



Financial Sector & Climate Change

Why in News

Recently, the [Reserve Bank of India \(RBI\)](#) joined the **Network for Greening the Financial System (NGFS)**.

- The RBI expects to benefit from the membership of NGFS by learning from and contributing to global efforts on **climate finance**, which has assumed significance in the context of [climate change](#).

The Network for Greening the Financial System

- It is a **global network of central banks and supervisory authorities** advocating a more sustainable financial system.
- It **aims to analyse the consequences of climate change for the financial system** and to redirect global financial flows in order to enable low-carbon economic growth.
- It was created at the **Paris One Planet Summit in December 2017** and its secretariat is hosted by the Banque de France.

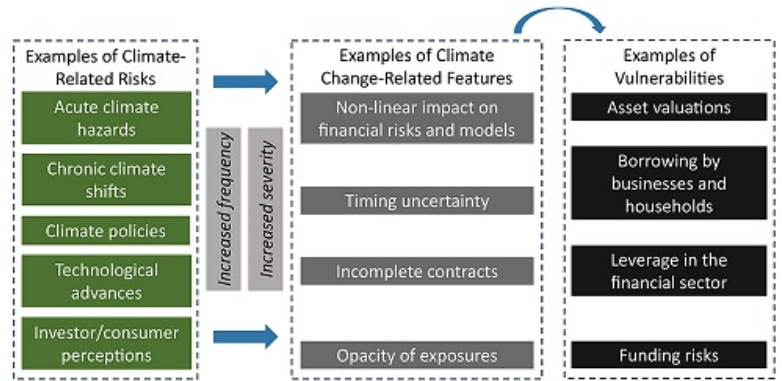
Climate Finance

- [Climate Finance](#) refers to **local, national or transnational financing**—drawn from public, private and alternative sources of financing.
- It **seeks to support mitigation and adaptation actions** that will address climate change.

Key Points

- **Risks to Financial Stability due to Climate Change:**
 - Climate change poses risks to financial stability in the form of:
 - **Physical risks:** Caused by **extreme and slow onset weather events**.
 - **Transition risks:** Caused by **changes in policy**, legal and regulatory frameworks, consumer preferences and technological development while transitioning to a low-carbon economy.
 - **Example:**
 - Under many climate projections, **climate change leads to a further rise in sea levels and increase in storm surge**.
 - These effects, in turn, **lead to increased inundation of coastal land parcels**, which could either damage existing structures on those parcels, or **require investment and adaptation for their continued productive use**.
 - As this inundation occurs, **the expected value of coastal real estate**

may decrease—which may, in turn, pose risks to real estate loans, mortgage-backed securities, the profitability of firms using the inundated property, and the finances of state and local governments facing declining property tax revenues and rising remediation costs.



- The [World Economic Forum's \(WEF\) Global Risks Report 2021](#) noted **climate action failure and infectious diseases as the highest risks** (risks with greatest impact and likelihood).

▪ India's Situation:

- A World Bank report estimates that **losses to India's [Gross Domestic Product](#) by 2050 due to climate change could be USD 1,178 billion.**
- The RBI has noted the importance of **climate-related financial disclosures and private green finance as necessary to generate the enormous amounts of investments** required to combat climate change and bring about a transformation towards sustainable and low carbon development.
- A study by non-profit Shakti Foundation found that an assessment of **BSE ([Bombay Stock Exchange](#))** 100 companies showcases that most of the **Indian companies are lagging in the climate change disclosure space due to lack of relevant expertise; limited access to relevant tools and methodologies; and limited subject knowledge.**

▪ Related Initiatives:

◦ **Task Force on Climate-related Financial Disclosures (TCFD):**

- TCFD was **created in 2015** by the [Financial Stability Board \(FSB\)](#) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
- To make the private sector contribute to climate positive action and become resilient to climate risks are the **recommendations of the TCFD.**
- Its recommendations are now **widely recognised as the gold standard for global business sustainability reporting frameworks**, providing standardised and comprehensive guidelines for corporate climate disclosures.
- About **32 Indian organisations have signed up for TCFD, including the Mahindra Group, Wipro etc.**
- Recently, **New Zealand became the first country to announce a law** that will require financial firms to disclose climate-related risks and opportunities.

Way Forward

- The only way forward is to **fully integrate climate-aligned structural change with economic recovery needing a fundamental shift in the entire finance system with a massive increase in private finance to get from “billions to trillions”.**
- The **Indian government needs to introduce guidelines and regulations to standardise and mandate climate-related disclosures in all financial statements** and push private companies and financial institutions to manage their exposure to climate risks in their portfolios

and operations.

- This would help not only in increasing resilience of Indian companies to face physical and transition risks of climate change but also in **facilitating greater climate finance flows while minimising 'greenwashing'**.

Source:DTE

PDF Refernece URL: <https://www.drishtias.com/printpdf/financial-sector-climate-change>

