



In Conversation with

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

The Reserve Bank of New Zealand – Te Pūtea Matua (the Reserve Bank) joined the Network for Greening the Financial System (NGFS) in December 2018, at the same time that we launched our Climate Change Strategy.

Climate change is a huge global challenge that requires a collective response. All sectors of society must contribute. Like many central banks, we at the Reserve Bank are clear that climate change could lead to material economic and financial stability impacts. As a steward of the financial system, we are deeply concerned about the effects on the economic wellbeing of our people. As a small island nation, we can't solve the problem of climate change alone and are building our capacity to play our part – an important element of which is connecting globally with our international counterparts through the NGFS.

The Reserve Bank is strongly committed to the work of the NGFS. To truly embed climate and environmental considerations across financial systems, it is crucial that different perspectives are brought to the table. Being a member of the NGFS is helping us to learn from the challenges faced by other central banks and pool our responses. We get access to the latest policy thinking and guidance on areas such as prudential supervision, macroeconomic research, and analysis and portfolio management.

2. Can you share with us the key elements of the climate strategy of the Reserve Bank of New Zealand and how it fits into the broader national strategy in your jurisdiction?

When it comes to climate change, we are aware that New Zealand – being a small island nation with an agricultural and tourism-based economy and a population that lives mostly on the coastline – will be impacted differently than many other nations.

Significant action has been taken by New Zealand towards achieving a more climate-resilient future.

New Zealand was the first in the world to announce its intention to introduce mandatory requirements on large companies and financial organisations to report on climate risks. In April this year, the Bill that will support this action, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, was introduced to Parliament¹.

Separately, in 2019, Parliament passed the Climate Change Response (Zero Carbon) Amendment Act² which sees New Zealand targeting a net zero emissions carbon target by 2050.

For our part, as New Zealand's central bank our overarching objective when it comes to climate change is to facilitate, where possible, a smooth transition to a low carbon economy – and thereby reduce risks to financial stability and to maintaining a sustainable and stable economy. We already know that climate change holds far-reaching implications for New Zealand's economy and financial system. Climate change presents the firms we regulate – the banking and insurance sectors – with critical challenges. For this reason, like many other central banks, we have been taking action to understand and mitigate the risks from climate change to financial stability.

Our climate strategy, launched in 2018, has three components:

i. Understanding and managing our own climate impacts

First, we are getting our own house in order as we take a look at our operations – our carbon footprint and where our own investments are going.

Last year, we reported our verified carbon footprint for the first time in our annual report. This covers our direct emissions. We engaged a third party to verify these emissions and conduct a gap analysis to develop a carbon footprint that complied with international best practice and was reflective of the Reserve Bank's true footprint. We are now working to further develop our footprint and develop an emissions reduction plan.

In 2019, we invested US\$100 million of our own balance sheet via the Bank for International Settlement USD Green Bond Investment Pool³.

ii. Incorporating the impacts of climate change into our core functions

Second, we are working towards fully embedding climate risks into our core functions of financial stability and monetary policy.

We are building our climate expertise and awareness through training and development for all staff, and building our technical expertise. In particular, we are stepping up our supervision of climate-related risks for banks and insurers. We have completed the first round of training for our supervisors in climate-related risks and are integrating climate risks into our supervision frameworks. We take every opportunity to raise awareness of climate-related risks to financial stability through our external engagement and through our biannual *Financial Stability Reports*⁴. Like many other central banks, we are preparing for climate-related stress tests, with this year's insurer stress test having a strong weather-event focus.

¹ <https://www.parliament.nz/en/pb/bills-and-laws/bills-digests/document/53PLLaw26421/financial-sector-climate-related-disclosures-and-other#RelatedAnchor>

² <https://environment.govt.nz/acts-and-regulations/acts/climate-change-response-amendment-act-2019/>

³ <https://www.rbnz.govt.nz/news/2019/09/reserve-bank-confirms-green-bond-investment>

⁴ <https://www.rbnz.govt.nz/financial-stability/financial-stability-report>

iii. Leading through experience and collaboration

Lastly, we are collaborating within New Zealand and across the globe to support wider thinking on how to best respond to the impacts of climate change. Aside from our membership with the NGFS, we are also a member of the Sustainable Insurance Forum (SIF).

At home, we are working with both private and public agencies to tackle issues that reach across the financial system. We lead the climate work stream of the Council of Financial Regulators or CoFR⁵, a group of New Zealand regulators that contributes to maximizing New Zealand's sustainable economic well-being through responsive and coordinated financial system regulation. We are also contributing to the Sustainable Finance Forum hosted by the Aotearoa Circle and to the development of New Zealand's first National Adaptation Plan.

The commitment of our people is inspiring. People right across all our different business areas collaborate enthusiastically to translate our climate strategy into action. That said and while we are pleased with our progress, we recognise that there is still a lot to be done and we need to move with even more pace. The task is significant but it's one we can and will rise to.

3. To which extent did the Reserve Bank of New Zealand leverage the work of the NGFS in its own domestic journey? Any concrete examples?

Our membership with the NGFS has provided us with vital access to exchange experiences and learn from our colleagues in the global arena on how to best manage the impacts of climate change to the financial system.

It has greatly helped us develop our own understanding and supervision of climate-related risks. In particular, last year, we used resources from the NGFS and the SIF for training our supervisors in climate risks.

While much of our own analysis of the New Zealand economy and financial system is aimed at understanding how our policy instruments can best serve our mandate over the short to medium term, the NGFS has focused our attention also on the long term and we are actively exploring use of the NGFS longer term scenarios⁶. We are part of the NGFS' macro-financial workstream, where we contribute to building climate scenarios and linking them to economic outcomes, monitoring domestic and international developments in this space.

The NGFS scenarios will be useful as we explore how to incorporate climate change into our stress testing. As fellow central bankers will understand, this is not straightforward given data limitations and the dynamic non-linear nature of climate impacts. Our stress test plan begins this journey with the inclusion of drought conditions in a bank stress test scenario and severe weather events in an insurance stress test. The NGFS scenarios will be considered as part of future planning. We also work to share experience regionally through EMEAP's Monetary and Financial Stability Committee.

We also collaborated with the NGFS at the South Pacific Governors' Annual Meeting in Sydney in 2019. The event looked at the impact of climate change on the Pacific's financial systems and the region's response to it.

⁵ <https://www.cofr.govt.nz/priority-themes/climate-risks.html>

⁶ <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-second-vintage-climate-scenarios-forward-looking-climate-risks-assessment>

Lastly, we are working to increase awareness and understanding of the NGFS work internally and across our networks here in New Zealand. We have started a Climate Reading Group among the members of the Council of Financial Regulators where we review the latest research and literature on the impacts of climate change to the financial system – some of these are the reports produced by the NGFS.

4. *One last word?*

I first became aware, and worried, about the risks of man-made climate change as long ago as the mid-80s, and recall an intense but good-natured debate with two highly sceptical friends. In the intervening decades, they have both fully accepted the science and one is as passionate as I am about the need to leave our planet in a fit state for our children.

We both have young adult children now: wanting to leave them an environment that is healthy and resilient motivates us beyond anything that words can describe. Thankfully, I can look at them and their generation with optimism – caring for the planet and thinking broadly about tackling climate change and its impact is something that they do instinctively.

My generation could and should have done so much more – the science was basically settled and not hard to understand. I am hugely encouraged by the breadth of the NGFS: so many people, of all ages, from so many cultures, that come together with the aim of making a difference. If the Reserve Bank of New Zealand can play its full part, then I can feel that we have done what we can to manage both the causes and the effects of this major global challenge.

COVID-19 provides some powerful lessons, highlighting as it did the interdependencies of the global challenges that we all face.

Addressing these issues and eventually rebuilding our nations and our environment requires a high degree of collaboration and connection – amongst each other and with nature. Grounding a response in our collective knowledge, data and expertise will strengthen the effectiveness of our actions. Whatever we do, rebuild, reshape or invest in now must be sustainable, long term in its horizon, inclusive, anchored in our communities, and for the benefit of generations to come.