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economy

Internalisation of climate risk in the banking sector is a much needed task.

The Reserve Bank is in the process of releasing guidelines on financial risks to banks posed by climate change. RBI had previously joined the NBFS - network for greening the financial system.

Risks of climate change to Banks

① Physical risk - posed by damages due to floods, and economic cost of heaviness

② Transition cost - it is the risk from adjustment to climate change such as shifting from coal the regulators

authorities use stress tests to assess the extent of damage to the banks.

Effects of risk

① Credit risk - It impairs the value of assets held by the customers and affects

the supply chain affecting their operations.

② Market risk = decline in valuation of the asset and increase in volatility.

③ Liquidity risk - increase in demand to respond to the extreme climate events.

④ Operation risk disruption in business continuity due to impact on banks' infrastructure.

⑤ Reputation risk changes in market and consumer sentiment.

Internalising climate risk

Sebi launched Business responsibility and sustainability report (BRSR) for top 1000 listed companies.

Risk assessment of climate externalities can reduce impact on banks. skilled professional

are needed to handle wealth and climate risk. Strategies to address climate change

through proper formulation and planning.

is necessary.