Sharon Donnery: Meeting the climate challenge

Remarks by Ms Sharon Donnery, Deputy Governor of the Central Bank of Ireland, at the Global Insurance Summit Europe, London, 27 November 2024.

* * *

On behalf of the Central Bank of Ireland, it is my great pleasure to welcome you all to the Global Insurance Summit Europe here today at our Docklands Campus for which we are delighted to co-host with the UN.[1]

Many of you have travelled long distances to be participate in this event and indeed for Sustainable Finance week more generally, but it is wonderful to have you here today and we are really looking forward to your contributions and insights.

My thanks to Stephen and UN colleagues, and to Colette and the team at IFSCOE, and to Geraldine here in the Bank for their collective efforts in making this event happen. I also want to especially thank Butch for moderating here today.

Clearly in trying to solve a global problem we need global solutions and the work of the UN in this space in general is paramount – encompassing all aspects of society and our economies, and I am really looking forward to your insights.

To my mind, to achieve success in the climate space there is a need for us all to embrace the challenge and to seek to make tangible progress.

The role of Central Banks

I am still struck at times at having to make the case for why Central Banks are focussed on climate – but it is a case I am more than happy to make.

As a Central Bank and integrated regulator we see climate change impacts across all of our mandate.

For example, climate change and the transition have profound implications for price stability through its impact on both structural and cyclical dynamics of the economy and the financial system. [2]

This should be no surprise given the macro-economic significance of the challenge, the volatility of the transition, and the sweeping nature of the change necessary to our economy and daily lives.

Similarly in terms of financial stability, systemic risks from climate change have been recognised for a number of years now, including the potential for extreme climate events or a disorderly transition to a low-carbon economy to have destabilising effects on the financial system. Again, this should be no surprise – with the experience of extreme weather events in recent years merely glimpses of what a disorderly future might look like.

In this regard, climate and environmental risks and considerations also play a clear part in our role in the proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected.

This includes regulatory considerations to promote sustainable finance – with a huge wave of directives and regulations at a European level over the last 6 years – as well as supervisory action to ensure firms are adequately accounting for the risks presented by climate change to their businesses and to their balance sheets.

It also includes ensuring consumers are protected – given the important role they have to play in the transition to a climate neutral future, including through the provision of funding for the transition.

In that regard, to ensure that funding is provided both effectively and fairly, it is imperative that consumers have trust and confidence that sustainable products and investments are genuinely green. One reason why tackling greenwashing is a key focus of regulators.

Embracing the challenge

For all of these reasons, the Central Bank of Ireland has embraced the climate challenge. In addition to establishing a Climate Chance Unit to lead out the approach on climate within a hub and spokes model, our Strategy makes very clear our objective to strengthen the resilience of the financial system to climate-related risks and its ability to support the transition.

In practical terms, this means embedding climate risk management and supervision of sustainable finance into all aspects of our supervisory work. As member of the ECB and the European Supervisory Authorities, we work to ensure impactful supervision, a strong regulatory framework, and an emphasis on convergence and capacity building, to deliver real progress in addressing climate issues.

We also see the growing risks associated from nature degradation and biodiversity losses and the need to develop a framework to address these risks, and I'm very much looking forward to the Insurance for nature positive session later this afternoon.

While at first it may seem like nature and biodiversity is something disconnected from the economy and financial system, in fact so much of it relies on nature.

In a banking context, the ECB has looked into the dependence on nature of both European companies and banks – with the results pointing to around three million individual companies in the euro area being highly dependent on nature in some way, and almost 75% of euro area bank loans extended to such companies.[3]

If nature degradation continues, clearly there are significant potential risks to these companies and therefore significant potential risks to bank credit portfolios.

Turning back to insurance, I would like to briefly highlight some recent climate work in respect of our insurance sector.

Last year, we published climate change guidance for the insurance sector that seeks to set a baseline of expectations for insurers to start and progress from, and provides a practical framework to help insurers address climate change risks in their business and assist in developing their governance and risk management frameworks.

More recently, the Central Bank undertook research into the nature and scale of the flood protection gap in Ireland, taking into consideration both the picture today and how that picture might change in future. In our analysis, we identified how many homes and businesses in Ireland are unlikely to obtain flood cover. Some key findings:

- Approximately 1 in 20 buildings have difficulty accessing flood insurance today.
- The estimated average annual cost of inland flooding is €101m. Severe losses can be much higher than this, with a €510m loss expected about once every 25 years.
- Ireland is likely to see significantly more rainfall in the future due to climate change, increasing the likelihood of flood events and potentially widening the gap.

We hope that this analysis helps to inform the debate on the flood protection gap in Ireland, and recognise that addressing this issue requires work from a broad range of stakeholders.

And we look forward to further engagement with stakeholders over the coming months on this important topic and we will continue to play our part in identifying and managing the risks arising from the consequences of climate change.

I think it also goes without saying that this work highlights the multifaceted impacts of climate change as they relate to our mandate.

It secondly highlights the necessary engagement amongst a broad spectrum of stakeholders to address climate related issues. And it also makes clear that while climate driven protection gaps are one part of the equation, equally there is a need to also ensure investment in sustainable activities – with a whole balance sheet approach needed by the sector, to mirror the whole of economy approach needed by policymakers.

To briefly return to today's event, addressing the climate challenge will never be achieved with the UN or the Central Bank operating in isolation. The financial system has a key leadership role in facilitating the flow of capital to sustainable activities and addressing the risks arising from climate changes, and we all need to be part of the conversation.

This why the convening powers of our two organisations is so important and it is great to see the varied stakeholders coming together for today's Summit – and indeed through the rest of the week's events.

Once again we are delighted to host you today, and let me hand back to you Butch for your opening remarks.

[1] With thanks to Philip Brennan and Cian O'Laoide for their help preparing these remarks.

[2] See ECB's 2021 Strategy review

[3] See Living in a world of disappearing nature: physical risk and the implications for financial stability (PDF 1.21MB) Occasional Paper Series, No 333, ECB.