

DeNederlandscheBank

EUROSYSTEEM

## **Opening remarks by Frank Elderson at the NGFS Conference**

Paris, 17 April 2019

At the Conference of the Network for Greening the Financial System, the network presented its first NGFS comprehensive report. In it, the Network issued six recommendations. The first four apply to the work of central banks and supervisors, while the last two are for policymakers. In his opening speech at the conference, Frank Elderson outlined why central bankers and supervisors have joined the Network. Elderson describes why they engage in greening the financial system, what the Network aims at and what steps are already taken during the year and a half that the Network exists.

In 1163 the first stone was laid of what later became the very heart of Paris. Two hundred years of countless hands, building, carving, constructing together. A marvelous monument. A tribute to what humanity can achieve. When working together, with a commonly held belief in a shared objective. The day before yesterday the Notre Dame - so much Notre Dame burned. And all our hearts burned with her. What was lost was a beautiful cathedral. What was lost was a jewel in the crown of the World's Heritage. What was lost was a symbol of peace and worship.

But what was not lost, is our sense of common destiny. What was not lost is our acute awareness of what we, humanity can achieve, when working together, with a common held belief in a shared objective. In December 2017 the first stone was laid of what later became the NGFS. One and a half years, countless hands, building, carving, constructing together. A marvelous coalition of the willing. A tribute to what central banks and supervisors can achieve, when working together, with a commonly held belief in a shared objective.

It's a therefore only appropriate that we are here in Paris.

Paris, where the seed for this initiative was first planted back in 2015, at the Paris Climate Agreement. Paris, where the seed sprouted a couple of years later, at the One Planet Summit. I am happy to say that the Network for Greening the Financial System has now firmly taken root. It is growing at an impressive rate, with shoots popping up all over the planet. Only yesterday two new members and an observer joined us. A warm welcome to The Swiss National Bank, Swiss supervisory authority and the European Investment Bank. Today, the NGFS has thirty six members and six observers. Our membership spans five continents. One planet.

But before I discuss what we have achieved and what we want to go on to achieve... Let's ask ourselves a question: Why is being here today so important?

## **I: Why it is important?**

Emissions have increased since the pre-industrial era, driven largely by economic and population growth. This has led to increased concentrations of greenhouse gases, at higher levels in our atmosphere than at any time in the last 800,000 years. Temperatures are already at least 1°C above pre-industrial levels. In 2017, air pollution caused the deaths of almost 5 million people. In 2018, 62 million people felt the impact of extreme weather events. Over 2 million people were displaced.

The Arctic is warming up almost three times as fast as the rest of the planet. And as the ice melts, it will cause the sea level to rise. This will undoubtedly have an effect on where and how we live. With rising temperatures comes a decline in biodiversity, water scarcity, and mass migration as land becomes uninhabitable. Problems of poverty and inequality will become even worse. The domino effect of climate events will add to the already formidable challenge of rising temperatures.

A transition to a low-carbon, green economy is not a niche. It's not an optional extra for the privileged few. Climate change affects us all. It reaches beyond economies, borders, cultures and languages.

When the world we live in is changing at such an alarming rate, who can afford to sit back? That's why we need to come together and take action. To create a sustainable future. And that is exactly what we are doing with the NGFS.

## **II: How & why Finance is involved**

Since the publication of the NGFS progress report last October, it's no longer a question of asking why we must get involved. Climate-related risks are a source of financial risk. That is why it falls squarely within the mandates of central banks and supervisors to ensure the financial system can withstand these risks. Our mandate doesn't restrain us. On the contrary, it forces us take a lead in addressing climate change.

Next to managing risks, investment needs to be channeled in the right direction. To achieve the EU's 2030 goals of the Paris Climate agreement, including a 40% cut in greenhouse gas emissions, we need to bridge an investment gap of 180 billion EUR per year. This is both possible and necessary. Because

failing to make these investments now is just postponing the inevitable. It means we will have to invest even more by 2020, in order to mitigate the same or even worse effects. When faced with such an imminent threat, inaction is reckless. It will ultimately lead to much higher costs.

### **III: Opportunities**

I know I may have set alarm bells ringing with this call to action, but it's not all doom and gloom. The transition to a low carbon economy presents a myriad of opportunities. Opportunities for every one of us. Green investments for instance, offer direct advantages for the economy as a whole: more jobs and more scientific and technological developments. Scaling up the use of sustainable energy and other innovations. As well as more efficient use of our common resources. This will contribute to a more circular and sustainable economy.

### **IV: On our way**

The NGFS offers us a platform to address these issues and take action. It is a way of taking us from where we are now, to where we need to be. A greener, more sustainable financial system must be our destination.

NGFS membership has grown exponentially in under one and a half years. All continents are represented, a clear sign that not only climate change, but also climate change action reaches beyond borders, cultures, and languages.

In our first NGFS comprehensive report published today, we issued six recommendations. The first four apply to the work of central banks and supervisors, while the last two are for policymakers. However, all six call for collective action and focus on integrating and implementing previously identified needs and best practices. Together, these recommendations aim to ensure that central banks, supervisors, and policymakers are able to support the financial system, in playing its role in a smooth transition towards a low carbon economy.

I expect that implementing these recommendations, sharing experiences, and developing practical guidelines could create significant impact. They connect and multiply the convening power of each individual central bank and supervisor. Together, NGFS members supervise 2/3 of global systemically important banks and insurers. Financial markets that fall within the NGFS members' jurisdictions represent 45% of global greenhouse gas emissions.

Yet, we still have a long way to go. The challenge we face is an analytically difficult one, and it is unprecedented. I am sure I have left you in no doubt as to its urgency. So the benefits of us working together to share experience and build practical guidance are monumental.

We have now reached the point that we need to move. Move from bold statements to boring but crucial details. From sweeping visionary speeches to the nuts and bolts of the technical engine rooms of central banking and prudential supervision. When we're knee deep in the weeds with these details, we could easily be distracted from our ultimate destination. We can easily become preoccupied by the bushes we cut away, the path we're finding, the progress we make. But we should never take our eyes off our ultimate destination. It's not a question of being satisfied with taking a few steps forward. No. We need to actually get to where we want to go. Getting to Paris. On time. That's where we want to be.

This means a lot of work from you. The hard core technical part has started. The part where the economists and econometrists deliver. Although you may be experts in the economy rather than ecology, your expertise is equally valuable in both fields. I assure you.

Yet climate change is not the only challenge we face. The world will need fresh water. A decline in biodiversity could limit the operations of businesses in a specific region. These risks too, could affect financial institutions. I am pleased to see that these other environmental risks are also appearing on our radar.

The next step we need to take, and soon, is to dedicate more resources to environmental risks and how they have impact on our work. A lot still needs to be done. I hope today will inspire you to be bold, think freely, stimulate each other, embrace competition and expand our horizons.

Because next year, when we gather again, I hope we will be making the same swift progress. I hope we will be able to show how we have put these six recommendations into practice. And I hope we will have explored new territories with new members. Because with your help, the seeds that were planted here in Paris will grow even further and flourish.

Because there is no limit to what countless hands, what humanity, can achieve. When working together, with a commonly held belief in a shared objective.