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Opening remarks

Conference *Climate Change. Challenges for the Financial System*/Banco de España

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Good morning,

Welcome to the Banco de España for this Conference, where we intend to take a look at the main challenges that climate change poses for the financial sector. The Conference takes place amid two intense weeks of the COP25, which is full of other interesting conferences and events. But I assure you that you won´t regret your decision to be with us today.

The World Meteorological Organization certified last week that 2019 will close a decade of exceptional global warming, retreating ice and record sea levels, driven by greenhouse gases from human activities. 2019 is on course to become the second or third warmest year on record.

The global average temperature in 2019 was about 1.1 degrees Celsius above the pre-industrial period.[1] The IPCC estimated that we could reach a temperature increase of 1.5ºC between 2030 and 2052;[2] but, given the latest evidence, this may actually occur sooner.

There is now broad consensus that global warming above 2°C, relative to pre-industrial levels, would have significant economic and social consequences. The effects of climate change are widespread. It impacts directly on the environment, ecosystems and marine life, but it has also important implications in terms of human health, water resources, food production and migration.

There is no time for procrastination. We need to accelerate the reduction of greenhouse gas emissions through the implementation of decisive and forceful climate policies, and we need to begin now. We are already in “extra time” as far as this particular match is concerned, and the score is currently not favourable to us.

This sense of urgency is widely shared. The COP25’s slogan “Time for Action is now” clearly reflects this. In addition, less than two weeks ago, the European Parliament declared a climate and environmental emergency, calling for reductions in global emissions to be stepped up and demanding more financial support to fight climate change.[3]

Today we are honoured to have with us Lord Nicholas Stern, who has been a prominent advocate of this urgency for quite some time.

It is well known that one of the main research developments in this field was the 2006 report, commissioned by the British government and led by Lord Stern.[4] The report concluded that the benefits of strong and early action far outweighed the economic costs of not acting.[5] Two of the main findings of the report were that the costs of stabilising climate were significant but manageable, while delayed action was dangerous and much more costly. Importantly, the report concluded that there was still time to avoid the worst impacts of climate change, if we took strong action.

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[1] Source: World Meteorological Organization, 3 December 2019, January to October. https://public.wmo.int/en/media/press-release/2019-concludes-decade-of-exceptional-global-heat-and-high-impact-weather
[2] Intergovernmental Panel on Climate Change (2018).
[3] European Parliament, press release 29-11-2019. https://www.europarl.europa.eu/news/en/press-room/20191121IPR67110/the-european-parliament-declares-climate-emergency
[4] http://www.lse.ac.uk/GranthamInstitute/publication/the-economics-of-climate-change-the-stern-review/
[5] https://webarchive.nationalarchives.gov.uk/20100407163608/http://www.hm-treasury.gov.uk/d/Summary_of_Conclusions.pdf

Of course, it is worth repeating that these conclusions were flagged already in 2006, more than thirteen years ago. Unfortunately, it would seem that it hasn´t been till recently that this call for action has been taken seriously. In his keynote presentation Lord Stern will shed some light on whether we are still in time to avoid the worst impact. Thank you very much for accompanying us today.

Still, we shouldn´t forget that the fight against climate change also has a human and social dimension. The transition to a low-carbon economy must also be “fair” or “just” for the economic sectors most affected. This is one of the objectives of the 2030 Agenda for Sustainable Development, which commits to eradicate poverty and achieve sustainable development worldwide by 2030, ensuring that no one is left behind.

The Agenda integrates in a balanced manner the three dimensions (economic, social and environmental) of sustainable development through seventeen Sustainable Development Goals. Ms. Cristina Gallach, High Commissioner for the 2030 Agenda, will moderate the panel that will follow Lord Stern´s presentation, and will share with us the progress that is being made in this respect. Thank you very much, Cristina, for being here today.

I am sure we are all looking forward to hearing Lord Stern’s speech. But first, let me say a few more words about the implications that the transition to a low-carbon economy has for the financial sector, and the kind of actions that Supervisors and Central banks are taking to address this global challenge.

By definition, this kind of transition involves structural economic changes that affect practically all economic sectors and activities; the investments required to achieve this transformation of the economy are huge and demand a significant mobilisation of financial resources.

The transition to a low-carbon economy affects the financial sector in two ways. First, because of the financial risks that climate change and the transition to a low-carbon economy entail. Second, due to its role in channeling the funding needed to carry out the large investments required to comply with the Paris Agreement.

Obviously, this transition involves both challenges and opportunities for the financial sector. In terms of opportunities, it is clear that the activity of banks in relation to green finance is growing forcefully. Financial institutions are actively issuing green bonds or syndicated loans related to sustainable finance.

In addition, banks are increasingly offering other types of services to their clients. According to the Risk Assessment Questionnaire carried out by the EBA (European Banking Authority) in June 2019, 90 % of the banks responding to the questionnaire have developed or plan to develop green products and/or services based on environmental considerations, of which the most popular products would be energy-efficient mortgage loans, followed by commercial real estate loans and green car loans.[6]

Although in recent years there has been progress in the development of new products, with green bonds the most developed green financing instrument, the scale of the investment challenge remains significant. According to the European Commission[7], to achieve the EU's

[6] EBA (2019). https://eba.europa.eu/sites/default/documents/files/documents/10180/2854739/916f8c4b-7099-4aba-ac1f-882cfd4c3583/RAQ %20Booklet %20Spring %202019.pdf?retry=1

[7] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en

2030 targets agreed in Paris, including a 40 % cut in greenhouse gas emissions, we have to fill an investment gap estimated at 180 billion EUR per year.

The effects of climate change and actions to mitigate them also pose risks for both insurance companies and banks. It is well known that the climate change-related risks may be divided into two categories: physical and transition risks. This requires banks to consider climate change-related risks and the transition to a low-carbon economy in their integrated risk management.

One of our panelists, Mr. Sean Kidney, co-founder and CEO of Climate Bonds Initiative, will be able to give us an overview of the evolution and prospects of green financing instruments, in particular green bonds. Meanwhile, Ms. Danae Kyriakopoulou, OMFIF´s[8] Chief Economist and Director of Research, will give us her insight into this adaptation by the financial sector to the challenges posed by climate change risks. Thank you for your participation in today´s panel.

As regards international collaboration in the field of sustainable finance, I believe both the *Paris Agreement* and the *2030 Agenda for Sustainable Development* acted as a wake-up call for supervisors and central banks to join forces, setting in motion a whole agenda of policies intended to contribute to the objective of avoiding this increase above 2ºC. In this short period of time, many initiatives, both from the official and private sectors, are being undertaken. Let me cite a few examples,

- The *Task Force on Climate-related Financial Disclosures*, created at the request of the Financial Stability Board but comprising in its entirety members of the industry. This Task Force has produced voluntary disclosure standards for companies in general, which are becoming more and more relevant, as investors, consumers and corporates demand sustainability-related information to make informed decisions.

- The *European Commission Action Plan on Financing Sustainable Growth*, which should contribute to making the EU a leading force in the global fight against climate change.

- The *International Platform on Sustainable Finance*.

- The *Coalition of Finance Ministers for Climate Action*, which comprises governments from more than twenty countries joining forces to address the challenges posed by climate change. We are also honoured to have with us Ms. Ana de la Cueva, Secretary of State for Economic & Business Affairs, who will close this conference and inform us about this initiative.

- Last, but certainly not least, I want to mention the *Network of Central Banks and Supervisors for Greening the Financial System (NGFS)*, created two years ago as a "coalition of the willing" and a voluntary-based forum.

The NGFS has grown from 8 members to over 50 since 2017, which is a clear sign of its success. Through the NGFS we have been able to share practices and increase our understanding of the implications that climate change has for central banks and supervisors, contributing to the inclusion of these risks in our micro and macro-prudential supervisory

[8] Official Monetary and Financial Institutions Forum.

frameworks. Notably, the NGFS has produced three key reports, which include recommendations not only for central banks and supervisors, but also the industry.

We also have today with us the chairman of the NGFS, Mr. Frank Elderson, who is likewise a member of the SSM[9] Supervisory Board, where we sit together. I am aware that Frank receives innumerable requests to speak on behalf of the NGFS, so I am also very grateful for his presence here today.

Let me conclude. Climate change is a global phenomenon and all of these initiatives evidence the fact that cooperation is key. Of course, official institutions and governments must cooperate, but so too must the public and private sectors. We are all together in the same boat, this planet, so we must also learn and work together to achieve the same shared objective.

The Banco de España is aware of the importance of this challenge, and is also developing its own strategy: it is analysing the possible implications of climate change for the stability of the Spanish financial system, assessing data gaps and developing the methodologies and responses it may adopt in its micro and macro-supervisory role. We have also been conducting several initiatives to help raise awareness of the importance of this issue, including workshops and meetings with the industry to learn more about how the sector is coping with climate change.

Despite all these efforts, there are still obstacles and methodological challenges to overcome. These include the longer and uncertain horizon that must be applied to assess these risks, and the finalisation of a common taxonomy enabling us to distinguish what is "green" and what is "brown".

I am sure our outstanding speakers today will help us to shed light on these issues, and I look forward to the discussions this morning. As I mentioned earlier, the slogan of the United Nations Climate Change Conference, COP25, is “Time for Action is now”, so I believe it is time for me to stop talking and move to Lord Stern´s presentation. Thank you very much.

[9] Single Supervisory Mechanism.