FEBRUARY 11, 2021

IIF BOARD OF DIRECTORS
2021 STATEMENT ON CLIMATE FINANCE

WE ARE COMMITTED TO FINANCING A CLIMATE-RESILIENT FUTURE.

As leaders of the international financial community, we know that climate change is one of the greatest challenges facing us all. We are determined to effectively manage the risks for our industry and recognize our key role in mobilizing capital for unprecedented opportunities—solutions to mitigate greenhouse gas (GHG) emissions, strengthen climate resilience, unlock innovation and create jobs. We have already made major commitments to financing the transition towards a sustainable, low carbon economy—in both developed and emerging markets—and are accelerating our efforts to make sustainability a top strategic priority across our organizations.

Transforming key drivers of the global economy—for example, by shifting to lower-carbon fuels and technologies—will be facilitated by a robust, vibrant financial system, with trillions of dollars intermediated via banks, asset managers and owners, insurers and other capital providers. To support this transition to a sustainable, low carbon economy, it is essential to promote consensus and seek international alignment in sustainable finance policy and regulation. We need reliable, easily accessible and comparable datasets, metrics, methodologies, standards and frameworks to ensure that climate-related risks are appropriately managed and disclosed. To help advance these important goals, we offer the following recommendations for international regulators and policymakers:

1. PROVIDE CLEAR, LONG-TERM POLICY SIGNALS THAT FOSTER INNOVATION IN FINANCIAL SERVICES:

Achieving significant greenhouse gas (GHG) emissions reductions will require more deployment of existing low-carbon technologies, as well as the development and commercialization of new solutions. This is particularly true in developing a decarbonization roadmap for hard-to-abate sectors such as transportation and heavy industry. Global capital markets play a key role in financing lower-carbon solutions and resilient infrastructure—including in climate-vulnerable developing markets—but require clear long-term policy signals that give investors the confidence to deploy capital at scale. Effective long-term policy will also enable development of new financial products including green mortgages, low-carbon investment funds and climate risk insurance. Harmonization of definitions and labels, including recognition of market-based standards and principles, would help scale up these investments.

2. SET SCIENCE-BASED CLIMATE POLICY GOALS:

While the private sector has a vital intermediation role in global efforts to address climate change, strong policy frameworks at national and global levels are essential to provide a long-term foundation. Climate goals should reference widely accepted GHG emissions reduction targets and be based on the best available science and climate scenarios. Goals should have a clear timeline and be aligned with the Paris Agreement. Policies and standards should be data-driven, based on rigorous research and analysis and provide certainty to market players across industries.

3. PRIORITIZE INTERNATIONAL AND CROSS-SECTORAL ENGAGEMENT:

Climate change is a global challenge that requires global cooperation. National authorities around the world, in both developed and emerging markets, should engage proactively through international forums that are shaping global climate policy and frameworks to help orient the financial system's response to climate risks, including the G20, the standard-setting bodies, and the United Nations Framework Convention on Climate Change, as well as other international forums such as the Network for Greening the Financial System (NGFS) and International Platform for Sustainable Finance (IPSF). This will promote transparency in policymaking and encourage internationally consistent systems and standards.

4. PRICE CARBON AND LEVERAGE THE POWER OF MARKETS:

Deep and liquid international capital markets are critical to mobilize the cross-border capital flows needed to finance lower-carbon solutions and climate-resilient infrastructure, as well as broader sustainable development goals. To drive capital investment, we support the use of market-based mechanisms, including—importantly—a price on carbon that supports long-term decision-making. Carbon pricing can also spur development of climate-related financial products, promote more transparent pricing of climate-related financial risks, and can inform and help scale key initiatives like voluntary carbon markets.

5. MINIMIZE COSTS AND SUPPORT JOBS IN THE TRANSITION:

A "just transition" to a low-carbon and ultimately net-zero economy will require policies that aim to reduce GHG emissions while promoting economic growth and job creation. National policymakers should prioritize achieving GHG reductions in the most cost-effective manner possible and utilize valuable cost containment mechanisms such as high-quality carbon offsets (meeting agreed requirements and standards). Multilateral and other development banks should work closely with the financial sector to scale up urgently needed financing for job-generating, climate-resilient infrastructure, including blended finance and other public-private solutions. Such solutions are also valuable in channeling capital flows to support emerging economies—many of which face the biggest risks from climate change, but also have some of the biggest opportunities to "leapfrog" to sustainable, lower-carbon growth. In this context, digital finance can be an important means of achieving sustainable development goals. Job creation strategies should give careful consideration to the adjustment needs of workers and communities in both developed and developing countries that will be disproportionately impacted by the transition.

6. FOSTER INTERNATIONAL CONVERGENCE ON TAXONOMY, DATA STANDARDS AND METRICS:

Widely accepted standards for data and climate risk metrics across sectors will support sound risk assessment and effective disclosure. Shared standards are also key to support market-based solutions that will properly account for the costs of climate change. International convergence on taxonomies (leveraging work already underway in some jurisdictions) would greatly improve comparability and alignment of corporate reporting and transition finance. Reaching broad agreement on common terms, data standards and metrics will be essential for financial firms, corporates, consumers, regulators and other stakeholders to identify, measure, disclose and monitor climate risks and opportunities. Alignment of standards should allow for a degree of regional variation given the different pace of transition in different jurisdictions.

7. PROMOTE ROBUST CLIMATE DISCLOSURE AND INTERNATIONAL HARMONIZATION OF STANDARDS:

Good disclosures are critical for effective climate risk mitigation and capital allocation from the financial services industry. Information about risk and opportunity allows lenders and investors to effectively price and manage risk, and allocate capital to achieve desired financial returns. Significant progress has been made in recent years with respect to promoting greater disclosure of climate-related risks and opportunities—for example, via the efforts of the Task Force on Climate-related Financial Disclosures (TCFD). However, such disclosures should be enhanced to enable financial market participants and other stakeholders (e.g. civil society, scientists) to have cost-effective access to information that is fit for purpose and supports informed decision-making; in this context, data providers and ratings agencies play an important role. International disclosure frameworks should balance the value of consistency with the need for a degree of flexibility to ensure that disclosures are relevant for individual business models, different sectors and varied operating environments. Ultimately, the goal should be a convergent international standard for climate and broader ESG reporting, of the same quality and auditability as financial reporting—as suggested by the IFRS Foundation's proposal to establish a Sustainability Standards Board.

8. ENSURE CLIMATE-RELATED FINANCIAL REGULATION REMAINS RISK-BASED:

Financial regulation should remain dedicated to ensuring the resilience and stability of the financial sector. Prudential tools—particularly any measures that could restrict finance to companies most in need of support for transition—are thus not the most appropriate means of achieving alignment with the Paris Agreement or mobilizing capital towards climate policy goals. Should financial regulation to support climate and broader ESG goals be deemed necessary, any such measures should be exclusively risk-based, principles-based, harmonized internationally, predicated on robust data and well grounded, widely accepted methodologies, and integrate an ex-ante cost-benefit analysis.

9. BUILD CAPACITY ON CLIMATE RISK MODELING AND SCENARIO ANALYSIS:

While good progress has been made, climate risk assessment and scenario analysis efforts are still at an early stage worldwide. Several key challenges remain, including the need for more comprehensive and widely-reported data from companies on climate risks and opportunities; a lack of clarity about the long-term direction of government policy; and translating the output of physical climate risk models into current investment frameworks, among others. Financial regulators and industry risk professionals should work together to develop climate risk modeling—supported by rigorous analysis—that can be flexible across different jurisdictions but aligned in approach to avoid fragmentation, with a common set of broad climate risk assumptions, scenarios and guidelines. International standard setters should take stock of the methodologies developed through pilot initiatives in some jurisdictions, to leverage lessons learned.

10. STRENGTHEN POST-DISASTER RECOVERY, RISK MITIGATION AND ADAPTATION:

Risk finance instruments that strengthen climate resilience and enable better disaster recovery for customers and local communities are a critical channel through which the insurance sector can help mitigate physical climate risks. People, businesses, and supply chains around the world—particularly in areas most vulnerable to the impacts of climate change—need access to products that include risk mitigation and resilience as well as protection for their long-term prosperity. Market-led, customer-centric and innovative financial solutions from insurers and reinsurers, as well as lenders and investors, should be paired with a policy and regulatory environment that supports associated commercial opportunities.