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Why biodiversity loss and nature-related risks matter for financial actors

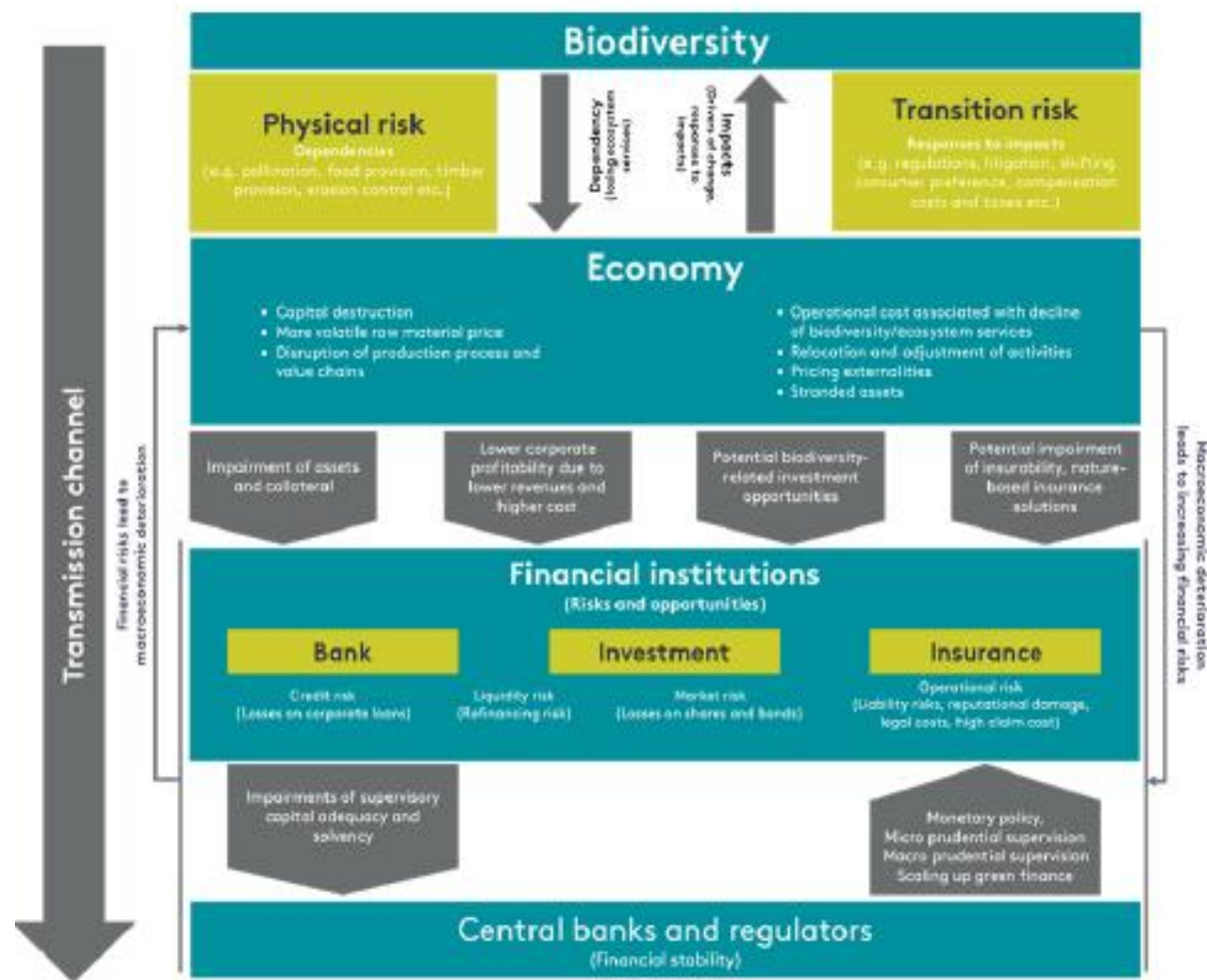
Nature-related issues can have an impact on the financial system

- The decline in nature's ability to provide us with "ecosystem services" can cause **large scale disruption in economic activities** and potentially constitute a **significant threat to financial stability**.

Just like climate change, nature loss can translate into physical or transition risks for financial actors.

- These risks can threaten individual financial institutions, and **potentially aggregate into systemic financial exposures**.
- Physical and transition sources of risk could reinforce each other, and multiple contagion channels could appear between different financial risks, with **feedback loops to the real economy**.

Example: deforestation



Source : NGFS-INSPIRE, 2021



Why biodiversity loss and nature-related risks matter for financial actors

Nature-related financial risks are still challenging to act upon

- Natural systems and processes are subject to **complex, non-linear dynamics and interrelationships**.
- Standard economic models of production assume substitutability between labour, capital and land/nature, whereas the **ecosystem services that underpin all economic production are deemed**, for the greater part, **not substitutable**.
- The complexity of ecosystems makes it **difficult to aggregate the different dimensions of “nature” under a common variable of interest and unit of measurement**.

Nevertheless, the financial industry cannot remain nature blind.

- It needs to get familiar with the topic of nature and **develop its insight into the potential shocks** that could be detrimental to financial stability both for physical and transition risks.
- It then needs to **go beyond qualitative assessment and find relevant data to work with** and it needs to use **appropriate, consistent tools and metrics to process that data**.

What is done and can be done to address nature-related challenges



Cooperate to further our understanding of nature-related risks

- **NGFS Task Force on Biodiversity loss and Nature-related risks** - act as an incubator on nature-related issues; explore interconnections and differences between nature- and climate-related risks; and leverage the work already done on the subject.
 - Develop a **conceptual framework** aimed at fostering a joint understanding of nature-related financial risks among central bankers and supervisors.
 - Develop **nature-related scenarios** that would be as consistent as possible with the NGFS Climate scenarios while capturing the specificities of nature.
- **It is very important that financial actors collaborate to maximize synergies in their nature-related work.** Such cooperation can take place in one of the fields that is at the core of the supervisory work that Banque de France conducts: **disclosures**.



Develop and facilitate the action of central bankers and supervisors

- **French Energy and Climate Act (Loi Energie-climat) of 2019.**
- **New biodiversity-related standard, ESRS E4.**
- **Central banks and supervisors can lead the way in a step wise assessment of dependencies and impacts on nature.** This is what the Banque de France has been trying to implement via its SRI Policy ([2022 Responsible Investment Report](#) presenting the Corporate Biodiversity Footprint of the Banque de France expressed in MSA.km² using three indicators)



Seek nature-related opportunities

Mobilise mainstream finance towards nature-positive investments.

- Nature-related investments need to be scaled-up to bridge the financing gap for nature
 - ✓ The estimated financing gap to reverse the decline in biodiversity has been estimated to stand between USD 600 bn and USD 825 bn per year until 2030
 - ✓ At COP15, we have set a target to mobilize by 2030 at least USD 200 bn per year
 - ✓ We are currently spending between USD 125 bn and USD 150 bn on nature conservation.
- Actively working towards bending the curve of nature loss could also lead to positive economic outcomes



We cannot afford to remain complacent to nature-related losses and let nature-related issues remain in a blind spot.