



#oneshot#2#climaterisks



CLIMATE RISKS DRIVERS

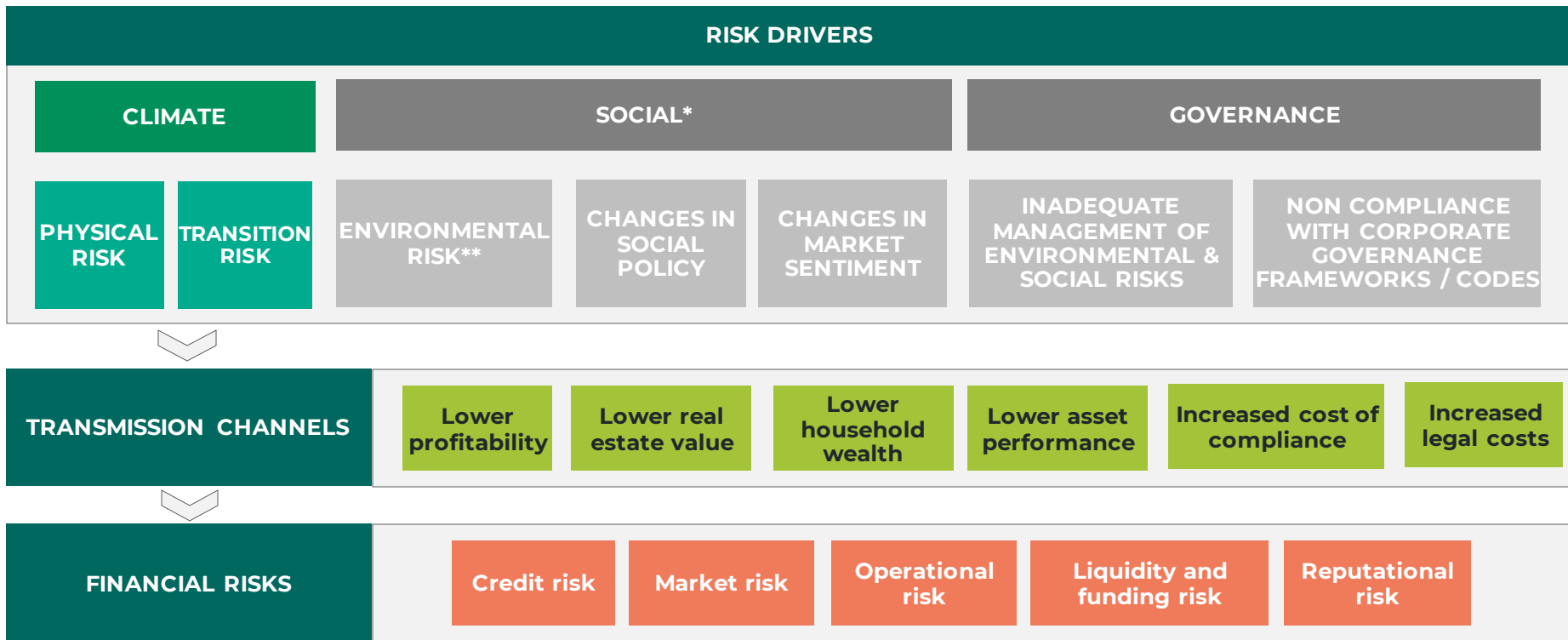
CLIMATE RISK DRIVERS, TRANSMISSION CHANNELS AND FINANCIAL RISK CATEGORIES

« Physical and transition climate risk drivers affect banks' financial via micro and macroeconomic transmission channels. »

Basel Committee on Banking Supervision (BCBS) – Climate-related risk drivers and their transmission channels

TRANSMISSION CHANNELS BETWEEN RISK DRIVERS AND FINANCIAL RISKS

Risk drivers generate financial risks through transmission channels



*social risks are the risks of negative financial impact on the institution stemming from the current or prospective impacts of social factors on its counterparties or invested assets

**The continuous deterioration of environmental conditions implies heightened social risks such as migration in the most affected regions

FOCUS ON CLIMATE RISK DRIVERS : PHYSICAL AND TRANSITION RISKS

What are the 2 climate risk drivers ?

Climate related risks are the financial risks posed by the exposure of institutions to counterparties that may potentially contribute to or be affected by the climate change.

Physical risk

Physical risks are the risks of negative financial impact on the institution stemming from the current or prospective impact of the physical effects of environmental factors on its counterparties or invested assets.

Transition risk

Transition risks are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of the transition to an environmentally sustainable economy on its counterparties or invested assets.

ACUTE

Which arise from particular events, especially weather-related events such as storms, floods, fires or heatwaves that may damage production facilities and disrupt value chains.

CHRONIC

Which arise from longer-term trends, such as temperature change, rising sea levels, reduced water availability.

CLIMATE AND ENVIRONMENT RELATED POLICY CHANGES

Example : Carbon-pricing mechanisms that increase the price of fossil fuels

TECHNOLOGICAL CHANGES

Example: if a technology with a less damaging impact on the climate on the environment replaces a technology that is more damaging, hence making it obsolete or uncompetitive.

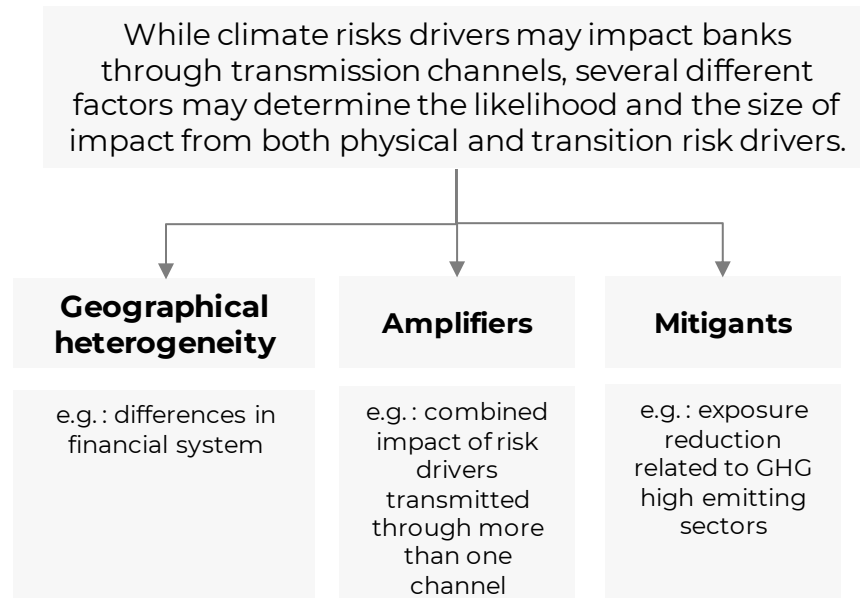
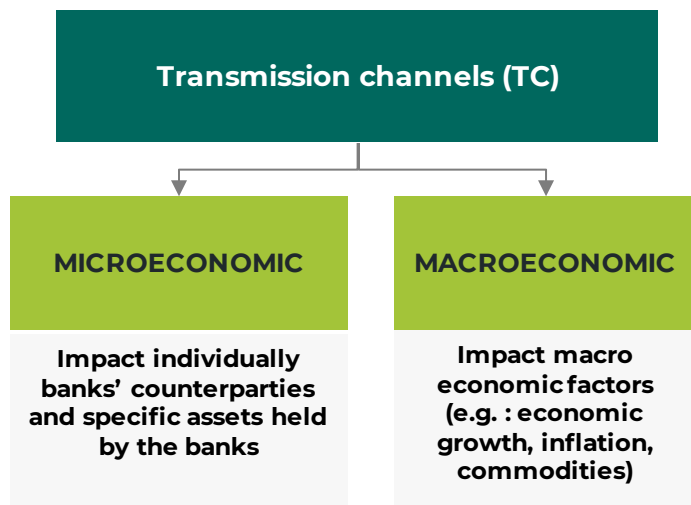
BEHAVIORAL CHANGES

Example : if the choices of consumers and investors shift towards products and services that are more sustainable.

FOCUS ON TRANSMISSION CHANNELS

What are the transmission channels?

The causal chains that explain how climate risk drivers give rise to financial risks that impact banks directly or indirectly through their counterparties, the assets they hold and the economy in which they operate.



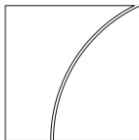
EXAMPLES

Cases	Examples	TYPE OF RISKS
Physical Risk Microeconomic Transmission channel	Households exposed to acute flood risk : Impact on collateral value for mortgage loans	CREDIT RISK
Transition Risk Microeconomic Transmission channel	Corporates with rights to extracts fossil fuel reserves : Transition to a lower-carbon economy will lead to uneconomical fossil fuel reserves (stranded assets)	MARKET RISK
Transition Risk Macroeconomic Transmission channel	Severe repricing effect and market risk as climate policy tightens (i.e. impact of climate policy on profitability of corporates)	LIQUIDITY RISK
Physical Risk Microeconomic Transmission channel	Severe natural disasters can trigger a sharp increase in precautionary demand for liquidity by financial institutions, households and corporates	OPERATIONAL RISK
Physical Risk Microeconomic Transmission channel	Severe natural disasters that could affect data centers	REPUTATIONAL RISK
Physical Risk Microeconomic Transmission channel	A corporate with providers from « dirty » industries	



SOURCES

Basel Committee
on Banking Supervision



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BANK FOR INTERNATIONAL SETTLEMENTS





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