

## **“Climate crisis requires urgent action by financial sector and financial supervisors”**

Opening statement Frank Elderson at the Banco de España Climate Change Conference  
Madrid, 11 December 2019

At the Climate Conference the Banco de España hosted in Madrid, a panel session was held with as main topic: the challenges for the Financial System posed by climate change. Frank Elderson was invited for this panel and opened the session by stating that the current climate crisis requires urgent action by governments, financial sector and supervisors.

Fifteen of the twenty largest fires in California history have occurred since 2000, since the 1970s, there has been a fivefold increase in the annual burned area in the state. Half of all coral reef systems in the world have been destroyed, putting a quarter of marine life at risk. In Australia, rainfall for January to August 2019 was the lowest on record in Queensland and New South Wales. Tenterfield and Stanthorpe were 77% below the long-term average. Droughts in Southern Africa are causing taps to run dry, and a record 45 million people facing severe food shortages. Victoria Falls in Zambia is experiencing unprecedented droughts and is at risk of drying up because of climate change, warns Zambian president. Average water flow at the popular tourist attraction is down by half in 2019. The recent flooding in Venice left 70% of the historic centre under water. Luigi Brugnaro, mayor of Venice, has estimated the damage will be over €1 billion. Extreme weather events in East African countries like South Sudan, Kenya and Somalia have led to floods that have affected more than three million people, pushing hundreds of thousands from their homes and resulted in more than 250 deaths. And this this is only a short overview of recent media reports.

Serious tipping points seem to be reached shortly. As recently published by Science Advances, more than one third of Earth's 435,000 plant species, are exceedingly rare. Unprecedented sea ice loss in the Arctic, both in ice volume and in thickness. Only if global emissions fall by more than 7 percent each year, between 2020 and 2030, can the Paris climate target of 1.5 degrees of global warming be achieved. But so far, emissions have been rising every year, once again to a record high in 2018.

And there are serious financial consequences. In 2018 the world suffered \$166 billion in losses from extreme events related to climate change. Earlier this year, Lloyd's of London announced a \$1.3 billion loss, due to an increase in extreme-weather related insurance claims. We have seen the first - and probably not last - Climate-Change Bankruptcy with the fast fall of PG&E after California's wildfires.

A 2018 report from the Intergovernmental Panel on Climate Change estimated that global economic damages by 2100 would reach \$54 trillion with a 1.5-degrees Celsius of warming of the planet, \$69 trillion with 2 degrees Celsius of warming and \$551 trillion with 3.7 degrees Celsius of warming.<sup>1</sup> Due to the droughts in Zambia, the water and power shortages are set to shrink the country's economy by 6.5 per cent this year.

And there is an increase in climate litigation. As of May 2018, more than 1000 cases had been filed in 25 jurisdictions.<sup>2</sup> In the already famous Peruvian farmer case, Lliuya argues that RWE, as one of the world's top emitters of climate-altering carbon dioxide, must share in the cost of protecting his hometown Huaraz from a swollen glacier lake at risk of overflowing from melting snow and ice.

Mark Carney, governor of the Bank of England, has recently warned that the global financial system is backing carbon-producing projects that will raise the temperature of the planet by over 4°C. More than double the pledge to limit increases to well below 20C contained in the Paris Agreement.

While the world is experiencing the severe impact of climate change already on a daily basis, we are far from where we should be and on our way to making it worse.

This is why from now on I will no longer use the too neutral, too comfortable phrase 'climate change'. Just like the ECB president, Christine Lagarde, stated during a hearing at the European Parliament Economic Affairs Committee: we are in the middle of a "climate emergency". From now on I will call it what it is: a crisis. The Climate Crisis.

Now this is not the end of the story. Crises need to be fought. All over the world steps are being taken to fight this climate crisis. And it is being fought on many fronts. Let me now focus on the financial front. I am very pleased that last week, EU negotiators have agreed a deal to establish a taxonomy, a common set of European rules on what can be considered a green investment. This taxonomy is not only essential for the financial sector. It will help all economic actors to identify which economic activities contribute to the transition to a green and low-carbon economy.

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<sup>1</sup> <https://www.ipcc.ch/sr15/>

<sup>2</sup> M. Nachmany & J. Setzer, 'Global Trends in Climate Change Legislation and Litigation: 2018Snapshot', Grantham Research Institute report, May 2018, p. 5.

The work of the European Committee on disclosure requirements is also something we encourage as a financial supervisor. It contributes to more insight into - and transparency about - climate-related risks and exposures of financial companies under supervision. The network of central banks and regulators for greening the financial system, the NGFS -of which by the way our hosts, the Banco de España where among the first members - the Network is growing and growing. It is now almost easier to name the central banks who haven't yet joined, than to give you a full list of all central banks and regulators who share our concerns.

I stand here also in my capacity as chair of this network. The network that in its first publication stated that climate change is a driver of financial risk. The network that stated: taking the consequences of climate change seriously, falls squarely within our mandates as central banks and supervisors. The network that called for action by setting six recommendations to manage risks and scale up green finance.

These six recommendations were published in an NGFS report earlier this year, and are already seeing follow-up. Next year, we expect to come up with at least three new publications, with which we facilitate the financial sector to assist in reaching the objectives of the Paris Agreement. One about transition scenarios and guidelines for scenario-based climate risk analysis. And a publication on current environmental risk assessments methodologies. And a guide on integrating climate & environmental risk into supervision.

And while exchanging experiences and ideas, the fifty-four NGFS members are also looking closer into risk differentials between green and brown assets, and the market dynamics around green finance. The climate crisis needs to be fought on many fronts. Many actors have a vital role to play. Governments, private firms, NGOs, scientists, consumers, the press... And of course, also the financial sector has a vital role to play: banks, insurance companies, pension funds, investment funds, credit rating agencies. And, and this is why I stand here: also central banks and supervisors have a vital role to play.

The good news is, that a growing number of us realises this, and acts upon it. All 54 members of the NGFS. A number that continues to grow fast. There is strong resolve to act, within the Bundesanstalt für Finanzdienstleistungsaufsicht, the Banque de France, the Bank of England, the Bank Al-Maghrib, el Banco de Mexico, the New York State Department of Financial Services, the People's Bank of China, the Monetary Authority of Singapore, De Nederlandsche Bank. And of course within el Bance de España. And so I could go on 54 times. And growing.

And the sector is stepping up. The Dutch financial sector, our banks, pension funds, insurers and asset managers, have pledged to actively contribute to the implementation of the Paris Agreement. Just like the Spanish sector has very recently done, as I read in El Pais this week.

The Dutch financial sector's commitment to making the energy transition a success involves the commitment to measure and publicly report the carbon footprint of their relevant financing and investment activities from 2020 onwards and reduction targets for 2030, for all their relevant financing and investment activities by no later than 2022.

Also parties who some might not immediately think of to be at the forefront of fighting the climate crisis are taking concrete actions. This week, hedge fund TCI, which manages assets worth \$28bn, has written to companies including Airbus, Moody's and Google parent Alphabet warning them to improve their emissions disclosures or they will vote against their directors. TCI called upon asset owners to fire asset managers that do not require such disclosure.

So now the only logical step for me, is to call upon you. Everyone here present today, to act. We are very much in need for internationally concerted efforts to address the climate crisis. Ever more central banks and financial supervisors realise also they have a role to play. Not because they engage in politics, but because their mandate requires them to. And in increasing numbers, they act. No one can look away. No climatologist. No politician. No banker. No investor. But also no central banker. And no supervisor.

We must act. We must act now with an urgency commensurate with the speed the climate crisis is unfolding. We must step up our game. There is no place to hide. There is no plan B because there is

no planet B. And as long as sea levels continue to rise, we as central banks, acting squarely within our mandate, will continue to raise the bar.