Banking System and the Risks of Climate Change

OUR WEBINAR WILL START SHORTLY ...
#MFW4AWEBINARSERIES

OUTLINE

• HOUSEKEEPING
• OPENING REMARKS
• PANELISTS
• PRESENTATION
• Q&A
Today’s session is scheduled to last 1H15 min including Q&A.

To ensure the highest quality of experience, all participants will be muted.

QUESTIONS can be submitted via the “Chat” or “Q&A”.

Slides and a recording of this presentation will be circulated after we conclude. They will also be available on MFW4A.ORG.

Message the organizers for any issues.

Don’t forget to fill out the survey that appears automatically after the session.
PANELISTS

MODERATOR

Mohamed Kalif
Manager
Financial Intermediation & Inclusion Division
Financial Sector Development Department
African Development Bank

PRESENTERS

Mr. Morgan Després
Deputy Director
Financial Stability Department
Banque de France

Ms. Mouhaouri Najwa
Manager
Green Finance Department
Bank Al-Maghrib

OPENING REMARKS

Stefan Nalletamby
Director
Financial Sector Development Department
African Development Bank

Dr. Anthony Nyong
Director
Climate Change and Green Growth
African Development Bank
THE NETWORK FOR GREENING THE FINANCIAL SYSTEM

- Paris Dec. 2017 One Planet Summit: **8 Central banks and Supervisors** established the NGFS.

- Today: **75 members** and **13 observers**. Covering 5 continents.

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

- **NGFS members’ jurisdictions cover:**
  - Supervision of over **3/4** of the global systemically important banks and **2/3** of the global systemically important insurers;
  - Around **60%** of global greenhouse gas emissions.
THE NGFS: 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.
## A call for action

**Climate change as a source of financial risk**

*April 2019*

### 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.
THE NGFS: ORGANISATION OF THE WORK

- **Chair**: Frank Elderson (De Nederlandsche Bank)
- **Chair of the workstream on Microprudential and Supervision**: Zeng Yi Wong (Monetary Authority of Singapore)
- **Chair of the workstream on Macrofinancial**: Sarah Breeden (Bank of England)
- **Chair of the workstream on Scaling up Green Finance**: Sabine Mauderer (Deutsche Bundesbank)
- **Co-chairs of the workstream on Bridging the Data Gaps**: Fabio Natalucci (International Monetary Fund) and Patrick Amis (Single Supervisory Mechanism/European Central Bank)
- **Chair of the workstream on Research**: Ma Jun (People’s Bank of China)
- **Head of the Secretariat**: M. Després (Banque de France)
Since April 2019, the NGFS has been working on practical guides to better equip the community of central banks and supervisors (as a follow-up of the recommendations 1 and 2):

- **Sustainable and Responsible Investment Guide for Central Banks’ portfolio management** (October 2019);

- **Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision** (May 2020);

- **Guide on climate scenario analysis for Central Banks and Supervisors, along with the NGFS climate scenarios** (June 2020).

These guides are valuable tools for learning more about what central banks and supervisors do around the world and encourage knowledge sharing (follow-up of the recommendation 4).
In 2020, the NGFS also released additional instrumental documents which help the NGFS community (and beyond) to better assess climate-related risks:

- Status Report on financial institutions’ experiences from working with green, non green and brown financial assets and a potential risk differential (May 2020);
- Climate change and monetary policy: Initial takeaways (June 2020);
- NGFS Research Priorities (June 2020);
- Overview of Environmental Risk Analysis by Financial Institution (Sept 2020).
NGFS: LOOKING AHEAD

- The NGFS will update several reports published in 2019/2020, to keep track of the initiatives/best practices among its membership.

- The NGFS will also continue to work with a consortium of academic partners to refine and expand the scope of the scenarios and share best practice.

- The NGFS will review and assess potential options to integrate climate-related risks into monetary policy operational framework.

- The NGFS will work on the data and metrics needs (as a follow-up of the recommendation 3):
  - Identifying data items needed for the purpose of climate-related risks’ analysis and the scaling up of green finance;
  - Determining whether the listed data items are available and if so, what are the data sources, and limitations for accessing them.

- The NGFS will further develop its research agenda.
LINKS TO NGFS PUBLICATIONS

- The First NGFS Comprehensive Report (April 2019):

- Sustainable and Responsible Investment Guide (October 2019):

- Guide for Supervisors (May 2020):

- Status Report on financial institutions’ experiences from working with green, non green and brown financial assets and a potential risk differential (May 2020):

- NGFS climate scenarios (June 2020):

- Guide to scenario analysis (June 2020):

- NGFS scenario database (June 2020):

- Climate change and monetary policy: Initial takeaways (June 2020):

- NGFS Research priorities paper (June 2020):

- Overview of Environmental Risk Analysis by Financial Institutions (September 2020):
Banking System and the Risks of Climate Change

Dr. Anthony Nyong
Director of Climate change & Green Growth

7 December 2020
Africa’s Climate Risk Vulnerability

Physical risks of climate change already materializing:

• 2019 Cyclone Idai: $2 billion damage costs, 1,000+ deaths

• 2020 Locust Invasion: 1 million ha of land affected, $138 million assistance (FAO)

• 2020 East Africa Floods: 430 deaths, 700,000 people affected

• Ongoing West Africa Coastal Degradation: flooding, pollution & erosion cost $3.8 billion/year

• $50 b per annum by 2030 (3% of GDP)

Uninsured losses
Insured losses
Moving average total economic losses
Moving average insured losses

The African Region:

- **14% climate-related** (droughts, storms, wildfires, landslide, extreme weather events) disasters of economic losses reported.

- Climate-related disaster losses recorded by low-income countries (27 African countries out of 34) amounted to an average of 1.8% of the GDP ≃ $21 bn and affected about 270 million people.

- Storms cost about 61% of the reported losses in low-income countries.

Recorded economic losses per disaster type: Losses, poverty and disasters report (1998-2015), UNISDR-CRED
Physical Climate Risks to the Financial Sector

**Climate Hazards**
- Temperatures patterns
- Drought
- Precipitations
- Sea Level Rise
- Winds
- Extreme Weather

**Impacts on Financial Sector**
- **Insurance**
  - Premium costs
  - Uninsurable risks
- **Pension/Sovereign Wealth Funds**
  - Investments negatively impacted
- **Banks**
  - Default risks
- **Central Banks**
  - Risk to financial stability
Transition Risks are present across the board:

- Energy Transition/policies
- Climate-related Asset Stranding
- Wasted Capital
- Unsuccessful investment in new technologies

Divestments are increasing:

- MDBs fossil fuel divestment:
  - EIB phasing out all fossil fuel financing after 2021
  - AfDB moving away from coal power
Global Initiatives to Green the Banking System

• Rise of **Environmental, Social, and Governance (ESG) issues** influencing investment decision-making.

• International **bodies** and **standards** created to ensure capital flows **adhere to stated goals** of supporting low-carbon development and climate resilience.

• **Net-Zero Asset Owner Alliance:**
  • $5.1 trillion AUM
  • Aim to transition their investment portfolios to net-zero GHG emissions by 2050

• Network of Central Banks and Supervisors for Greening the Financial System (NGFS),
Getting Africa’s Financial Industry at the Centre of Climate Action

Source: The AFAC Secretariat
Opportunities to Green the Financial Sector

Green Momentum in the Global Financial System

- $35tn
- $11tn
- $502bn
- $208bn

- Real Estate assets at risk in 2070
- Divesture from fossil fuels since 2018
- Impact Investing market size
- Est. green bonds issuance in 2019

The Case for Sustainable Finance in Africa

- $3tn
- $1tn
- $384bn
- $25bn

- NDCs investment requirements to 2030
- Investment potential in SSA cities to 2030
- Renewable energy investment potential to 2030
- AfDB climate finance target for 2020-25
Huge Demand for Climate Impact Investments

Source, IRENA 2019
The Enabling Role of Public Financial Players

Central Banks & Regulators
- Establish banking stress tests and standards of due diligence for banks and Financial Institutions accounting for climate risks
- Require investors to include sustainable aspects in their financial disclosure

Government Institutions
- Define green & climate finance as policy priorities
- Ensuring that Climate Change requirements are reflected in budget pricing policies & financial market rules

IFIs
- Provide innovative instruments to develop green markets
- Use risk screening and shadow prices to make investment decisions
The Enabling Role of Private Financial Players

Rating Agencies/Stock Exchanges
- Factor climate-related risks into **credit worthiness assessments**
- Issue climate-related risks **disclosure guidance** for listed companies
- Conduct **green bonds assessments** or list green bonds on stock markets

Banks
- **Mainstream green finance** in the banking system, such as **priority lending requirements** and below-market rate finance via **interest-rate subsidies**

Institutional Investors
- **Invest** in low-carbon and climate resilient projects
- **Influence** investee companies' decision-making
The African Financial Alliance on Climate Change (AFAC)

Objective: mobilize the main financial sector owners and purveyors of capital to support the deployment of green finance for climate action in Africa.

Strategic Activities/ Benefits

Knowledge-Sharing and Awareness building

Mainstreaming climate risk mitigating financial instruments and technologies

Enhancing risk disclosure in investment portfolio

Channeling investment for climate-resilient development

Develop a Decarbonization and Resilience Index

Voluntary Membership

- Multilateral Development Banks
- Central Banks
- National and Regional Development Banks
- Commercial Banks
- Institutional Investors
- Stock Exchanges
- Insurance Companies
- Ministries of Finance
Thank You!

ANTHONY NYONG

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Banking system and the risks of climate change

Bank Al-Maghrib response to climate change

07 December 2020
1. National Roadmap for aligning the financial sector with sustainable development
2. Banking sector initiatives to scale-up green finance
3. Coordination and dialogue with stakeholders and regulators
4. Contribution to international work on Green Finance
5. Climate related risks assessment and supervision
6. Challenges and way forward
Financial Roadmap For Aligning the Financial Sector with Sustainable Development

- Bank Al-Maghrib coordinated the elaboration of the roadmap of the Moroccan Financial Sector for Sustainable Finance with reference to established international sustainable development goals:
  - Main Axes
    - Governance of environmental and social risks;
    - Products / financial instruments dedicated to sustainable development;
    - Promotion of financial inclusion as a vector for sustainable development;
    - Capacity building in the field of sustainable finance;
    - Transparency and market discipline.

- Including a multi-stakeholder collaboration in Africa for the emergence of sustainable finance:
  - Main Axes
    - Regional cooperation for Sustainable Development;
    - Positioning Casa Finance City as a Hub for Climate Finance in the region.
## Banking Sector Initiatives to Scale-Up Green Finance

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<th>National Roadmap</th>
<th>Overview of Banking Sector Initiatives</th>
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<td><strong>Risk Governance</strong></td>
<td><strong>Risk Management</strong></td>
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<tr>
<td>- Integrating sustainability factors into banks' internal rating systems;</td>
<td>- Implementation of social end environmental and risk management systems</td>
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<tr>
<td>- Identifying the carbon risk included in the asset portfolio and assessing its impacts</td>
<td>- Assessment of climate-related and environmental risk factors under KYC process</td>
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<tr>
<td><strong>Green Finance</strong></td>
<td>- Accreditation of major banks by the Green Climate Fund</td>
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<tr>
<td>- Mobilize green resources (international funds, issuance of green bonds, etc.)</td>
<td>- Green bonds issuance</td>
</tr>
<tr>
<td>- Develop green savings products and dedicated financing offers</td>
<td>- Development of green finance products allocated to sustainable projects including energy efficiency and renewable energies</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>- Mobilization of international programs that support low carbon solutions mainly EBRD initiatives and European Union green facilities (Green value chain, FINTECC, MORSEFF, Green Business Booster)</td>
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<tr>
<td>- Publish a specific report on sustainability policies, including how the credit decision-making process takes into account social, environmental and governance criteria, as well as the means implemented to contribute to sustainable financing.</td>
<td></td>
</tr>
<tr>
<td><strong>Green Finance Mobilization</strong></td>
<td>- Major Banks publish CSR Reports and have CSR internal formalised policies.</td>
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## Banking Sector Initiatives to Scale-Up Green Finance

### National Roadmap

- Reducing gender gaps;
- Adopting a national financial inclusion strategy
- Developing digital financial inclusion

### Overview of Banking Sector Initiatives

<table>
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<th>National financial inclusion strategy</th>
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<td>- Extension of financing solutions to cover SME’s and Households in line with the national strategy for financial inclusion objectives</td>
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### Financial Inclusion

- Implement training programs for employees in order to raise their awareness on sustainable development issues and strengthen their understanding of the underlying risks.

### Capacity Building

- Moroccan banks staff benefit from internal and external capacity building activities related to climate risk management and green finance.
Bank Al-Maghrib has integrated green finance in its strategic orientations, which can be split into three main operational objectives. In order to achieve these objectives, several measures have been initiated at the national and international levels.

- **Coordination and Dialogue with Stakeholders and regulators**
  - Coordination with authorities and dialogue at national and regional levels

- **Contribution to International Work on green/ inclusive finance**
  - Implication in international work at three levels:
    - NGFS
    - SBN
    - AFI
  - Organisation/participation to events related to green finance

- **Climate related risks assessment and supervision**
  - Issuance in process of a Regulatory text on climate change and environmental related risks management
  - Launch of a work program on climate risks monitoring and supervision with the support of the World Bank
  - Launch in process of a national study of climate risks in Morocco
Coordination and Dialogue with Stakeholders and Regulators

- Bank Al-Maghrib conducted several exchanges with the Ministry of Environment and the Ministry of Finance to coordinate efforts with national authorities for the promotion of green finance.

- Bank Al-Maghrib has maintained discussions with financial, insurance and capital market regulators on the challenges and opportunities of climate action and environmental sustainability financing.

- Bank Al-Maghrib promotes the debate on green finance through the organization of regional and international events related to the subject:
  - Co-organization with the Alliance for Financial Inclusion (AFI), of a high-level conference on green inclusive finance. This conference saw the participation of the NGFS and African Central Banks;
  - Co-organization of the 3rd edition of the Global Green Finance Leadership Program, with CFCA, the Tsinghua University Green Finance Development Research Center and the International Finance Corporation (IFC). This event brought together representatives of African authorities and international experts to discuss the development of green finance.
Bank Al-Maghrib is committed to support and enrich international work through its membership to the Network for the Greening the Financial System (NGFS) created in December 2017.

Bank Al-Maghrib contributes to the network’s workstreams on (1) the supervision of climate-related risks and (2) the potential for the development of green finance.

Bank Al-Maghrib act as a catalyst for the development of green finance in the African region and relays the work of the NGFS to African and Arab Central Banks.

Bank Al-Maghrib is providing an active support to the work of the Alliance for Financial Inclusion (AFI) on inclusive green finance, of which it serves as a vice co-chair.
Bank Al-Maghrib is a member of the Sustainable Banking Network (SBN), an initiative led by the International Finance Corporation (IFC), which focuses on advancing sustainable finance in emerging markets and brings together banking and financial market regulators from these countries.

Morocco has been assessed twice by the SBN and its overall rating was upgraded in 2019 from "Development" to "Advancing" as a result of initiatives taken by Moroccan authority for capital markets (AMMC) and Bank Al-Maghrib.


It has recently submitted an article proposal on «Covid-19 Impacts on greening the Moroccan Financial Sector» for the African Development Bank upcoming report on the African financial sector facing external shocks.
Climate Related Risks Assessment and Supervision

- Bank Al-Maghrib has launched a work program, with the support of the World Bank, on climate-related risks monitoring and supervision to better integrate these risks in its Banking supervision approach:

  - Assessing the financial sector’s exposure to climate-related risks
  - Supervisory guidance and integration in monitoring practices
  - Capacity building of financial sector

- Bank Al-Maghrib is also in the process of launching a national study of climate risks with the support of AFD and the World Bank. This project aims to identify and assess climate risks and to provide recommendations to the various stakeholders, including government authorities, financial regulators and the main private actors to increase the resilience of the Moroccan economy to climate change.

- The issuance of Bank Al-Maghrib’s regulatory Text setting out the principles to be implemented by the banking sector to understand and effectively manage climate change and environmental related financial risks is in progress.
The regulatory text covers physical and transition risks and draws on the international standards developed by the Task Force For Climate Disclosure (TCFD) with regards to:

### Governance
- Monitoring of environmental and climate-related risks by governance bodies
- Defining responsibilities for climate risk management

### Strategy
- Integrating climate and environmental issues into the operational management of activities
- Integration of environmental and climate-related risks into risk management policy

### Risk Management
- Assessment and management of environmental and climate-related risks
- Stress testing exercise to assess resilience to climate change
- Declination of environmental and climate-related risks in the overall risk management system

### Metrics & Indicators
- Indicators for measuring environmental and climate risks
- Measuring the environmental footprint in portfolios
- Implementation of action plans for the mitigation of identified climate risks
Challenges and Way Forward

- Morocco continues to face structural constraints that limit climate financing...

**Lack of Taxonomy**
- Enhance the national coordination to develop a green taxonomy

**Data Gaps**
- Improving the availability of financial climate data

**Lack of Regulatory and fiscal incentives**
- Put in place coordinated tax and regulatory incentives to increase the financial attractiveness of investing in low-carbon projects

**Limited National expertise**
- Building the necessary expertise to better understand economic and financial implications of climate change

...and are even more urgent to address under the covid-19 recovery plan.

- Bank Al-Maghrib is exploring the opportunities offered by the Covid-19 crisis to promote a green recovery and enhance national coordinated actions to scale-up green finance.
Thank you for your attention
Send us your questions using the chat and / or Q & A features.
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