

Speech: Steady investments in a changing climate

Emma Howard Boyd, UK Commissioner to the Global Commission on Adaptation and Chair of the Environment Agency speech at the European Bank for Reconstruction and Development

London, 21 March 2019

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Where we invest matters.

Last year, the Intergovernmental Panel on Climate Change said we have 12 years to hold global warming to 1.5°C above pre-industrial levels... and even if we do, the impacts of climate change – like floods, heatwaves, storms, the spread of disease, and drought – will significantly increase.

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We don't yet know the full extent of the impact of Cyclone Idai on Mozambique, Malawi, and Zimbabwe, but the UN estimate that 600,000 people are affected in Mozambique and 900,000 in Malawi.

The UK government is providing £18 million in aid to the region and will also match public donations up to £2 million.

The UN Special Representative for Disaster Risk Reduction, Mami Mizutori, said: "Cyclone Idai is a clear demonstration of the exposure and vulnerability of many low-lying cities and towns to sea-level rise as the impact of climate change continues to influence and disrupt normal weather patterns."

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The World Bank says one hundred million people are at risk of being pushed into poverty by climate change by 2030, particularly in sub Saharan Africa and South Asia.

The Overseas Development Institute says this will rise to 720 million by 2050.

Most developing countries face a 40% shortfall in meeting their water demand by 2030.

(You may have seen the Environment Agency Chief Executive's speech about the potential for water shortages here in England earlier this week – if not, please look it up).

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Around the world, there is not enough large scale investment in the systems needed to manage climate change.

For example, we know early warning and social protection systems are more effective than humanitarian responses to disasters – in human and economic terms – yet investment doesn't reflect this.

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Even if you don't usually think about humanitarian aims through the prism of finance – that is economically short-sighted.

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However complex the language of finance and climate change may seem, the two simple truths are:

- A. We are not reducing emissions fast enough.

And,

- B. Businesses, infrastructure, technology, and people are not prepared for weather impacts that we are certain will get worse in the next 11 years.

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It makes financial sense for our investments to meet both of these concerns.

Four years ago, Mark Carney said “the tragedy of the horizon” is that the catastrophic impacts of climate change will happen beyond the planning cycles of most banks.

By the time the impacts are felt, it will be too late to act.

He discussed 3 risks to the financial system posed by climate change.

- Liability risks (i.e. can people be sued for their previous emissions when the impacts hit?);
- Transition risks (i.e. the risks of destabilising the economy as we reduce emissions and prepare for impacts);

And,

Climate change already costs money.

A UN study found there were 335 weather-related disasters each year around the globe from 2005 to 2015, almost twice the number seen from 1985-1994.

Swiss Re estimates natural disaster losses have averaged \$180 billion

annually in the last decade. And, remember, that is only insured losses.

In January – the World Economic Forum’s Global Risks Report ranked extreme weather events first, and the failure of climate change mitigation and adaptation second, on its table of global risks by likelihood.

Now, I know what you’re thinking...

“What does that mean for my mortgage?”

The insurance industry initiative ClimateWise – run from the Cambridge Institute for Sustainability Leadership – says losses on UK mortgages could double if global temperatures increase by 2°C and triple if warming hits 4°C...

Would mortgages be top of everyone’s minds in a 4°C scenario?

I doubt it.

But – think about it, because we are currently on track for 3.5°C.

Weather events cause shocks to the economy by suddenly changing the availability and price of products.

For example:

In 2007/2008, drought in South and Southeast Asia reduced rice harvests.

India and Thailand put an export ban in place to protect domestic food security, which led to a spike in rice prices elsewhere.

In Senegal, a country that depends on imported rice, the increase in price led to food riots in Dakar in April 2008.

If a financial system is resilient – and can get back to normal again relatively quickly – then banks generally avoid taking action to stabilise the economy – because that could have unforeseen consequences further down the road.

But...

Last week, Guy Debelle, Deputy Governor of the Reserve Bank of Australia, said:

The recent IPCC report documents that climate change is a trend rather than cyclical, which makes the assessment much more complicated. What if droughts are more frequent, or cyclones happen more often? The supply shock is no longer temporary but close to permanent. That situation is more challenging to assess and respond to.

From the European Central Bank, executive board member Benoît Cœuré, has said:

Climate change will make it more difficult to correctly identify the shocks hitting the economy – which begs the question of banks: should they take non-standard, pre-emptive policy measures to avoid such risks... Catastrophic climate change could thus test the limits of how far monetary policy can go and, in the extreme, force us to rethink our current policy framework.

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Critics of these interventions say it is all very well bankers talking about this, but they haven't yet promised significant action.

Even in my most positive moments I don't pretend that green finance is now mainstream, but I do think something is beginning..

I look forward to Sarah Breeden talking about the Bank of England's action in a moment – which involves including climate change in its bank stress tests, and helping to set up the Network for Greening the Financial System.

This isn't only about banks.

All investors need to understand their money's impact better – whether they work in finance, or they have been automatically signed up to a company pension fund.

People need to ask:

Do businesses have the right skills at board level to manage climate change?

Are they properly considering their environmental impact?

Are boards putting aside capital expenditure for resilience measures to ensure business continuity?

Are asset managers telling the truth about green funds? Or are they blinding us with greenwash?

The Task Force on Climate-related Financial Disclosures is helping investors understand the impact of their money.

And, the Environment Agency Pension Fund has set up the Transition Pathway Initiative with the Church of England National Investing Bodies to assess how companies are preparing for the transition to a low-carbon economy.

These initiatives help.

In the autumn, I became the UK Commissioner to the Global Commission on Adaptation.

Led by Ban Ki-moon, Bill Gates, and Kristalina Georgieva, CEO of the World Bank, the GCA will present an agenda for scaling up adaptation ahead of the UN Climate Summit in September.

It will guide Action Tracks on food security, infrastructure, finance, local action, cities, and nature-based solutions.

These will build on existing initiatives, giving them added impetus to set and scale tangible targets.

The Commission will facilitate a Year of Action, culminating in a Climate Adaptation Action Summit in 2020.

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Also at the UN summit, the UK government will lead on climate resilience.

The government wants to deliver:

1. A systemic shift in the way the public and private sectors think about investment. With \$6 trillion per year to be invested in infrastructure up to 2030, investment decisions should account for, and respond to, climate risk.
2. Better capacity to manage climate shocks around the world. This includes better targeting of investments and building human and physical capacity to cope with current and future climate risks.

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This spring, the government has committed to publish the UK's first ever Green Finance Strategy, setting out the steps they are taking to attract investment into a clean, and resilient, economy and cementing the UK's position as a global leader.

I want to thank the United Nations Environment Programme Finance Initiative, the European Bank for Reconstruction and Development, and everyone here today, for helping us develop the GCA's paper on climate resilience and finance. I look forward to discussing this further as the evening goes on.

I also look forward to hearing about further developments from the UK government and the GCA during London Climate Week in July.

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In 2019 and 2020, there are many moments to help shift perceptions, increase demand, and co-ordinate action and investment on climate change.

All of this presents long-term opportunities for investors.

In a world that feels increasingly unsteady underfoot, investments with a

modest, stable return – that may have looked pedestrian in the past but are resilient to the impacts of climate change in the future – are beginning to look pretty good.

As market interest increases, we should be looking to incorporate resilience, and the UN Sustainable Development Goals, in the development of infrastructure, technology, and economies everywhere – from the vast Belt and Road Initiative of the Chinese government, to the 300,000 new homes a year our government is aiming at by the mid-2020s.

I recently spoke at a conference with a co-panellist who suggested that the implications of the economic transition to manage climate change were so great – that they could prove insurmountable in a democracy.

I disagree.

Our responsibility, as professionals in the finance industry is to show leadership, so that governments and the public can disprove that suggestion.

Why?

Because soon we will all be over the hill.

If we don't act, we may well reflect on where the horizon once was...

...and consider that the real tragedy was we spent our money in a way that was not just financially myopic, but morally bankrupt.

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Thank you very much.