The Physical Risk and Resilience Statement for the Climate Adaptation Summit, 25 January 2021

Working towards more robust, TCFD-aligned physical risk disclosure

Supporters of this statement, not only welcome the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), but are actively working towards more comprehensive and robust physical climate-related risk assessments and disclosures.

It is only in creating a market-wide, evidence-backed, comparable and standardised approach on physical climate risk that the financial sector will be able to price climate risk, thus building finance sector resilience and helping to identify where and how our economy and society need to adapt to a changing climate.

What do we mean by a TCFD-aligned disclosure?

A group of leading financial institutions, convened by UNEP FI, are working towards a (physical) climate risk disclosure that responds to the recommendations of the TCFD. To be sufficiently comprehensive, this requires a qualitative assessment of physical hazards across the business, with a more in-depth and detailed analysis of potentially highly exposed sectors and clients.

The core group of five institutions that have framed this statement and have committed to TCFD disclosure on physical risks by end 2021 have already made progress in publishing an initial TCFD report:

- European Bank of Reconstruction and Development: TCFD Report 2019
- Rabobank: Annual Report 2019 (pp. 21-22)
- Rockefeller Capital Management: 2019 ESG Annual Report: TCFD Report Summary
- Standard Chartered: 2019 Climate Change / TCFD Report
- Yes Bank: Sustainability Performance Report 2019

Responding to Climate Change

There is little doubt that the world is warming – even if the Paris Agreement pledges are fully implemented then temperature rise would only be limited to between 2.9°C and 3.4°C by 2100[1], leading to potentially catastrophic impacts, such as rising sea levels, heat stress, more severe storms, and ecosystem destruction.

The finance industry will be heavily impacted by the consequences of climate change. Carbon Brief has estimated that economic losses as a result of a 1.5°C temperature rise will be 8% of GDP per capita by 2100 and 13% in the case of 2°C scenario, with a disproportionate impact in the Global South..[2] These impacts are effecting us already: Swiss Re estimated total economic losses of $330 billion in 2017 alone, of which just $136 billion were insured.

[1] WRI (2020). "National Climate Action under the Paris Agreement". World Resources Institute, Washington, D.C., USA. Available at: https://www.wri.org/ndcs

[2] EIU (2019). "*Climate change resilience*". Economist Intelligence Unit, London, UK. Available at: https://www.eiu.com/public/topical_report.aspx?campaignid=climatechange2019&zid=climatechange2019&utm_source=blog&utm_medium=one_site&utm_name=climatechange2019&utm_term=announcement&utm_content=top_link

The alternative will be less disruptive to the economy in the long term, but will require considerable action and investment now. UNEP's 2020 Adaptation Finance Gap Report[3] estimates that the annual cost of adaptation in developing countries will be USD 140-300 billion by 2030, which public budgets will not be able to meet alone. Financing from the private sector will need to internalise physical climate risks, building climate resilience through the sector and into the wider economy.

Markets & Climate Risk Disclosure

Financial markets operate as a partnership between private market actors and public institutions to ensure that markets are open, transparent and that risks are fully priced in. The Taskforce on Climate-related Financial Disclosures acknowledges the uncertainties in estimating the timing and severity of climate change impacts, but underlines the significant risks from the large-scale and long-term impacts of global heating. Without robust risk assessment, organisations will "*incorrectly perceive the implications of climate change to be long term and, therefore, not necessarily relevant to decisions made today*".[4] Independently of signals from policy makers, leading asset owners, such as PIMCO and Legal and General, have been market leaders, consistently voting in favour of climate proposals (75% and 85% of resolutions respectively in 2018).[5] Once exceptional, other major investors are responding to the call for greater action on climate change. BlackRock, for example, have described climate risk as an issue that will fundamentally reshape finance, and have signalled their expectation that disclosure is mandated in the short term.[6]

Rationale for the Physical Risk & Resilience Statement

UNEP FI's 2019 report on adaptation finance identified the importance of developing, adopting and employing climate risk management practices, which would build on the foundation of TCFD-aligned disclosure.[7] While the number of TCFD supporters from the finance industry had grown to 750 by November 2020, reporting remains inconsistent and of variable quality with very few reporting organisations conducting any scenario analysis to assess physical or transition risks.[8]

Through this joint statement, UNEP FI and its leading member institutions are encouraging financial institutions to take the necessary steps to adopt scenario analysis-based climate risk assessment and publish disclosures. This will identify the leading firms who are one step ahead of the market in using robust information about physical climate risk to inform financial decision-making and capital allocation.

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[3] UNEP (2021). "*The Adaptation Finance Gap Report*". UNEP,Nairobi, Kenya. Available at: https://www.unenvironment.org/resources/adaptation-gap-report-2020

[4] TCFD (2017). "Recommendations of the Taskforce on Climate-related Financial Disclosures". Financial Stability Board, Basel, Switzerland. Available at: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

[5] 50/50 Climate Project (2018). "Asset Manager Climate Scorecard 2018".

[6] BlackRock (2020). "Response to UK FCA proposals to enhance climate-related disclosures by listed issuers and clarifications of existing disclosure obligations". BlackRock, London, UK. Available at: https://www.blackrock.com/corporate/literature/publication/fca-proposals-to-enhance-climate-related-disclosures-by-listed-issuers-and-clarifications-of-existing-disclosure-obligations-100520.pdf

[7] UNEPFI (2019). "Driving Finance Today for the Climate Resilient Society of Tomorrow". UNEPFI, Geneva,Switterland. Available at: https://www.unepfi.org/wordpress/wp-content/uploads/2019/07/GCA-Adaptation-Finance.pdf

[8] TCFD (2020). "2020 Status Report". Financial Stability Board, Basel, Switzerland. Available at: https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

Our call to action for Financial Institutions

Despite the initial progress made on climate-related physical risk disclosures by signatories of this statement, finance sector resilience to climate change will not be possible without a full picture of the risks posed by climate change, which will require widespread disclosure of climate-related physical risks by the majority of financial institutions. Transforming the widespread support for the TCFD recommendations into robust and effective disclosures requires greater commitment from across finance.

The signatories of this statement call on our peer institutions in banking, investment and insurance to:

- Apply the recommendations of the TCFD, with robust risk assessment for physical risks, and more broadly on transition risks;
- Mainstream the management of climate-related risk in business operations;
- Build awareness within your firms of the threat that climate change poses to clients and build capacity to assess and respond to climate-related risks.

Our Call to Action for Policy Makers, Regulators, Central Banks

Scaling up sector-wide climate-related risk disclosure will not be possible without the active support of finance sector governance bodies. Some significant steps have already been taken, including the announcement of the Government of New Zealand's proposal to mandate climate-related risk disclosure by 2023[9], and the UK's Joint Regulator and Government TCFD Taskforce setting out a roadmap towards mandatory climate-related disclosures[10]. However, far more support is required globally to ensure more transparent, granular and robust information on climate risk is available to markets.

Therefore, we also call upon policy makers, regulators and central banks to:

- Specify the use of standards for climate-related reporting on physical risks, and more broadly on transition risks, not only in the finance sector but across the wider economy;
- Develop and specify standard scenarios sets to establish a foundation for scenario analysis;
- Build internal technical capacities, collaborate with data providers and access open source data as appropriate, to ensure the availability of robust datasets for financial institutions;
- Develop a strategy and roadmap to mandatory climate risk disclosure in support of the UN Secretary-General's recent call to make climate-related financial risk disclosures mandatory[11].

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[9] MfE (2020). "Mandatory climate-related financial disclosures". Ministry for the Environment, Wellington,New Zealand. Available at: https://www.mfe.govt.nz/climate-change/climate-change-and-government/mandatory-climate-related-financial-disclosures

[10] HM Treasury (2020). "A Roadmap towards mandatory climate-related disclosures". HMG, London, UK. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

[11] Guterres, A. (2020). "The State of the Planet". Speech given on 02.12.20 at Columbia University, NY, USA. Available at: https://www.un.org/sg/en/content/sg/speeches/2020-12-02/address-columbia-university-the-state-of-the-planet

The following financial institutions endorse this statement

High-Level Quotes

"In 2016, UN Environment Programme's Adaptation Gap Report identified the wide and increasing gap for financing adaptation investments," says **Eric Usher**, head of *UNEP FI*. "Climate change is affecting us now, particularly the poorest and most vulnerable, and will only become worse. It is imperative that the finance sector identifies market vulnerabilities and manages climate risks as we adapt to a warmer world. This is why UNEP FI is proud to partner with leading financial institutions to signal the importance of building finance sector resilience through this statement and call for greater action from the finance sector."

"As the Property and Casualty division of AXA, AXA XL aims to ensure a climate resilient future for both our clients and our communities. We're committed to sharing our understanding of climate risks and support our industry in raising the bar with TCFD-aligned reporting."
– **Nancy Bewlay**, Global Chief Underwriting Officer, *AXA XL*

"Even with a successful transition, physical risks will increasingly become a part of our future as world temperatures continue to increase from today's levels. It is therefore essential that banks continue to assess the full range of climate-related risks as part of their risk management, including trying to estimate the financial impacts from climate change. This will ensure transparency and enable banks to proactively work with customers to mitigate impacts."
– **Carsten Egeriis**, CRO, *Danske Bank*

"Climate change presents material risks to business, financial markets, and society as a whole – and these will only increase as the impacts of climate change become more apparent. Within EBRD, we are operating in some of the world's most climate-vulnerable regions, and so we fully understand the importance of assessing, managing and disclosing the physical climate risks that affect our business operations. We applaud UNEP FI's important work towards a wider understanding and building more capacity in this vitally important area."
– **Annemarie Straathof**, Vice President, Risk & Compliance and Chief Risk Officer, *EBRD*

"Climate change is a severe threat to our planet and banks must do their part. That's why ING is steering our lending portfolio in line with the goals of the Paris Agreement and simultaneously addressing the impact of climate change on our clients and business. For us, climate action and climate risk are two sides of the same coin. We're financing the transition that's needed to fight climate change, while also building climate resilience. Open collaboration and transparency through the TCFD-aligned disclosure on physical risks are key in taking on this massive challenge together."
– **Ljiljana Čortan**, CRO and member of the Management Board, Banking, *ING*

"Measurability of the impact of climate on businesses and the financial sector is a very special and important challenge. As a Dutch bank, we are committed to transparency and we strive to

contribute to making climate risk measurable. Our early participation in the UNEP FI TCFD working group expresses how important transparency and measurability of climate impact are for Rabobank. We are happy for the opportunity to take the lead again by joining this initiative."
– **Wiebe Draijer**, Chairman of the Executive Board, *Rabobank*

"As climate change increasingly impacts economies and financial markets, it is prudent for investors to assess the risk and return ramifications to their portfolios and constructively engage with companies and policymakers to create long-term shareholder value. Our work with UNEP FI demonstrates our commitment to enhancing our investment process and delivering value for our clients. We are proud to take a leading role by committing to disclosure of our physical risks."
– **David P. Harris**, President, *Rockefeller Asset Management*

"Adaptation to climate change and mobilizing positive impact finance at scale requires measurement and disclosure of Climate-related risks. YES BANK is pleased to work along with UNEP FI and leading global financial institutions to accelerate overall understanding of physical Climate-related risks and fast track implementation of TCFD recommendations. I am sure these orchestrated efforts will increase the resilience of the global economy and promote enhanced transparency & accountability."
– **Niranjan Banodkar**, Group CFO, *YES BANK*