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NGFS promotes environmental risk analysis in financial industry

There is a growing consensus among members of the Central Banks and Supervisors' Network for Greening the Financial System (NGFS) that climate-related and environmental risks could result in significant risks for financial institutions, and will have serious implications for financial stability. In order to effectively address climate-related and environmental risks, greater collective efforts are urgently needed from regulators, financial institutions, international organizations, third-party vendors, and academic institutions to promote the wider adoption of Environmental Risks Analysis (ERA) in the financial industry. This is the overarching conclusion of the two NGFS publications released today:

The [Overview of Environmental Risk Analysis by Financial Institutions](#) provides wide-ranging examples of how environmental risks translate into financial risks, and an in-depth review of the tools and methodologies for ERA used by financial institutions including banks, asset managers and insurance companies. The report also identifies the **major barriers** to wider adoptions of ERAs by the financial services industry, including the lack of awareness of environmental risks, inadequate data, incomplete methodologies and limited capacity.

The overview concludes with **six opportunities for mainstreaming ERA** within the financial sector:

1. **Enhancing ERA awareness:** Central banks and financial supervisors should strive to enhance ERA awareness among financial institutions by conducting ERA themselves and clarifying expectations or standards for financial institutions to implement ERA.
2. **Capacity building:** Industry associations, central banks and supervisors, international organisations, NGOs and academic institutions could organize seminars and training activities on ERA methodologies, with some results delivered as public goods to the financial industry.
3. **Supporting demonstration projects:** The NGFS, international organisations, central banks and supervisors should consider supporting demonstration ERA projects in key sectors such as banking, insurance and asset management, and for key regions exposed to substantial environmental and climate-related risks.
4. **Disclosing risk exposures and ERA results:** A robust and internationally consistent climate and environmental disclosure framework is needed. For those countries with more developed ERA tools and capacity, central banks and supervisors might encourage financial institutions to disclose their exposures to environmental and climate risks as well as their ERA results in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
5. **Developing Key Risk Indicators (KRI) and statistics:** The NGFS and relevant international organizations could conduct research themselves while encouraging other market bodies and academic institutions to develop KRI that facilitates the identification, measurement and data comparability of environment- and climate-related risks.

6. **Developing a taxonomy of economic activities:** NGFS calls on policymakers to bring together the relevant stakeholders and experts to develop and adopt green and brown taxonomies that enhance the transparency around the ESG characteristics of the economic activities.

The Overview is a non-technical review of ERA tools and methodologies based on the **NGFS Occasional Paper “[Case Studies of Environmental Risk Analysis Methodologies](#)”**. The Occasional Paper, the second document published by the NGFS today, presents a more detailed and in-depth discussion of the tools and methodologies for ERA through case studies conducted by over 30 organizations. This paper aims to inform the financial community of the ERA methodologies and inspire interested institutions to further develop or enhance them. Views expressed in the Occasional Paper are those of the individual authors and do not necessarily reflect the views of the members and observers of the NGFS.

Frank Elderson, Chair of the NGFS and executive board member of De Nederlandsche Bank, said: *“We know we must act on environmental risk analysis. However, many financial institutions and their supervisors are still at an early stage in developing and deploying suitable datasets, models, and tools. I trust that today’s NGFS publications will provide useful insights for the financial industry on methodologies currently in use, and will also serve as an important inspiration for many others to follow suit”*.

Dr Ma Jun, Chair of NGFS Workstream on Supervision and leading author of the Overview report and main editor of the Occasional Paper, said: *“Environmental risks, including physical and transition risks, can have significant financial impact on financial institutions. Promoting environmental risk analysis should become an integral part of the green finance agenda of financial regulators, and basic ERA methodologies should become public goods for the financial industry. We hope the Overview and Occasional Paper can contribute to more effective dissemination of these methodologies and encourage further research & development in this very important field”*.

About the NGFS

The NGFS, launched at the Paris One Planet Summit on 12 December 2017, is a group of central banks and supervisors, which on a voluntary basis are willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. The NGFS brings together 69 central banks and supervisors and 13 observers. Together, they represent five continents and around 60% of global greenhouse gas emissions, and are responsible for the supervision of over three quarters of the global systemically important banks and two thirds of global systemically important insurers. The NGFS is chaired by Frank Elderson, executive board member of De Nederlandsche Bank. The Secretariat, headed by Morgan Després, is provided by Banque de France.

For more details, visit the [NGFS website](#) and [Twitter account](#) or contact the NGFS Secretariat at Banque de France sec.ngfs@banque-france.fr

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