

Key Takeaways: Webinar on *Green Finance and Climate Risk Mitigation in India* organised by IIBF in association with GARP, USA.

Globally, climate change is increasingly being recognized as a source of financial risk for banks. The uncertainty about the timing and severity of climate-related and environmental risk poses a significant threat to the safety, soundness and resilience of individual Regulated Entities (REs) and, in turn, the stability of the overall financial system. It is therefore recognized that the REs should steadily manage the risks and opportunities that may arise from climate change and environmental degradation. As pointed out in the recent discussion paper published by Reserve Bank of India on “Climate Risk and Sustainable Finance” dated July 27, 2022, there is a definite need of strategic emphasis towards knowledge dissemination and skill development amongst the banking fraternity on sustainable finance.

With the above mentioned objective in mind, the Institute, in association with Global Association of Risk Professionals (GARP), has recently concluded a Webinar on “Green Finance and Climate Risk Mitigation in India” on August 17, 2022. Encouragingly, the webinar has seen widespread participation both domestically and internationally across bankers, investment professionals, risk & compliance practitioners and regulators.

Shri Biswa Ketan Das, CEO, IIBF set the tone of the webinar through his brief, yet insightful, welcome address on the paramount importance of sustainability in financial operations.

Shri Sunil T. S. Nair, Chief General Manager, Reserve Bank of India eloquently presented the Regulator’s Perspective on the said topic and emphasised on the importance of a co-ordinated global effort towards achieving the ‘Net Zero goals’, as envisioned and adopted by the global leadership, including India, during COP26 summit. Some of the focal points of his address were as follows:

- ❖ The regulator is actively and profoundly committed towards imbibing the Sustainable Development Goals (SDGs) into a well-defined framework for sustainability disclosures by regulated entities (REs). Ministry of Finance has already set up a Task Force for arriving at standardised taxonomy for the sustainability disclosure framework. The framework, he emphasised, is currently at an advanced stage of finalization.
- ❖ He pointed out the key initiatives undertaken by the regulator so far, e.g. the renewable energy sector has experienced substantial growth in financing, post its categorisation as priority sector. Subsequently, 100% FDI has been allowed in this sector.
- ❖ He emphasised that the banking and financial ecosystem needs to recognise the opportunities related to climate change and needs to customise its products and service offerings accordingly.
- ❖ There is a palpable need for relevant capacity building exercises in the domain for the banking and finance professionals, to ensure long-term impact.
- ❖ Keeping in mind the growing expectations from all the participants in the ecosystem, he urged the banks and financial institutions to support the regulator in greening the financial system in India, especially for the scenario-wise stress testing on the disclosure framework under development.

Dr. Soumya Kanti Ghosh, Group Chief Economic Advisor, State Bank of India (SBI) deliberated on the Economic Perspective of Sustainable Financing in India as on date and cited some of the specific initiatives from SBI in this aspect. Some of the key takeaways from his address were as follows:

- ❖ The aspect of direct sectoral exposures of scheduled commercial banks in India in SDG-sensitive sectors, e.g. cement, fossil fuels, textiles, paper, automobiles etc., and the need to monitor them constantly.
- ❖ Quantum of investment required in India is substantial; USD 10 trillion equivalent as per estimates, to achieve 'Net Zero' by 2070. Possible avenues to raise the funds, including green bonds were presented.
- ❖ Risks involved for the banks in a protectionist economic background, especially transition risk towards a sustainable lending portfolio. As an example, he underlined the initiatives adopted by SBI, e.g. focus on lending to renewable energy sector (Surya Shakti Cell, e-Rickshaw scheme, green hydrogen, ethanol blending etc.). Related adverse factors in this segment such as import dependency and lack of skilled manpower were also cited.
- ❖ Importance of having a standardised regulatory framework on sustainability disclosures, preferably in line with the IFSCA guidance framework on sustainable lending was stressed upon.

Dr. Maxine Nelson, Senior Vice President, GARP Risk Institute deliberated on the global perspective of climate risk and sustainable banking. Some of the key highlights of her delivery were:

- ❖ As per the Survey conducted by GARP in 2021 on the aspect of sustainability involving 78 major financial firms across the globe, transition risk towards sustainable operations has been assigned the highest priority, followed by physical risks. The GARP Institute would be conducting the next survey in September 2022.
 - ❖ The Survey points out that the financial firms would be required to factor Climate Risk and Sustainability while pricing their products. Only 6% of the firms felt that their green bonds have been priced correctly, as per the survey.
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