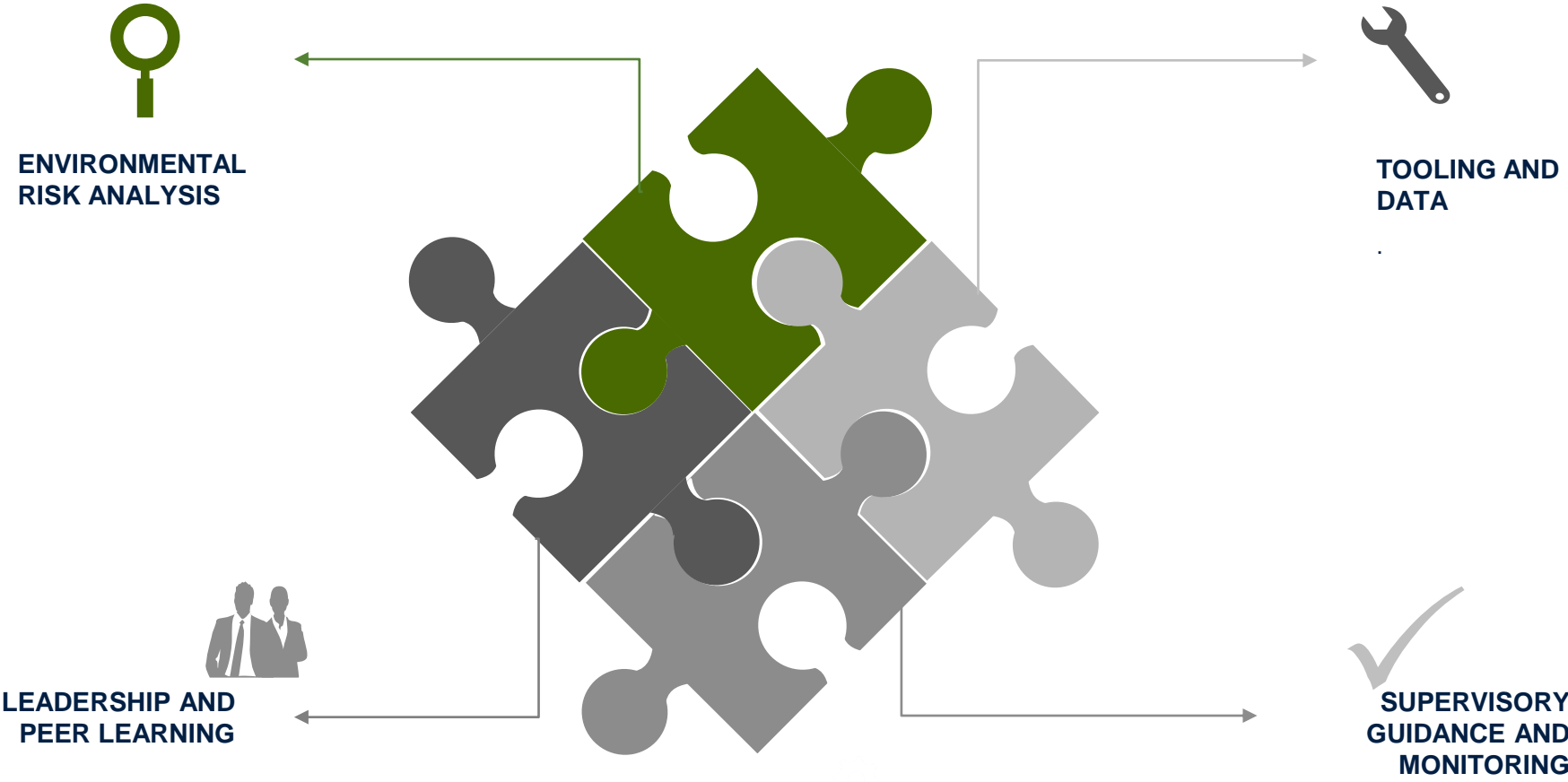
Integrating climate risks in supervision: challenges for emerging markets

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Integrating climate risks in supervision: selection of relevant challenges for supervisors in emerging markets

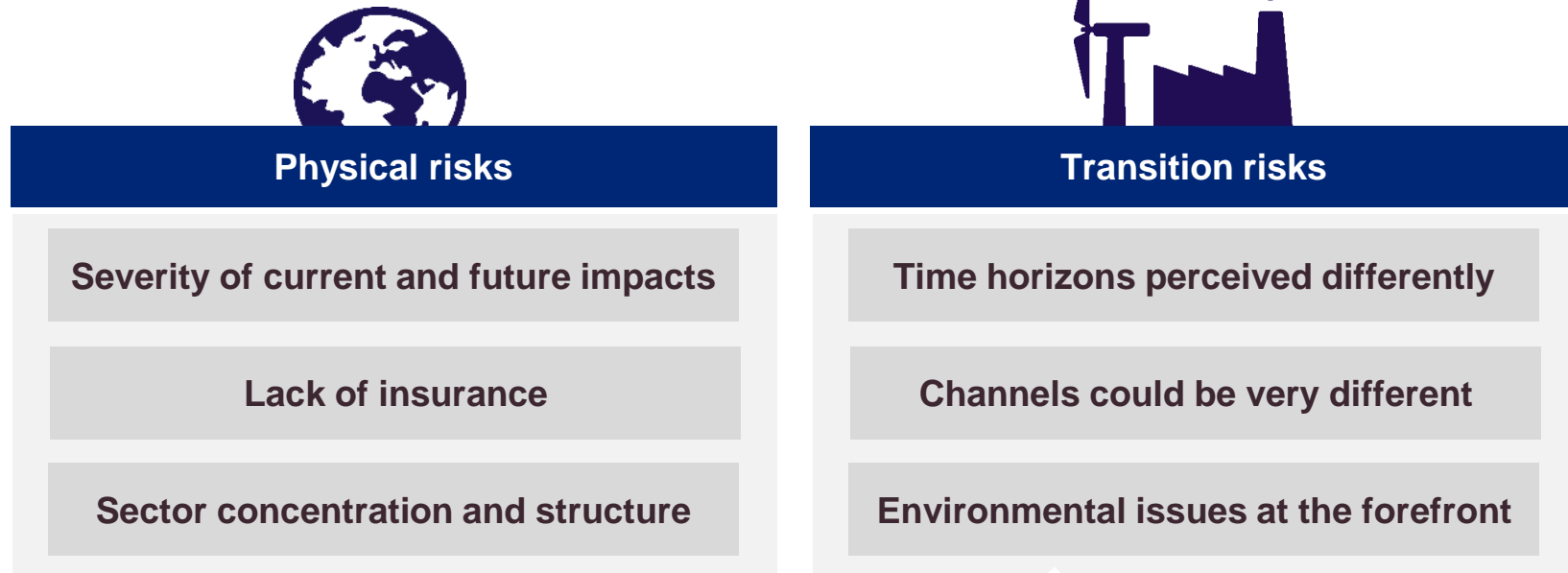




Challenge 1: building a better understanding of climate-related impacts in emerging markets

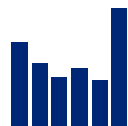
- Front runners, like BoE and DNB have started with assessing risks, building a narrative that helped to get other stakeholders along
- For regulators from developing countries there is a need to better understand the unique ways that local financial sectors can be affected by climate change

Examples of differences in ways that climate risks affect financial sectors





Challenge 2: beef up data collection and build tools to quantify risks



Improving information collection

- Granular geospatial exposure data
- Breakdowns in industry level data sets per asset class
- Information on green / brown assets based on taxonomies and labels
- Relevant credit metrics (terms, NPLs, POD and LGDs)

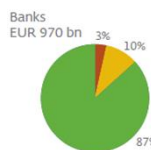


Introducing stress tests

- To quantify risks, macro-level stress test capacity can be developed
- For physical risks this exercise is more straight forward, and a likely starting point
- Defining transition scenario's is a difficult process. Work by networks such as NGFS can help.

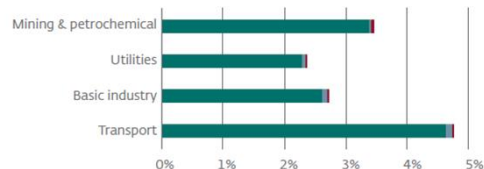
Exposures to carbon-intensive industries

Exposures to carbon-intensive industries as a proportion of assets in sample



■ Mining and petrochemical
■ Other carbon intensive
■ Non-carbon intensive

Exposures broken down by financial sector and asset class

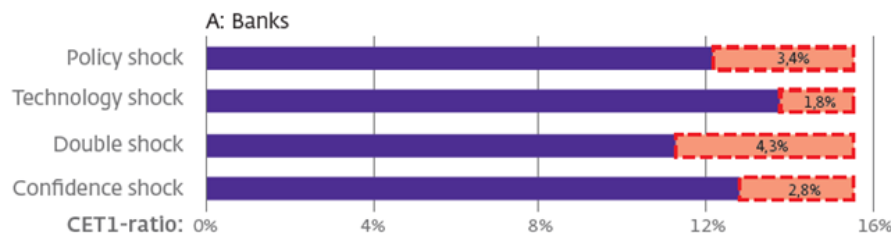


■ Corporate loans
■ Bonds
■ Equity

Source: DNB.

Notes: Other carbon-intensive industries include Utilities, Basic industry and Transport.

Impact on supervisory ratios by sector





Challenge 3: integrating climate risks in sector guidance and supervisory approaches

Progress

- Numerous jurisdictions have introduced E&S guidance on risk management, governance and disclosure, including China, Brazil and Bangladesh

Climate risks

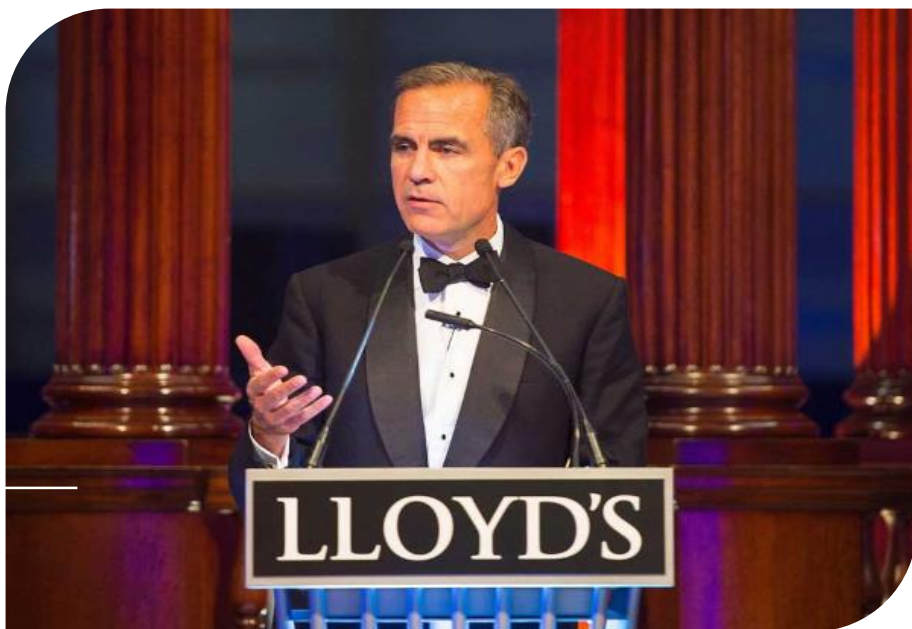
- Climate risks are often not part of such frameworks

Supervision

- To strengthen implementation of guidelines, further integration in supervisory practices, for example through onsite inspections, and supervisory scoring systems is key.
- Emerging discussions on how to better integrate climate risks under BASEL III



Challenge 4: the need for leadership and collaboration



Policies and regulations can be further adjusted to facilitate management of climate risks

EU Action Plan for Sustainable Finance

One comprehensive strategy | Three main objectives | Ten Actions

1  Reorienting capital flows towards sustainable investment

2  Mainstreaming Sustainability into risk Management

3  Fostering transparency and Long-termism

Actions

- 1  Establish EU Sustainable Taxonomy
- 2  Create Standards and Labels
- 3  Foster Investment in Sustainable Projects
- 4  Incorporate Sustainability in Investment Advice
- 5  Develop Sustainability Benchmarks

- 6  Integrate ESG in Ratings and Market Research
- 7  Clarify institutional investors and asset managers duties
- 8  Incorporate sustainability in prudential requirements
- 9  Strengthen Sustainability Disclosure & Accounting
- 10  Foster Sustainable Corporate Governance

The World Bank has piloted climate risk and opportunity assessments in the Financial Sector Assessment Program

Climate Risk and Opportunity Assessments



Identifying **vulnerabilities**



Assessing **supervisory responses**, for banking, insurance, pensions



Identifying solutions to **deepen markets** for green growth

Next steps



Formalizing **methodology**



More **pilots**



Address **knowledge** and **tooling** gaps