



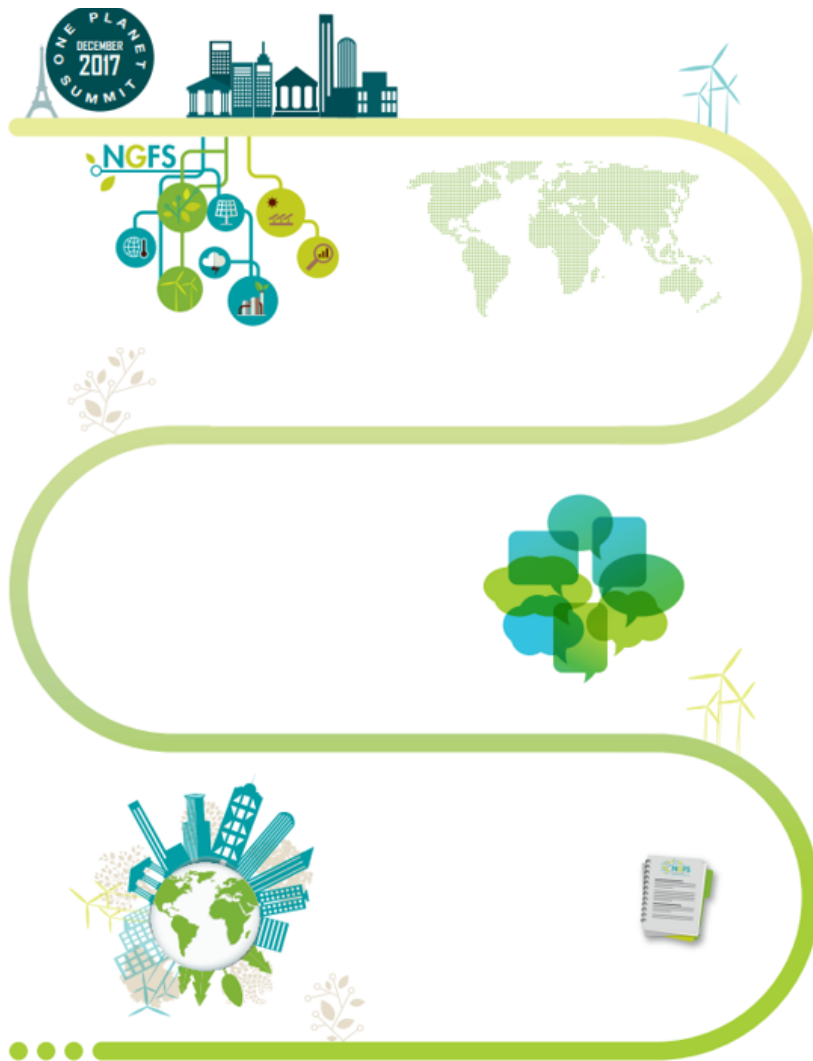
Assessing nature-related risks: the NGFS work and perspective

MNB-OECD-EC Launch Event: Technical implementation of the Supervisory Framework for Assessing Nature-related Financial Risks to the Hungarian financial sector

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The Network for Greening the Financial System



- Established by **8 Central banks and Supervisors** during the Paris Dec. 2017 One Planet Summit
- As of March 2024: **more than 150 members / observers**, covering 5 continents
- **Coalition of the willing.** Not a Standard Setting Body
- **NGFS members' jurisdictions cover:**
 - Supervision of **100%** of the global systemically important banks and **80%** of the internationally active insurance groups;
 - More than **85%** of global greenhouse gas emissions.

1. The NGFS Task force on biodiversity loss and nature-related risks

Objective: Help mainstream the consideration of nature-related risks across the NGFS, together with climate-related risks.

The **way to achieve this objective:**

- Act as an **incubator that explores, develops, and harmonises** nature-related considerations and efforts
- Explore the **interconnections, similarities and differences between nature-related and climate-related risks.**
- **Leverage the significant amount of work done** and **collaborate** with NGFS workstreams, networks and members, and relevant external stakeholders (e.g. TNFD, G7...).

Key publications in 2023

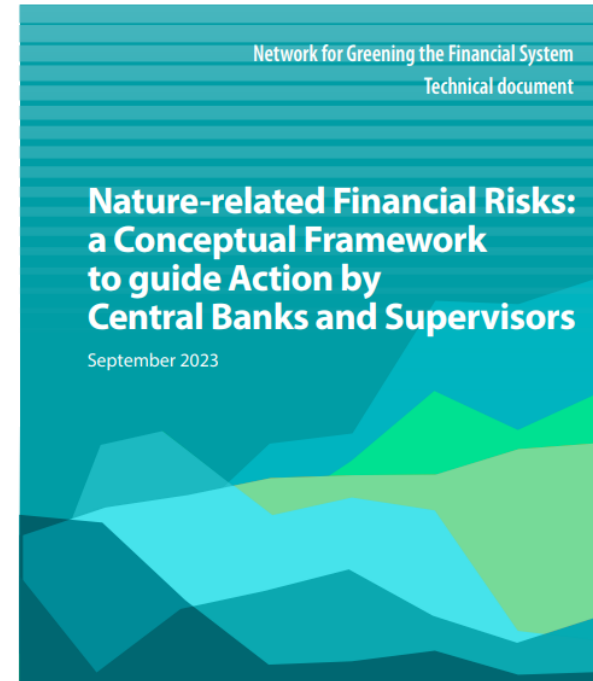
Conceptual Framework on nature-related risks that central banks and supervisors can utilise to develop policies and actions on nature-related issues

A **Technical Document** providing specific recommendations towards the development of nature-related scenarios

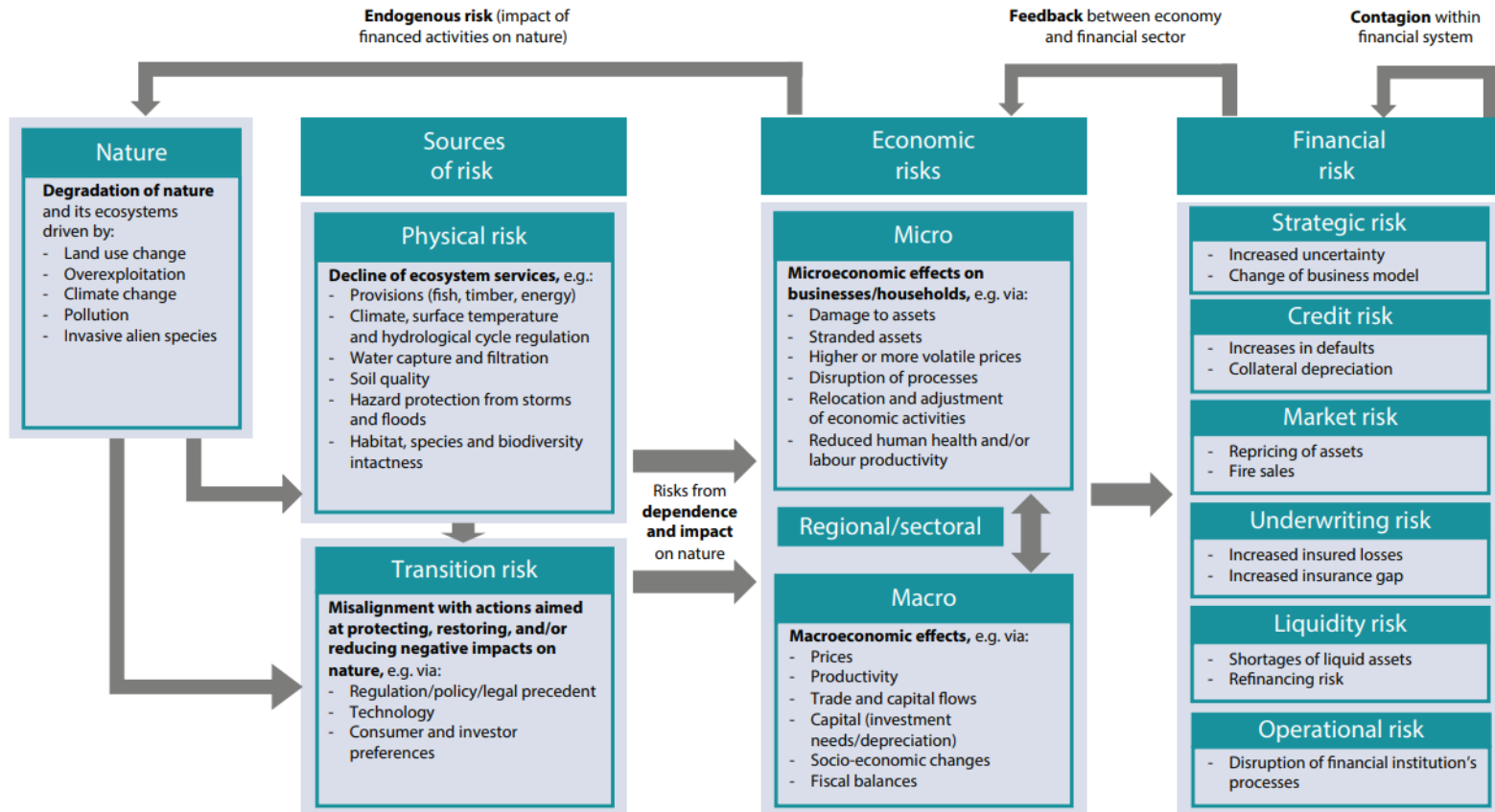
2. The NGFS Conceptual Framework on nature-related financial risks

Overview

- A common science-based **understanding of, and language for** nature-related financial risks
- **Aligned and complementary approach** to the technical guidance focus of the OECD Supervisory Framework on nature
- Adopts an **integrated approach**, meaning that climate-related financial risks are within scope
- Includes a **principle-based risk assessment framework**
- Released as **beta version** to be refined and supplemented over time



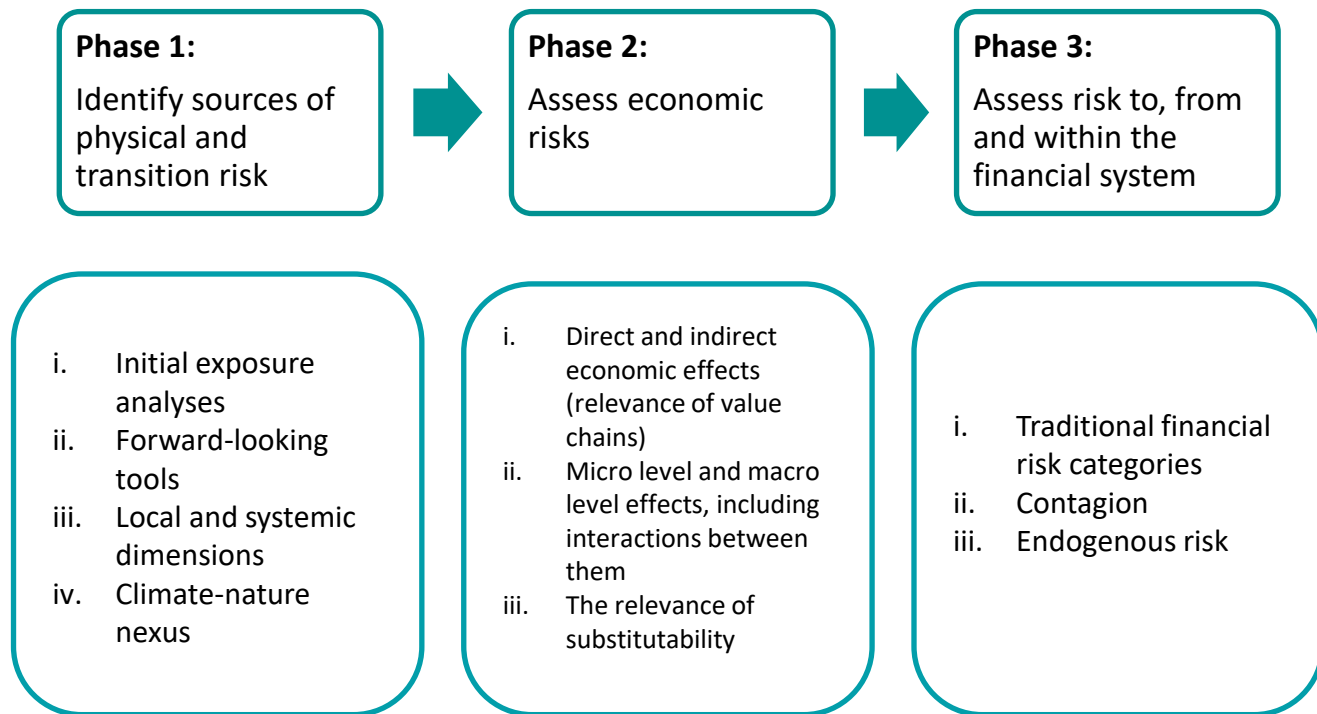
2. Understanding nature-related risks: transmission channels



Source: Adapted from Svartzman, R. et al. (2021) *"A Silent Spring" for the Financial System? Exploring Biodiversity-Related Financial Risks in France.*

2. Principle-based risk assessment framework

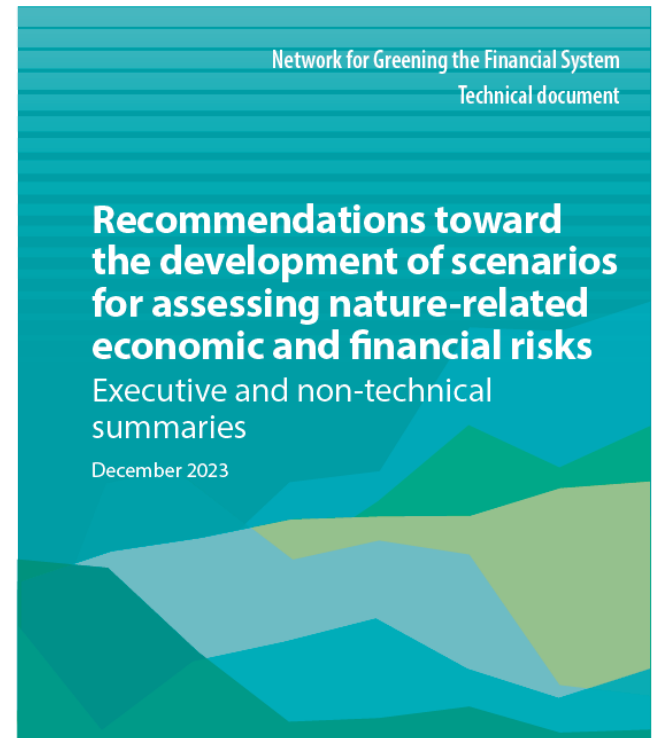
- Seeks to **operationalise** the understanding of nature-related financial risk
- Provides **flexibility** for:
 - emerging analytical methodologies and risk management practices
 - differences between jurisdictions
- Contains **guiding questions** to capture key elements that central banks and supervisors could consider



3. The NGFS Technical document on nature scenarios - Overview

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**
 - Modelling exercises need to reflect **transmission channels** through which a specific nature-related hazard can propagate in the economy



3. Work undertaken and 3 key findings



1. The report suggests approaches to develop scenario narratives that could **translate nature concepts and trends into practical physical and transition risks** for the financial system:

- Physical risk : ESGAP and INCAF-Oxford tools
- Transition risk: in-house review of nature-related policies and suggested two-step approach to generate narratives

2. The report **assesses** six of the most commonly used « nature-economy » models and of 14 purely « biophysical » models.

➔ The most commonly used « nature-economy » models likely **underestimate nature-related risks**, because they:

- account for a **limited fraction** of potential hazards
- use **assumptions** that **mitigate** the consequences of nature loss

3. It also **studies the main features of MRIO models and tables** and conduct of **two case studies** (drought, policy against ‘imported deforestation’) linking narratives to MRIOs

➔ MRIOs are particularly useful to study impacts along a **whole value chain**, and have the advantage to assume **no elasticities of substitution**. However they mostly allow for **short to medium term analyses** and might not allow for enough **granularity**

3. Recommendations for nature scenario development

No silver bullet, but many ways forward to design scenarios:

Short-term research program:

- Use **input-output tables and models** (potentially with biophysical models) for short-term scenarios
- Use some of the more **traditional models** assessed, but with great caution (e.g. doing **sensitivity analyses on elasticities of substitution and communicating clearly on this**)

Longer-term research program:

- **Represent more ecosystem services**, more **policy and technology options**, and also more issues related to values of nature and **“transformative changes”** (IPBES, 2019)
- Consider **alternative macroeconomic modeling assumptions such as non-equilibrium approaches** (e.g. stock-flow consistent models combined with input-output models)

What's next for the NGFS ?

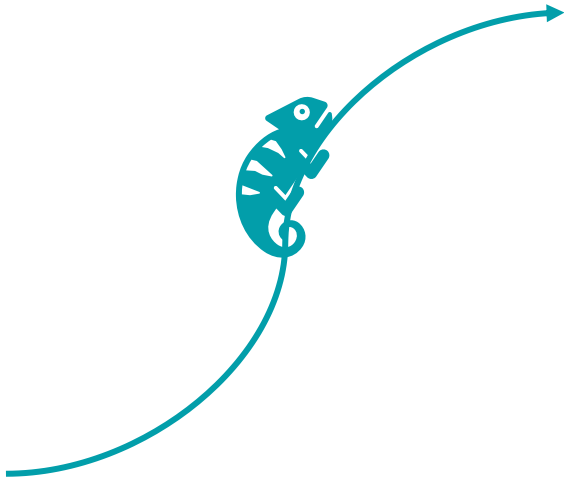
1. Nature scenario work

- **Short/medium term:** work on the Technical document short-term recommendations, 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





Thank you !

