

# IOMC Workshop

25<sup>th</sup> February 2025

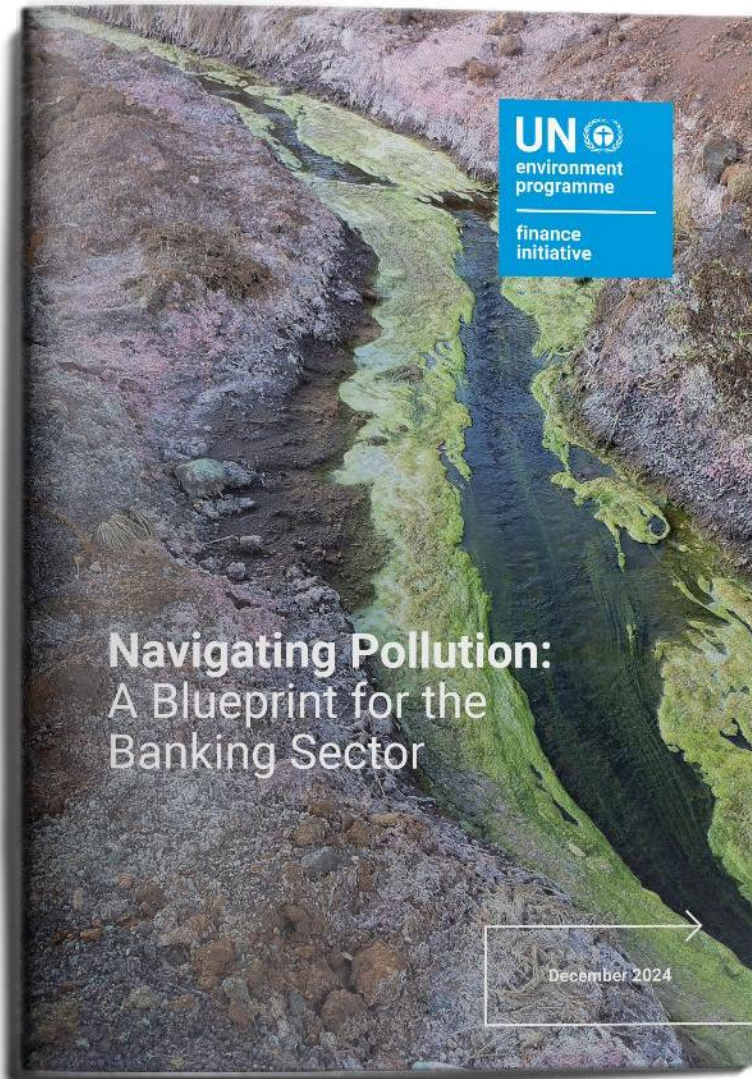


# Navigating Pollution

## A Blueprint for the Banking Sector

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# Navigating Pollution: A Blueprint for the Banking Sector



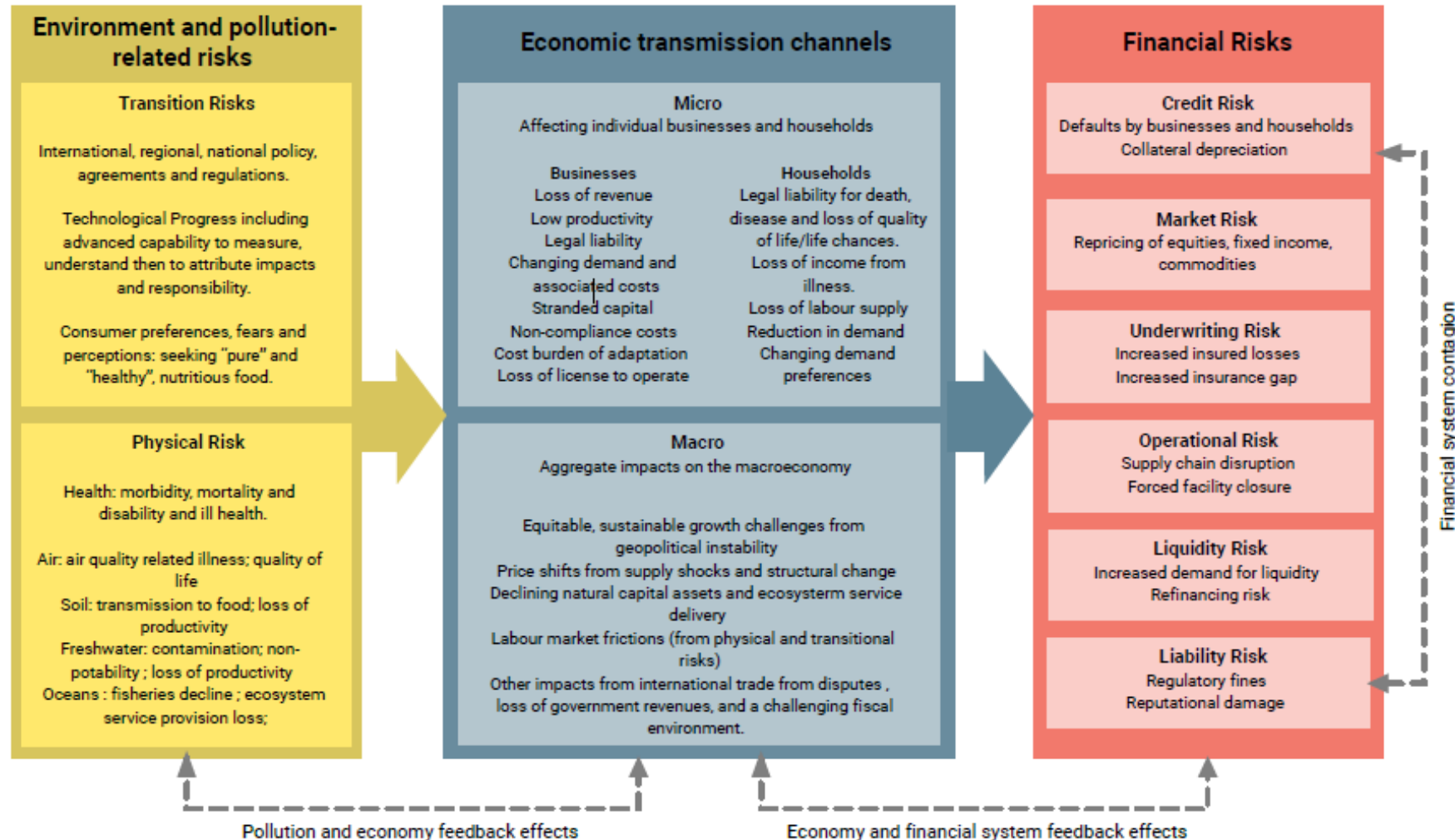
- Relevance of pollution for the banking sector
- Possible actions by the banking sector to address pollution
- A first approach to select high-priority sectors

# Relevance for the banking sector: double materiality of pollution

Impact materiality	
How the banks' portfolio composition and business practices contribute to pollution affecting the environment, people and society	
Environmental	<ul style="list-style-type: none"> <li>• <b>Degradation of air, water and soil quality</b></li> <li>• <b>Habitat destruction and biodiversity loss</b></li> <li>• <b>Climate change</b>, leading to rising temperatures, sea level rise, and more extreme weather events</li> </ul>
Social	<ul style="list-style-type: none"> <li>• <b>Negative health effects</b> including respiratory diseases, cardiovascular disease, cancer, neurological disorders</li> <li>• <b>Socioeconomic losses</b> including job losses, reduced productivity, and higher costs for healthcare and worker compensation.</li> <li>• <b>Inequity and social justice</b>: pollution often disproportionately impacts marginalized groups, exacerbating inequalities and violating rights to health, a clean environment, and adequate housing.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>• <b>Economic costs</b> including the costs of cleaning up pollution, treating health problems, and mitigating the impacts of climate change.</li> <li>• <b>Missed economic opportunities</b>: not achieving a just transition to a cleaner economy could stifle the creation of new economic opportunities</li> <li>• <b>Convergence issues</b>: pollution's economic impacts vary by region, causing convergence issues and potential trade tensions.</li> </ul>

Financial materiality	
How external factors related to pollution affect banks' financial health	
<b>Credit Risk</b>	Pollution-related incidents can cause financial losses, reduce collateral value, or lead to fines, legal liabilities and reputational damage that can increase borrowers' default risk
<b>Market Risk</b>	Pollution incidents can trigger asset price fluctuations, shifts in investor sentiment, and demand changes, especially under stricter regulations or consumer preferences for sustainability
<b>Underwriting Risk</b>	Pollution-related impacts can increase insured losses, create insurance gaps and cause insurance costs to increase.
<b>Operational Risk</b>	Banks can face risks from accidents, spills, or regulatory breaches affecting operations and supply chains of polluting industries.
<b>Liquidity Risk</b>	Pollution-related incidents may lead to higher liquidity needs, increasing banks' needs to raise funds to cover cleanup costs or losses.
<b>Liability Risk</b>	Failure to assess pollution risks can result in lawsuits, fines, and reputational damage from financing harmful activities.

# Transmission channels: pollution-related risks to financial risks



# Relevance for the banking sector: interlinkages with other impact areas

Positive interlinkages between various pollution-related impact areas



# Possible actions by the banking sector to address pollution (1/2)

Principle 1* Alignment	Principle 2* Impact & Target Setting	Principle 3* Clients and Customers
<ul style="list-style-type: none"> <li>• <b>SDGs</b>, especially SDG 2, SDG 3, SDG 5, SDG 6 , SDG 11, SDG 12, SDG 13 , SDG 14, and SDG 15.</li> <li>• <b>International agreements</b>, including:               <ul style="list-style-type: none"> <li>✓ Global Biodiversity Framework</li> <li>✓ Global Framework on Chemicals</li> <li>✓ Stockholm Convention</li> <li>✓ Basel Convention</li> <li>✓ Rotterdam Convention</li> <li>✓ Montreal Convention</li> <li>✓ Minamata Convention</li> </ul> </li> <li>• <b>Regional and national frameworks</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Impact assessment:</b> various tools and resources, including UNEP FI Impact tools.</li> <li>• <b>Target setting:</b> through effective client engagement and data, banks can set targets to reduce their pollution-related negative impacts and increase their positive contributions to nature conservation.</li> </ul>	<ul style="list-style-type: none"> <li>• Banks can <b>prioritize high-pollution clients</b> based on their impact and business relevance, developing targeted client and sector engagement strategies.</li> <li>• <b>Effective Client Engagement</b> includes:               <ol style="list-style-type: none"> <li>a. governance, policies, and processes oversight,</li> <li>b. robust data collection and management,</li> <li>c. portfolio impact analysis,</li> <li>d. strategy development, and</li> <li>e. staff capacity building.</li> </ol> </li> <li>• <b>Sustainable Finance Products</b> tailored for pollution</li> </ul>

\* UNEP FI, *Principles for Responsible Banking*

# Possible actions by the banking sector to address pollution (2/2)

Principle 4* Stakeholders	Principle 5* Governance & Culture	Principle 6* Transparency & Accountability
<ul style="list-style-type: none"> <li>• <b>Key stakeholders</b> include policymakers, regulators, industry associations, sector-specific standard setting institutions, academia / scientists / research institutions, civil society organizations, communities</li> <li>• <b>Stakeholder feedback</b> can help identify potential pollution-related impacts and risks that may not be apparent through internal assessments and drive the development of innovative financial products and services that tackle the issue of pollution</li> </ul>	<ul style="list-style-type: none"> <li>• Embedding pollution considerations into governance helps <b>mitigate risks</b> and <b>unlock sustainable finance opportunities</b></li> <li>• <b>5 pillars</b> underpin sustainability governance in a pollution-specific context:               <ol style="list-style-type: none"> <li><b>Leadership:</b> Build pollution expertise via advisory panels</li> <li><b>Governance:</b> Assign roles and link targets to remuneration</li> <li><b>Integration:</b> Embed pollution metrics into strategy and financing</li> <li><b>Knowledge:</b> Train staff on pollution risks, impacts and opportunities</li> <li><b>Engagement:</b> Collaborate with industry, NGOs, and clients.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mandatory Frameworks</b> - CSRD/ESRS E2 (double materiality)</li> <li>• <b>Voluntary Frameworks</b> – ISSB, GRI, TNFD, CDP, etc.</li> </ul>

\* UNEP FI, Principles for Responsible Banking

# A first approach to 5 high priority sectors

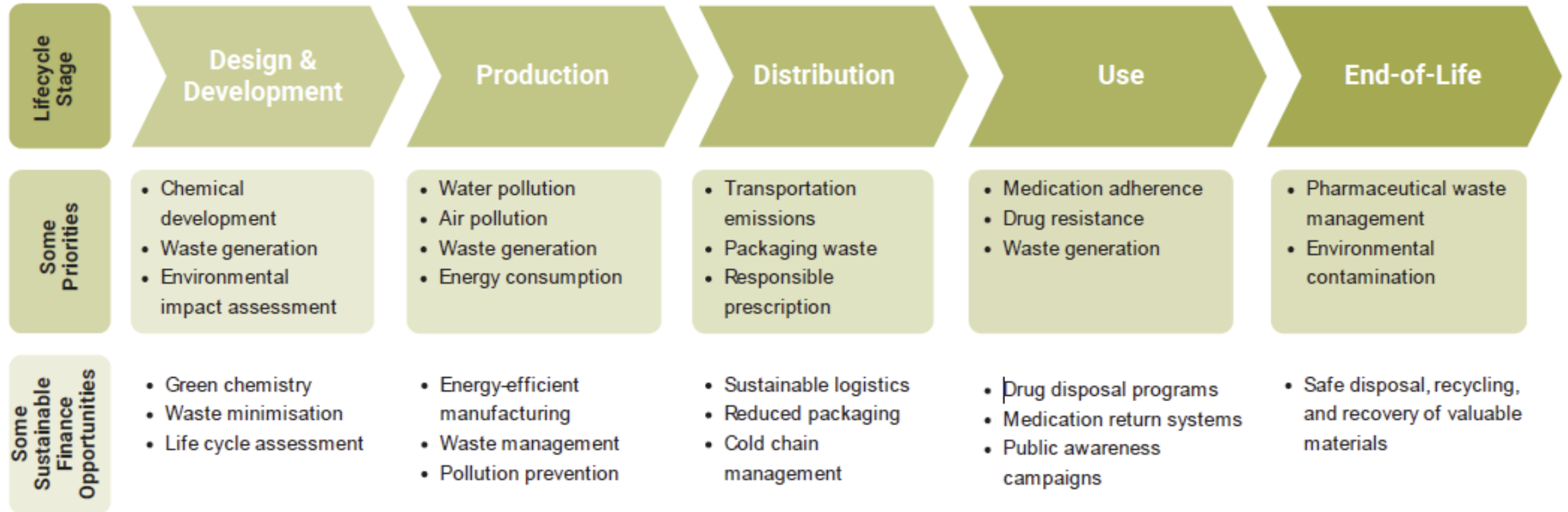
MiningTextilesElectronicsPharmaceuticalsAgriculture

- **Impacts** are environmental, social and economic
- **Risks**
  - **transition risks** (regulatory, consumer preferences, technology)
  - **physical risks** (air, soil, water and human health)
- **Opportunities** identified using life-cycle approach

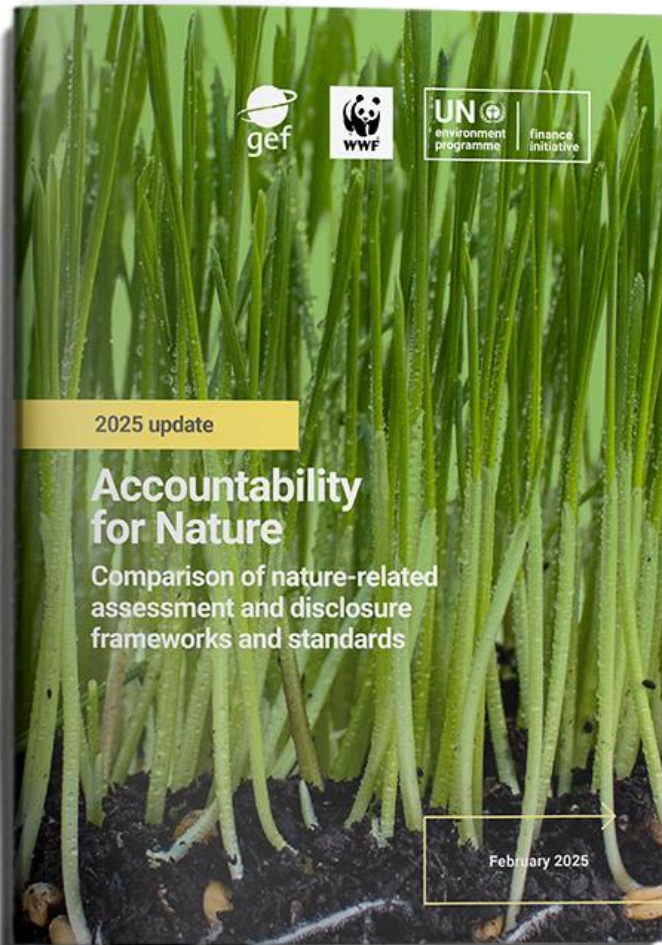


# Priority areas and opportunities across life cycle

## Pharmaceuticals example



# Accountability for nature: Comparison of nature-related assessment and disclosure frameworks and standards



## Summary of the key findings:

- Overall, the study revealed that the reviewed approaches are demonstrating **an increasing level of alignment in key concepts and methodological approaches** (e.g, materiality definitions, alignment of scoping and prioritization guidance, integration of science-based assessment methodologies and alignment of disclosure requirements and recommendations).
- **Alignment and interoperability between the approaches is expected to continue to improve**, with some aspects to be strengthened further.
- Alongside development, there is **increasing focus on implementation**.
- New: **disclosures on pollution**

# Accountability for nature: Comparison of nature-related assessment and disclosure frameworks and standards



# 12 Key findings from the report

<p><b>Definition of materiality:</b> differs across the approaches reviewed</p>	<p><b>Coverage of realms:</b> more consideration of the land and freshwater, and less ocean realm</p>	<p><b>Coverage of sectors:</b> vary in the level of tailoring to the sector context – often additional guidance for high-impact sectors</p>	<p><b>Coverage of value chains:</b> variation in the expected level of detail of upstream and downstream disclosures</p>
<p><b>Location information requirements:</b> all reflect the importance of location information, some recommend spatial data</p>	<p><b>Nature-related impacts:</b> central to all approaches – some include the state of nature, flow of ecosystem services and stock of ecosystem assets</p>	<p><b>Nature-related dependencies:</b> covered by most, the state of nature/external drivers are increasingly considered part of dependency</p>	<p><b>Nature-related risks &amp; opportunities:</b> similar definitions, differences in what is considered financially material</p>
<p><b>Disclosure metrics:</b> all encourage disclosure metrics and performance against the metrics, the difference in prescriptiveness</p>	<p><b>NEW Disclosures on pollution:</b> all cover pollution, some provide pollution-specific disclosure recommendations</p>	<p><b>Targets:</b> Most approaches require or recommend companies to set targets, including some include DIRO at location</p>	<p><b>Engagement with right-holders and relevant stakeholders:</b> Detailed guidance on stakeholder engagement is emerging.</p>

**Thank you**