From framing to assessment: the NGFS work on nature-related risks

EIOPA stakeholder engagement on nature-related financial risks for insurers
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"...the NGFS is of the view that nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications is a source of risks for individual financial institutions as well as for financial stability."

NGFS Statement on Nature-Related Financial Risks (2022)

Climate change is interconnected with nature loss and should be treated in an integrated manner

NGFS Conceptual Framework:

➔ Climate change is a **driver of nature risk**
➔ Nature risk is a **driver of climate risk**
➔ Climate change **mitigation and adaptation** potentially drive nature risk
➔ Nature can be a **solution** to decrease climate risk

**Source**: NGFS Technical Document providing recommendations toward the development of scenarios for assessing nature-related economic and financial risks, 2023.
Financial actors need to go from exposure analysis to risk assessment.

**Phase 1:** Identify sources of physical and transition risk

**Phase 2:** Assess economic risks

**Phase 3:** Assess risk to, from and within the financial system

A comprehensive approach to nature-related risks includes an assessment of economic risks and financial risks (NGFS Conceptual framework).

Exposure through impacts and dependencies does not fully account for a risk (NGFS Technical document on scenarios).
We need to work on narratives to identify the most material risks

- Provides recommendations towards the development of nature-related scenarios, seeking as much synergy as possible with the NGFS climate scenarios while accounting for the specific features related to nature loss.

1. Two main objectives:
   - Suggest avenues to develop consistent narratives for physical and transition hazards.
   - Assess the ability of different methodologies, models, and tools to account for nature-related risks.

2. Main challenges identified:
   - Complexity of ecosystem functions and processes at stake.
   - No single metric (e.g., akin to CO₂) or policy/measure (e.g., pricing natural capital).
   - Existence of a local-global tradeoff.
We need to find models that take into account the specificities of nature

- **Current models** likely underestimate the risks, because they:
  - account for a **limited fraction** of potential hazards
  - use **assumptions** that **mitigate** the consequences of nature loss

- The tools most efficient to capture **indirect impacts along value chains** (MRIOs):
  - Provide only a **static** picture
  - Might not be **granular enough**

- NGFS “ID cards”: summary of assessment criteria for 6 models
- NGFS Technical document: long-term recommendations for changes in models
Options exist on the short term for developing nature scenarios

What’s next for the NGFS?

1. Nature scenario work
   - **Short/medium term:** work on the short-term recommendations made in the Technical document, work on narratives;
   - **Longer term:** work on the improvement of modelling tools, development of capacity-building instruments.

2. **Framework** refinement and implementation

3. **Mainstreaming of nature-related considerations** within the NGFS
   - Work on suggestions for workstreams to bridge existing gaps
   - Capacity-building work
   - Start of work on nature in other workstreams and expert networks
Also at DNB we are integrating nature-related risks across our core tasks

- Supervision
- Economic advice
- Financial stability
- Reserve management
Thank you!