



Climate Change Centre

14 October 2021

Overview

- ❑ Key concepts
 - ❑ Climate-related and environmental risks in Mauritius
 - ❑ Climate related and Environmental financial risks:
 - Economic Consequences
 - Translation into Prudential Risks
 - Importance of the financial system
 - ❑ Bank of Mauritius Climate Change Centre
 - Task Force on Regulation and Supervision
 - Task Force on Monetary Policy
 - Task Force on Sustainable Finance
 - Task Force on Internal Strategy
 - ❑ Way Forward
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Climate-related and Environmental Financial Risk

☐ Climate-related risks:

- ☐ **Physical risks** – **Direct consequences of climate change** such as *extreme weather events (flash floods and cyclones)* and **longer term climatic phenomena** such as *water scarcity and rise in sea levels*.

- ☐ **Transition risks** - Result from *changes in public policy, technology and market sentiments* in the transition to a lower carbon and more circular economy.

- ☐ **Environmental risks** - Financial risks resulting from environmental degradation such as *air pollution, water pollution, land contamination, desertification and biodiversity loss*.



Climate-related and environmental risk in Mauritius

☐ Physical Risks

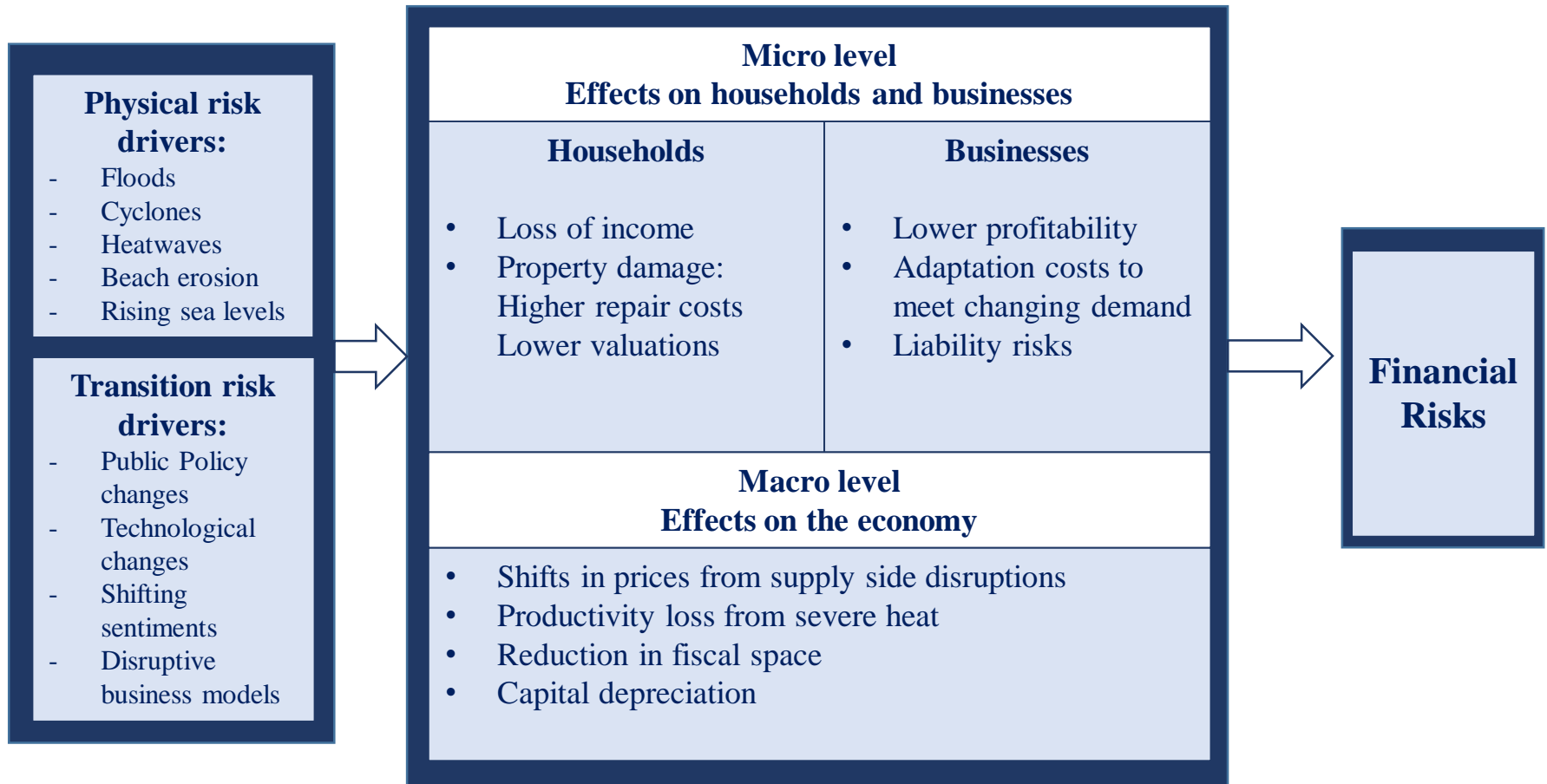


☐ Transition Risks

- Paris Agreement: Abating Greenhouse gas emissions by 30% by 2030
- 60% of energy to be generated from green sources by 2030
- Banning use of plastic bags



Economic Consequences



Translation into Prudential Risks

Credit Risk

Market Risk

Physical	
Climate-related	Environmental
Extreme weather events Chronic weather patterns	Water stress, Resource scarcity, Biodiversity loss, Pollution
<p>Physical risk events cause:</p> <ul style="list-style-type: none"> - Reduction in income of households and drop in profits of firms affecting their loan repayment capacity. - Damages to physical assets which leads to reduction in value of assets pledged as collaterals. <p>Increased default risk and collateral risk.</p>	
<p>Shifts in market expectations resulting in sudden repricing, higher volatility and losses in asset values.</p>	

Transition	
Climate-related	Environmental
Policy and regulation Technology Market sentiment	Policy and regulation Technology Market sentiment
<p>Greener technology can involve substantial outlays and adaptation costs, affecting corporate profitability.</p> <p>More costs, lower profits impact repayment capacity.</p>	
<p>Abrupt repricing of investment products associated with industries affected by asset stranding/ high carbon prices.</p>	



Translation into Prudential Risks (2)

Physical	
Climate-related	Environmental
Extreme weather events Chronic weather patterns	Water stress, Resource scarcity, Biodiversity loss, Pollution
<p>Disruptions to operations resulting from physical damage to their property, connectivity issues, branches and data centers.</p>	
<p>Unexpected damage to clients' assets triggering sudden withdrawals to finance repairs.</p>	

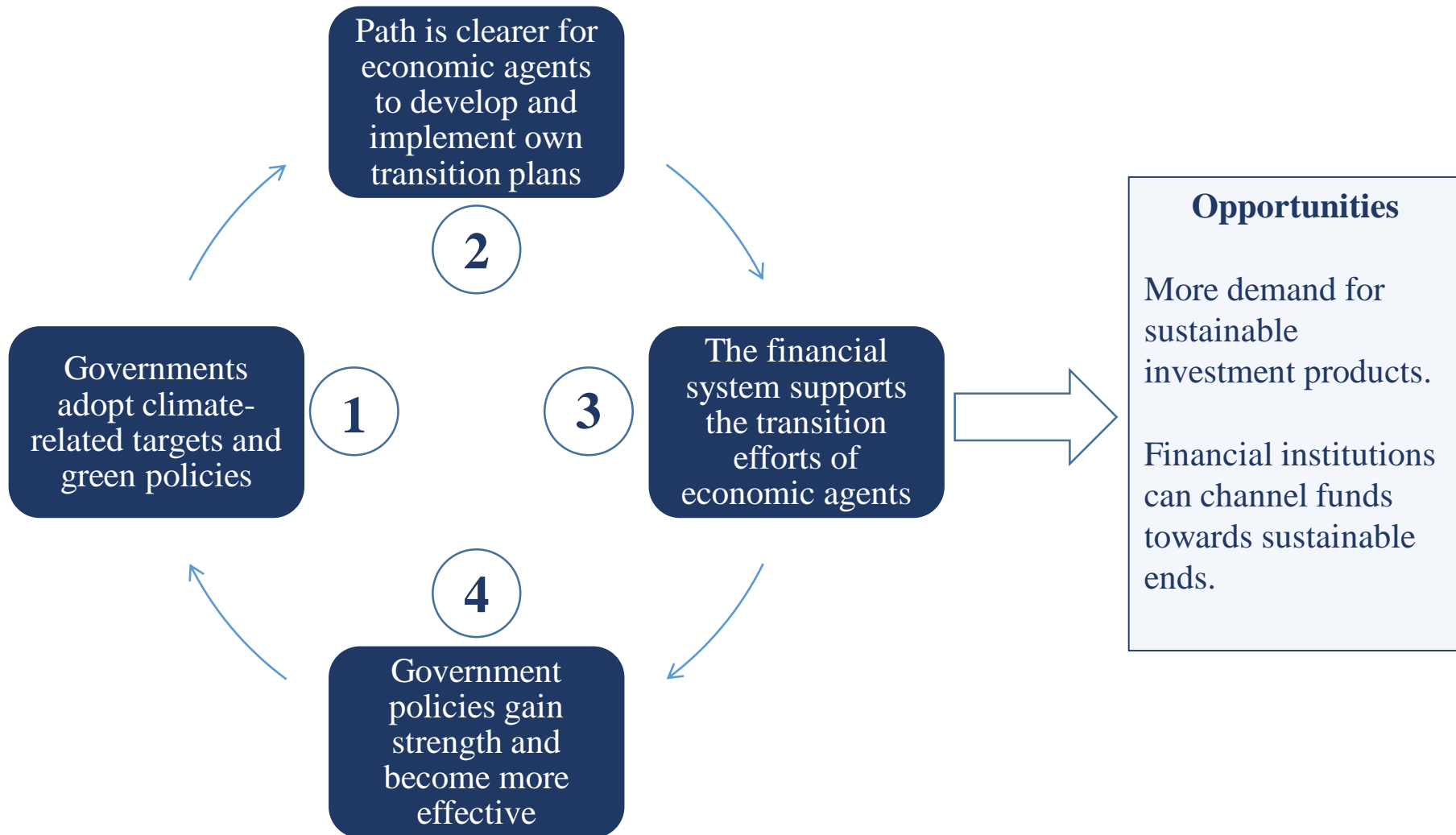
Transition	
Climate-related	Environmental
Policy and regulation Technology Market sentiment	Policy and regulation Technology Market sentiment
<p>Changing consumer sentiment leading to reputation and liability risks for banks.</p>	
<p>Business models may no longer be viable.</p> <p>Value of banks' liquid assets may drop due to repricing/changes in market sentiment.</p>	

Operational Risk

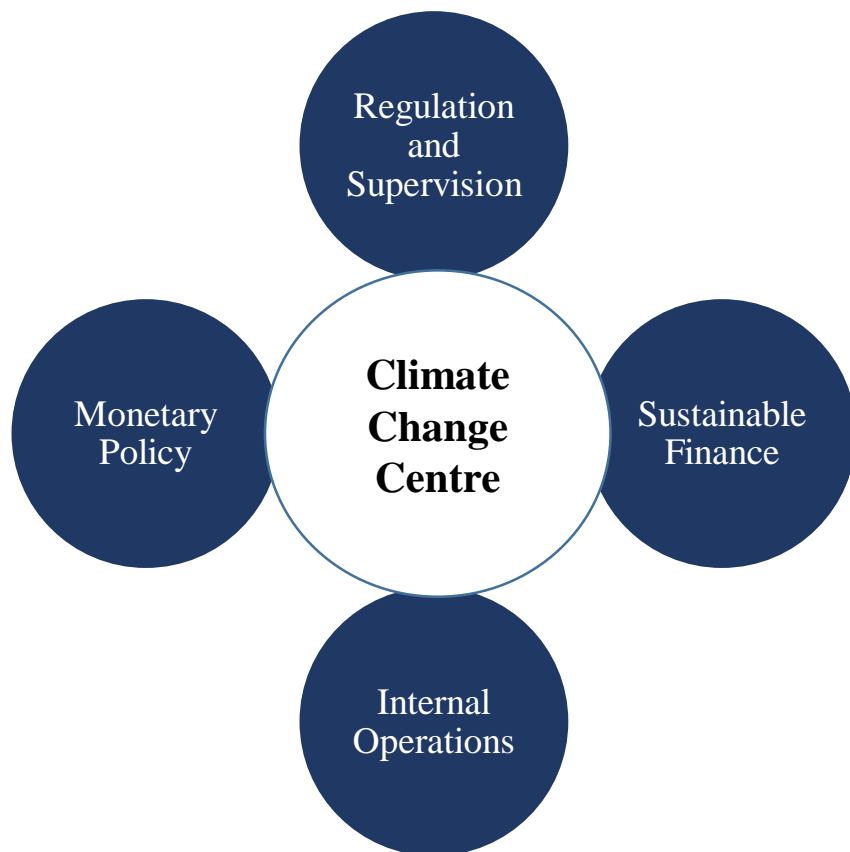
Liquidity, Business model and Other Risks



Importance of Financial System



Climate Change Centre



Key objectives

- To integrate climate-related and environmental financial risks into the Bank's regulatory, supervisory and monetary policy frameworks;
- To review the Bank's internal operations in view of reducing its carbon footprint and becoming a more sustainable organisation;
- To look into enhancing disclosures on climate-related and environmental financial risks;
- To support the development of sustainable finance;
- To bridge data gaps; and
- To build capacity and raise awareness.



Task Force on Regulation and Supervision

- ❑ Composition: The Bank, the Financial Services Commission, the Mauritius Bankers Association, selected banks and selected insurance companies.

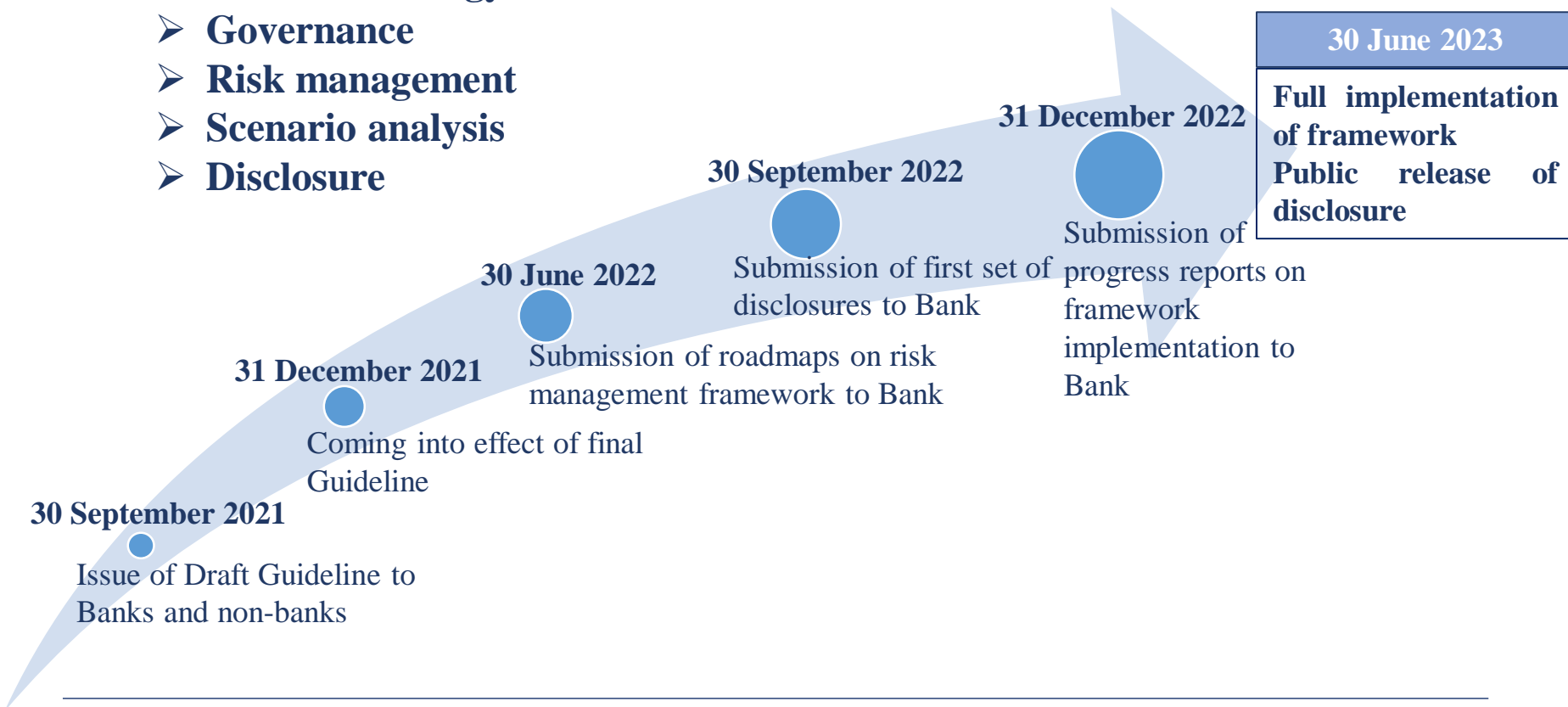
- ❑ Key Objectives:
 - ❑ Supporting implementation of risk management framework for financial institutions.
 - ❑ Bridging data gaps.
 - ❑ Developing relevant disclosure requirements.
 - ❑ Facilitating engagement and awareness among stakeholders including banking and insurance industry.



Guideline on Climate-related and Environmental Financial Risks

❑ Objective – Support financial institutions in integrating climate-related and environmental financial risk considerations into:

- **Business strategy**
- **Governance**
- **Risk management**
- **Scenario analysis**
- **Disclosure**



Task Force on Monetary Policy

❑ Composition: Bank Staff

❑ Objectives:

- ❑ Assess the impact of climate-related developments on monetary policy transmission channels and strategy.
- ❑ Incorporate climate change considerations into macroeconomic models and forecasting tools.
- ❑ Integrate climate change considerations into the Bank's investment portfolios.
- ❑ Devise key metrics for analysing climate-related risks.



Task Force on Sustainable Finance

- ❑ Composition: Bank staff and relevant stakeholders.
- ❑ Objective: To support development of sustainable finance in Mauritius.
- ❑ Recent initiatives:
 - ❑ June 2021 - Released Guide for the Issue of Sustainable Bonds in Mauritius.
 - ❑ Guide seeks to support issuers, investors and intermediaries in establishing a **domestic sustainable bonds market**.
 - ❑ Guide gives specific requirements for sustainable bonds.
 - ❑ Process for project evaluation and selection
 - ❑ Use of proceeds
 - ❑ Management of proceeds
 - ❑ Reporting



Task Force on Internal Strategy

- ❑ Composition: Bank staff

- ❑ Objectives:
 - ❑ Reduce the Bank's Carbon footprint/Greenhouse gas emissions
 - ❑ Become a more sustainable organisation

- ❑ Initiatives underway:
 - ❑ Recycling of wooden crates, pallets and boxes obtained from the packages of the new note sorting machines.
 - ❑ Installation of new Chillers (air conditioning system) that have higher Energy Efficiency Rating and use refrigerant gas that are ozone friendly.
 - ❑ Replacement of existing fluorescent lighting fixtures with LED lighting.
 - ❑ Use of motion detectors to control lighting circuits in fire exit and staircases.



Way forward

Key Challenges

- Climate-related and environmental events are unpredictable and ever-changing.
- Risks tend to occur in the longer term horizon.
- Data limitations

Strategy going forward:

- Capacity building
- Research on transmission channels and risk drivers
- Bridging data gaps



Thank You

