



In Conversation with

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1. When and why did your institution join the NGFS?

In October 2017, when Morgan Després (who then became the first Head of the NGFS Secretariat) first approached me, I instantly and enthusiastically supported the idea of Banque de France of creating the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). From the beginning, it was very reassuring to see the strong commitment of Governor François Villeroy de Galhau, as significant resources would need to be devoted to support the development and growth of the Network.

Also, this idea could not have come at a better time. While significant international progress had been made in 2016 and 2017 within the G20 Green Finance Study Group (GFSG), the outlook of the G20 GFSG in late 2017 was not as bright as it had been over the first two years. We knew that not all G20 countries were strong supporters of the work done within the GFSG and that, going forward, past progress could not necessarily be replicated. Thus, the idea of central banks and supervisors joining forces and forming a network based on their mutual desire or willingness to bring in financial authorities to tackle a global existential threat immediately made sense. Within Banco de México (BdM), I was very fortunate to be close to outgoing Governor Agustín Carstens (now Managing Director of the Bank for International Settlements) and incoming Governor Alejandro Díaz de León, both of which heartily supported BdM participation in the NGFS from the start. Back in December 2017¹, BdM was among the founding members of the NGFS, and became a permanent member of the Steering Committee.

¹ <https://www.ngfs.net/en/communique-de-presse/joint-statement-founding-members-central-banks-and-supervisors-network-greening-financial-system-one-0>

2. Can you share with us the key elements of Banco de México's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Since 2016, BdM has been reaching out to financial authorities on issues related to green finance. BdM has a fluid dialogue with the private sector Green Finance Consultative Council and the Mexican Banks Association. In 2021, BdM supported the creation of the Mexican TCFD Consortium, which was launched at the end of the year (this consortium found inspiration in the successful Japanese TCFD Consortium).

In early 2020, in a conversation with Governor Diaz de León on the need to provide institutional support to green finance efforts in México, he suggested the creation of a Sustainable Finance Committee (SFC) to coordinate them. The SFC was established that same year as part of the Financial Stability Council.

All federal financial authorities are members of the SFC. The heads of the private sector financial associations are observers. The SFC is chaired by the Finance Ministry and BdM acts as secretariat. To support its work, the SFC has 5 working groups, each led by a financial authority, but with ample participation from the private sector: (1) Sustainable Finance Taxonomy, (2) Capital Mobilization Opportunities, (3) ESG Risk Measurement, and (4) Disclosure of Information and Adoption of ESG Standards. In 2022, the SFC set up a fifth working group to analyse the proposed accounting standards of the International Sustainability Standards Board (ISSB) and their timely implementation. Additionally, the SFC recently created a transversal Sustainable Finance Capacity Building Hub, conceived as a “public good” to provide free online materials in Spanish. This concept is akin to a virtual library on sustainable finance with guided visits.

The different working groups of the SFC meet regularly to prepare analyses, evaluations, proposals, and recommendations within their specific mandates. In addition to being the secretariat of the SFC, BdM coordinates the risk measurement working group, acts as a secretariat of the Capital Mobilization and ISSB standards working groups, and works closely with the Green Finance Consultative Council in setting up the Capacity Building Hub.

Banco de México declaration towards UN Climate Change Conference of the Parties (COP26) in November 2021, reaffirmed our commitment to improving financial institutions' capacities to effectively identify, monitor and manage the climate-related and ESG risks they are exposed to².

BdM is part of the newly created Technical Advisory Committee on Sustainability of the Mexican Accounting Standards Board and is supporting the Finance Ministry in developing an “Action Plan for Sustainable Finance” to be published at the end of this year or the beginning of 2023.

3. To which extent did the Banco de México leverage the work of the NGFS in its own domestic journey? Any concrete examples?

BdM frequently showcases NGFS work and publications to foster domestic and regional awareness. An early example was the January 2019 BdM-NGFS conference on greening the financial system³ that ran in parallel with an NGFS Steering Committee meeting in México City, in which representatives of around 30 countries of the Americas participated.

² <https://www.banxico.org.mx/financial-system/d/%7B80FDF3B4-F5C1-E88F-442E-EF77C6A7BE59%7D.pdf>

³ <https://www.banxico.org.mx/publicaciones-y-prensa/discursos/%7B0C818254-4A85-0E2F-064C-78EE70F2A810%7D.PDF>

The first NGFS comprehensive report (released in April 2019)⁴ and its 6 recommendations stimulated the realization of a first in-depth diagnosis carried out by BdM and UNDP/UNEP⁵, which focused on finding out the degree of awareness among México's financial institutions to climate and environmental risks and opportunities, reporting standards and methodologies. This exercise included close to 60 in-person interviews with CFOs and other senior management officials of financial institutions in the second half of 2019 and resulted in a set of non-mandatory recommendations. The report was released in early 2020.

The recently approved new working structure of the NGFS (2022-2024)⁶ seems to be well suited to BdM. There is interest among different areas of BdM in the works of all four NGFS Working Groups and the two Task forces.

Perhaps the best recent example is the NGFS work on climate scenarios⁷, which has been of great help to BdM. At the beginning of 2022, the SFC approved a roadmap for the development of climate scenarios analysis in México that included physical and transition risks. The SFC selected five plausible climate scenarios that provide a wide diversity of possible futures. Four of the recommended scenarios were taken from the NGFS (the two disorderly scenarios, the current policies scenario, and the below 2°C warming orderly scenario), while a fifth asymmetric non-NGFS scenario, which intended to include reputation, legal and trade risks, was also approved.

The SFC opted to use the NGFS scenarios and the models considered by the NGFS as much as possible, since these models will allow for the analysis we carry out in México to be comparable and consistent with those carried out in other parts of the world. In particular, we selected the GCAM (Global Change Analysis Model) integrated assessment model used by the NGFS since México is already disaggregated in this model and GCAM has been willing to work with us even though we have not yet secured the needed financing. Over the summer, BdM worked with GCAM researchers on the calibration of the model for México.

BdM has also been in talks with the UN Economic Commission for Latin America and the Caribbean (ECLAC) and modellers working on international cooperation to develop a macroeconomic model that can be linked to GCAM's México outputs. Discussions with ECLAC also include ways to support other LATAM central banks and supervisors' climate scenario analysis.

The SFC is also supporting the climate scenario analysis of financial institutions and non-financial entities. In this respect, the SFC recently launched a survey directed at financial and non-financial entities to understand the main obstacles individual entities face to do quantitative climate scenario analysis. The Mexican TCFD Consortium has agreed to support advisory services and capacity building efforts for those entities willing to participate in the first pilot next year.

4. *One last word?*

While the NGFS has had very important achievements since its creation just a few years ago and now has grown into a global network comprising 121 members and 19 observers, it still faces challenges. I would like to mention briefly one that I consider of great importance, namely paying special attention

⁴ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

⁵ <https://www.banxico.org.mx/sistema-financiero/d/%7B3A8C7F15-9FE1-9A2A-DCF7-6C6D11A0E1DB%7D.pdf>

⁶ <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-its-2022-2024-work-program>

⁷ <https://www.ngfs.net/ngfs-scenarios-portal/>

to and caring for the needs of central banks and supervisors of emerging and developing countries. In this respect, three ideas come to mind:

1. Making sure that we advance in mitigation and adaptation jointly, particularly by analysing the tools at the disposal of central banks and supervisors to support physical risk mitigation strategies through adaptation finance (including insurance). Climate change risk is affecting many emerging countries disproportionately and the first order of business in many emerging countries is to increase their resilience to climate shocks since this is a critical economic and financial stability issue.

2. While the NGFS has consistently produced “public goods” to facilitate the climate action of its members, there is still much to be done for central banks and supervisors of emerging countries. Consider for instance the very important implementation of the NGFS climate scenarios. To support quantitative climate scenario analysis by individual emerging country members, the NGFS need to keep working with academics in particular to foster also much finer geographic disaggregation of the models it is using.

3. There is a significant and increasing interest among central bank and supervisors’ employees and external talented professionals that could be attracted to work with NGFS members on green or sustainable finance. Thus, a question for the NGFS to ask is how central banks and supervisors can better tap these talents and interest to speed up the greening of the financial system.

I am confident that the Network will be able to consider and further develop these ideas. In particular, the Task force on “Capacity Building and Training” will certainly develop tools, materials, and methods that will be of great help to central banks and supervisors of emerging and developing countries. I also very much welcome the publication of the note “Physical Climate Risk Assessment: Practical Lessons for the Development of Climate Scenarios with Extreme Weather Events from Emerging Markets and Developing Economies” in September 2022.⁸

⁸ https://www.ngfs.net/sites/default/files/media/2022/09/02/ngfs_physical_climate_risk_assessment.pdf