



**UNEP Finance Initiative**  
Innovative financing for sustainability

# **Adaptation and Vulnerability to Climate Change: The Role of the Banking Sector**

**UNFCCC COP 12/MOP 2 Nairobi  
15 November 2006**

**Armin Sandhoevel, Allianz Dresdner Bank  
Chair UNEP FI Climate Change Working Group**

<http://www.unepfi.org>

# **Key Financial Players make up the CCWG Members Institutions 2006:**

- **Allianz/Dresdner**
- **Aviva**
- **AXA**
- **Bank of America**
- **Calvert Group**
- **DBJ**
- **Garant**
- **HSBC**
- **Insurance Australia Group**
- **JBIC**
- **Munich Re**
- **Santander Group**
- **SAM**
- **Swiss Re**
- **UBS**
- **Wachovia**



# UNEP FI and the UNFCCC Negotiations

**COP 8, New Delhi, 2002: Climate Risk to Global Economy**

**COP 9, Milan, 2003: Emissions Trading**

**COP 10, Buenos Aires, 2004: Finance for Carbon Solutions - The CDM**

**COP 11, Montreal, 2005: The Future of Climate Policy**

**COP 12, Nairobi, 2006: Adaptation and Vulnerability**



**UNEP Finance Initiative**  
Innovative financing for sustainability

# UNEP FI and Climate Change



Climate Risk

Emissions Trading

Renewable Energy

Finance for Carbon Solutions- The CDM

The Future of Climate Policy




**UNEP Finance Initiative**  
Innovative financing for sustainability

# **Adaptation and vulnerability to climate change: What does it mean for the banking sector, and does it have a role to play?**



# Climate Change: Impacts on Finance and Business

- Climate risks have a direct impact on insurance and reinsurance companies (NatCat Risk)
- Climate risks are still not a major concern for a majority of the banking sector
- For the banking sector - with the exception of operational risks in catastrophic accidents - the risks are indirect
- Banks are concerned via the risk exposures of their customers  
(see Box) 

## Sector Risks

- **Direct physical risks** associated with climate change:
  - Agriculture
  - Fisheries
  - Forestry
  - Health care
  - Re/insurance
  - Real estate
  - Tourism
  - Water
- **Policy/regulatory risks** (trend towards regulation of carbon)
  - Electric power
  - Forestry/Pulp and Paper
  - Manufacturing
  - Basic industry – steel, chemicals, mining
  - Oil and gas
  - Transport and automotive





# Climate Change: Impacts on Finance and Business

- **Vulnerability of customers is the risk of the bank**
- **Vulnerability of customers must be assessed**



## Key Climate impacts: Risks for the banking sector

| Sector                               | Threat   |
|--------------------------------------|--|
| Corporate banking<br>Project Finance | Uninsured damage to assets                         |
| Investment banking                   | Higher costs due to extreme weather e.g. utilities |
| Retail Banking                       | Customer defaults due to climatic extremes         |





**Adaptation for the banking sector is  
the need to develop and take  
advantage of all business  
opportunities related to climate  
change!**



**UNEP Finance Initiative**  
Innovative financing for sustainability

## Key Climate Impacts: Opportunities for the banking sector

| Sector                                | Opportunity  |
|---------------------------------------|--|
| Retail Banking                        | Micro Finance,<br>Access to public aid programs,<br>Finance for climate resilient<br>purposes            |
| Corporate Banking,<br>Project Finance | Adaptation of:<br>infrastructure projects,<br>renewable energies projects,<br>energy efficiency projects |
| Investment Banking                    | Weather derivatives,<br>Emissions trading,<br>Commodity trading  |
| Real Estate                           | Green buildings  |



# Allianz Dresdner Bank Approach (1/2)

## Risk & Business Opportunities

- **Climate change could result in an accumulation of risks across the entire business spectrum**
- **But: climate change is also a business case.**

### **Challenges and initiatives:**

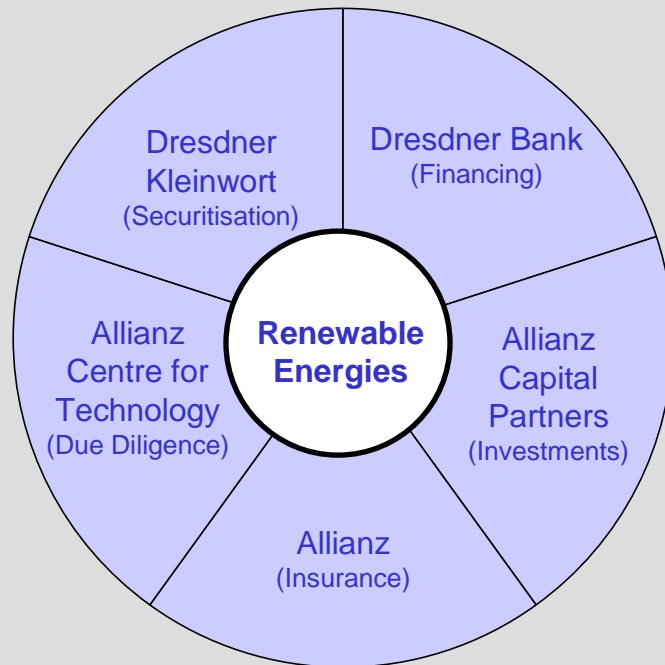
- Integrate the related risks in our risk management
- Identify and develop new business opportunities related to climate change
- Foster synergies among the business units of Allianz Group

→ **All three initiatives impact bottom-line results positively**



# Allianz Dresdner Bank Approach (2/2)

## Fostering Synergies for Adaptation



### Implications for RE financial activities:

- ▶ Increase the potential of Corporate Bank related RE projects and develop origination strategies
- ▶ Assess the option of developing combined RE credit financing and insurance products (e.g. for biomass/ biogas plants and wind power)
- ▶ Refinancing of project loans to wind farms through capital market transactions
- ▶ Roll-out for Emerging Markets



## **Key recommendations: Potential role of finance sector**

- New products and customer services should be developed and existing ones must be adjusted and optimised**
- Business cases should be rolled-out and opportunities for co-operation - with emerging and developing countries - should be identified**
- Business know-how of key financial players should be in the public domain**
- Market experience and barriers should be discussed with the public and other stakeholders**



**Thank you**

**Armin Sandhoevel**  
**Armin.Sandhoevel@Dresdner-Bank.com**



**UNEP Finance Initiative**  
Innovative financing for sustainability