

Richard Doornbosch: Climate risk in the financial sector

Speech by Mr Richard Doornbosch, President of the Centrale Bank van Curaçao en Sint Maarten, at the 3rd Curaçao Climate Change Platform, Curaçao, 29 November 2024.

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[Presentation](#) accompanying the speech

SLIDE 1 Opening

SLIDE 2 Climate Risk in Curaçao, Sint Maarten, and the Caribbean

(Addresses invitees): It is truly a great pleasure to see you here and we appreciate your time and the signal your participation provides: the work of the platform is of utmost importance.

Chair, esteemed guests, distinguished scholars, dedicated members of the CCCP technical committees, and all participants,

It is a privilege to welcome you on behalf of the Central Bank to the Curaçao Climate Change Platform.

I would like to extend my appreciation to Mr. Martis and the organizing team for bringing us together. This annual event stands as a cornerstone for advancing the critical work of the CCCP technical committees, fostering meaningful dialogue and collaboration with all stakeholders. As adapting to climate change needs an inclusive "whole-of-society" approach.

As we see climate risks accelerating, we also need to accelerate our efforts together. Let me explain.

SLIDE 3 The Acceleration of Climate Change

The government, the private sector, and the public at large should be working together on crisis preparedness, as our contingency plans might be challenged sooner than expected. Recent events have demonstrated this with stark clarity.

We've seen in Florida and North Carolina in the United States, and in Valencia, Spain, that even what was once considered sufficient preparation can fall short when extreme climate events escalate into catastrophic disasters.

These incidents remind us that the systems we rely on today may not withstand the unprecedented challenges of tomorrow. Moreover, emerging scientific data on climate change reveals a troubling truth: the pace at which severe climate impacts are occurring might have been underestimated.

At the same time, we recognize that there are significant costs tied to adaptation and mitigation efforts. Yet, we also know that the cost of inaction far outweighs the investment required to prepare and protect ourselves.

SLIDE 4 The Consequences for Curaçao and its Financial Sector

Stakeholders here in this room don't need an explanation. However, policy makers and economic actors around the world are not acting with the urgency needed.

The pricing mechanism that coordinates our actions to distribute scarce resources is not considering the externalities of climate change. Consequently, Curaçao will be on the receiving end of climate change impacts.

For the Caribbean, including Curaçao, the hazards expected to have the greatest impact are clear:

1. Rising mean temperatures and more severe droughts.
2. Heavier rainfall and storms causing widespread damage.
3. Rising sea temperatures, threatening marine ecosystems.
4. Loss of coastal areas due to rising sea levels.

For banks and insurance companies, the risks are higher underwriting costs, reduced profitability, and increased vulnerabilities in credit portfolios.

Moreover, higher mean temperatures are expected to impact public health sooner than anticipated, with rising sea levels threatening coastal regions, where economic activity is dense, and property values are significant. These developments demand urgent attention. Financial institutions must proactively manage these risks and assess the impact on their balance sheets in a timely manner.

At the same time, public investments are critical to building resilience. We must prioritize weather-resistant infrastructure-both physical and digital-as well as sustainable building practices. In our policy framework we must integrate climate considerations into our broader development plans, urban planning, and disaster risk management efforts.

SLIDE 5 Possible Impact of Transition Risk in Curaçao

Even though our first focus as a central bank has been on the physical risks, we know that Curaçao is also vulnerable to transition risks from climate change because of a potential worldwide shift away from fossil fuels. Now, we still rely heavily on energy imports. Being a small open economy, foreign climate policies such as carbon taxes and other net-zero efforts will impact prices and availability of energy imports.

This transition risk is also very much a positive risk for Curaçao. It is an opportunity as the cost of renewable energy production has been rapidly coming down. Making wind and solar energy affordable and economically efficient.

In addition, the potential for (subsidized) electric vehicles to become available at prices comparable to, or even lower than, traditional combustion engine cars offer another transformative opportunity. This shift would enable us to harness even more of our natural resources, reduce our reliance on imported energy further, and lower our energy import bill.

Such developments would also translate into reduced costs of doing business, strengthening our economic resilience.

Taking advantage of these opportunities does require substantial investments in energy production and distribution. Specifically, we must focus on upgrading the grid and expanding storage capacity to support this transition effectively. We will hear much more about this critical topic soon from the acting CEO of Aqualectra, Ms Neysa Isenia.

SLIDE 6 Developments in the CBCS' Work on Climate Risk

The CCCP has brought together its technical committees today, to talk about progress in the areas of green infrastructure, water management, coastal zone management, the cultural sector, the built environment, and the economic implications of climate change. The climate work of the Central Bank of Curaçao and Sint Maarten zooms in on the financial sector of Curaçao.

In our strategic agenda CBCS 2025, we address climate risk by working on three pillars. We are:

1. Researching to improve data and statistics on the impact of climate change on the economy and financial sector.
2. Intensifying collaboration and dialogue with local and international institutions.
3. Taking steps towards a supervisory framework for climate risk (in close collaboration with regional supervisors and other international partners).

The objective of our strategic actions is to ensure that the financial system in Curaçao and Sint Maarten is resilient to climate risk.

SLIDE 7 Financial Stability Note on Climate Risk Survey

Our first strategic pillar focuses on establishing a strong foundation for effective policy-making: improving the availability and quality of data and analyses on the impact of climate risks on the financial sector.

In December 2023, we initiated a key step toward this goal by inviting banks, insurance companies, and pension funds to participate in an expanded survey on climate risk. This survey aimed to assess climate risk awareness and understand how financial institutions are incorporating these risks into their management strategies.

The results, published in September in our report titled "Climate Risk Perception and Management: A Baseline Survey of the Financial Sector in the Monetary Union of

Curaçao and Sint Maarten," revealed some important insights. While most financial institutions recognize the influence of climate change on their business risks, the majority have yet to integrate climate risk into their risk management strategies.

For us at the CBCS, this sends a clear message: there is a pressing need for top-down guidelines and policies to support the financial sector in becoming more resilient to climate change. However, the survey also highlighted significant data gaps that must be addressed.

To build on this work, the CBCS will conduct extended research to analyze the exposure of investments and loan portfolios to medium- and long-term climate risks.

A critical first step in this effort is the development of climate risk scenarios specific to Curaçao. To achieve this, we aim to collaborate closely with partners in the Curaçao Climate Change Platform (CCCP), utilizing methodologies from leading international organizations, particularly the IMF and the Network for Greening the Financial System (NGFS).

Our second strategic action is to intensify collaboration and dialogue with local and international institutions. This year, the CBCS focused on two key collaborative efforts:

SLIDE 8 Leading the Caribbean Banking Supervisors' Technical Working Group on Climate Change and Green Financing

The members of the Caribbean Governors and Banking Supervisors (CGBS) are central banks and supervisors of the banking sector in the Caribbean. As such, we are mandated with the responsibility for promoting financial stability.

To make the Caribbean banking sector more resilient and sustainable, the CGBS set up a Technical Working Group (TWG) for climate change and green finance in 2023.

The TWG serves to exchange best practices, pool knowledge, and combine the brain power of the Caribbean central banks and banking supervisors. We all face similar challenges when it comes to climate change.

The CBCS has taken on the task of chairing the TWG from 2024 - 2026. We will start with two activities in this group:

1. To develop comprehensive guidance for modelling climate risk of regulated entities. The guidance will outline methodologies, tools, and metrics for assessing financial institutions' exposure to climate risks.
2. To draft a 'straw man' supervisory guidance for banks. This initial guidance will contain key principles and methods to evaluate climate risk exposures and how to incorporate this in the risk management framework for banks.

These objectives aim to ensure consistency in supervisory practices among the Caribbean participating countries, and to enhance the financial sector's resilience to climate-related disruptions, and finally, to promote long-term sustainable economic practices.

SLIDE 9 Becoming a Member of the NGFS

Close collaboration not only allows us, as a small jurisdiction, to join several large policy projects. It also provides a gateway to current research and resources which we, with our limitations, could not develop ourselves.

In addition, collaboration places our jurisdiction in the middle of international networks, where we can help amplify the voice of small island developing states in calling for specific attention to physical climate risk, which can be potentially life-threatening.

This brought us to apply for membership in the Network for Greening the Financial System (NGFS). The network brings together central banks and supervisors, committed to taking due account of the climate risk to global financial stability.

On May 29th, the CBCS officially became a member of the NGFS. We will be joining other central banks from all over the world in the workstream on banking supervision, as this aligns with ongoing activities within the Caribbean group of banking supervisors.

In the framework of the NGFS, we hope to learn about appropriate reporting mechanisms that help improve data. We will also continue strengthening our expertise on instruments, such as stress testing and guidelines for disclosure, to contribute to climate change resilience of the financial sector.

SLIDE 10 Concluding

The visible acceleration of the consequences of climate change means that the need to safeguard our country is not something we can postpone. We cannot continue to "kick the can down the road" but must start preparing and investing to prevent the loss of lives and a much higher economic cost.

Today we will launch into the many achievements and advances of the different technical committees. While doing this we have to keep the end in mind. The objective should be to have a comprehensive national adaptation strategy in place when we meet again next year.

For this we need to accelerate our efforts together.

Slide 11 Thank you