

# CLIMATE CHANGE RISKS - GRADUAL THEN SUDDEN

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CENTRALE BANK

CURAÇAO & SINT MAARTEN

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### CONTENT

- Climate Change Risk
- Risk Management in the Financial Sector
- Climate Change and Central Banks
- Strategic Agenda CBCS

## **CLIMATE CHANGE RISK (1)**



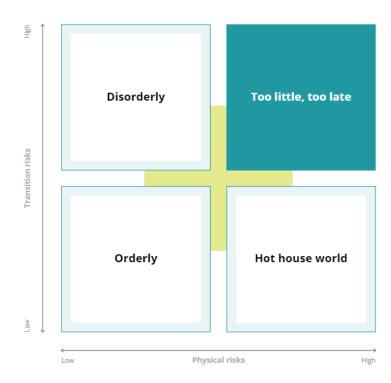
## **CLIMATE CHANGE RISK (2)**

Orderly scenarios assume climate policies are introduced early and become gradually more stringent.

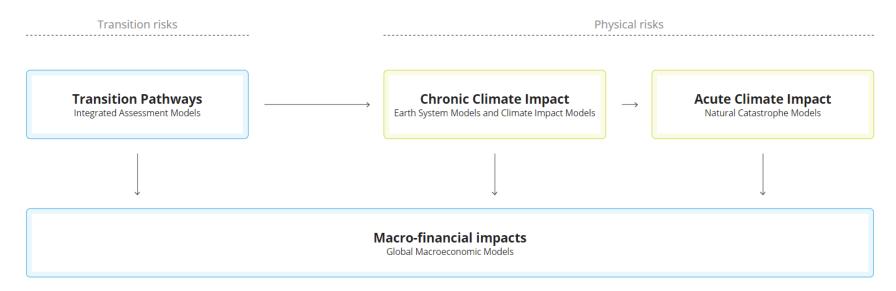
Disorderly scenarios explore higher transition risk due to policies being delayed or divergent across countries and sectors.

Hot house world scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming.

Too little, too late it is possible that a late transition would fail to contain physical risks.



# RISK MANAGEMENT IN THE FINANCIAL SECTOR (1)



# CLIMATE CHANGE RISK IN INSURANCE, PENSION FUNDS AND BANKING INDUSTRY

Microprudential Implications of Climate Change

#### Climate Risks

#### Physical Risks (Acute)

Hurricanes, droughts, floods

#### **Physical Risks (Chronic)**

Increasing temperatures, environmental degradation, and sea level rises

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#### Transition Risks

Climate policy, tax policy, technology, regulation, consumer preferences, market sentiment

#### Transmission Channels (direct and indirect)

#### Micro channels

Corporates (financial and non-financial)

- Profitability
- Balance Sheets (property values, supply chain disruptions, stranded assets, liquidity needs)

#### Households

- · Income/Expenditure
- Balance Sheets (residential property values)

#### Macro channels

#### **Economic growth**

- Government spending and tax policy
- Capital investment
- · Labor productivity
- Resource availability
- · Export demand

#### Socioeconomic changes

- Population migration
- Changes in consumption patterns

#### **Prudential Risks**

#### **Credit Risk**

Higher PD, higher LGD/collateral depreciation

#### Market Risk

Abrupt repricing of financial instruments/fire sales

#### Operational Risk

Business disruptions, liability risk

#### Reputational Risk

Reputational damage from lending to high-carbon industries

#### Liquidity Risk

HQLA demand, refinancing risk

### STRATEGIC AGENDA CBCS

- 1. Seek collaboration and dialogue— hence our enthusiasm for this Platform;
- 2. Do research on climate risks specific for Curacao and Sint Maarten;
- 3. Assess the impact on the financial sector and
- 4. Adjust our supervisory approach.

## THANK YOU FOR LISTENING



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