July 30

① Internalising climate Risk

Recently RBI announced to internalize climate risk in Banking sector which is in line with its committment to Network for Greening financial system a collaboration of central banks and supervisors all over the World to deal with green finance issues.

→ Climate change is posing a serious threat to financial stability by affecting global production and disrupting supply chains.

Need of the hour

There's a little ecological awarness among investors and firms, as they continue to exploit the environment. When such industries, which are vulnerable to rising climate risk, once disrupted fail to repay the debt, increasing banking burden.

This catastrophic cost again inturn increases the operating cost which lead to loss of livelihood, savings, capital assets. Even for agricultural loans calamity risk is essential. For example: A farmer trying to cultivate paddy in a land which might be affected by drought makes him to default. The pandemic too has exposed the sustainbility issues and many banks reported huge losses. Internalising climate risk using rating assessment and industrial models to predict future help banks to hold additional funds predicting the risk.

Future ahead

Quality data and constant assessment and vigilance on the associated risk and benefits should be priority for sustainable future.

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