Emerging Risks from Climate Change and Levers to Accelerate Change

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Public

Could the low-carbon transition trigger a financial crisis?

- Pricing-in of the low-carbon energy transition is likely to be sudden and disruptive
- ‘Unburnable carbon’ will lead to stranding of fossil fuel assets, putting financial institutions that are most exposed to these assets at risk, with financial contagion effects
- Under a 1.5 degrees scenario, almost 60% of oil and gas reserves, and 90% of coal reserves will be left in the ground

How stranded assets could affect the global economy:

1. Policy and technology
2. Reduced demand for fossil fuels
3. Stranding of fossil fuel assets
4. Fossil fuel firms
5. Financial institutions
6. Global economy

Source: Adapted from European Parliament (2022).

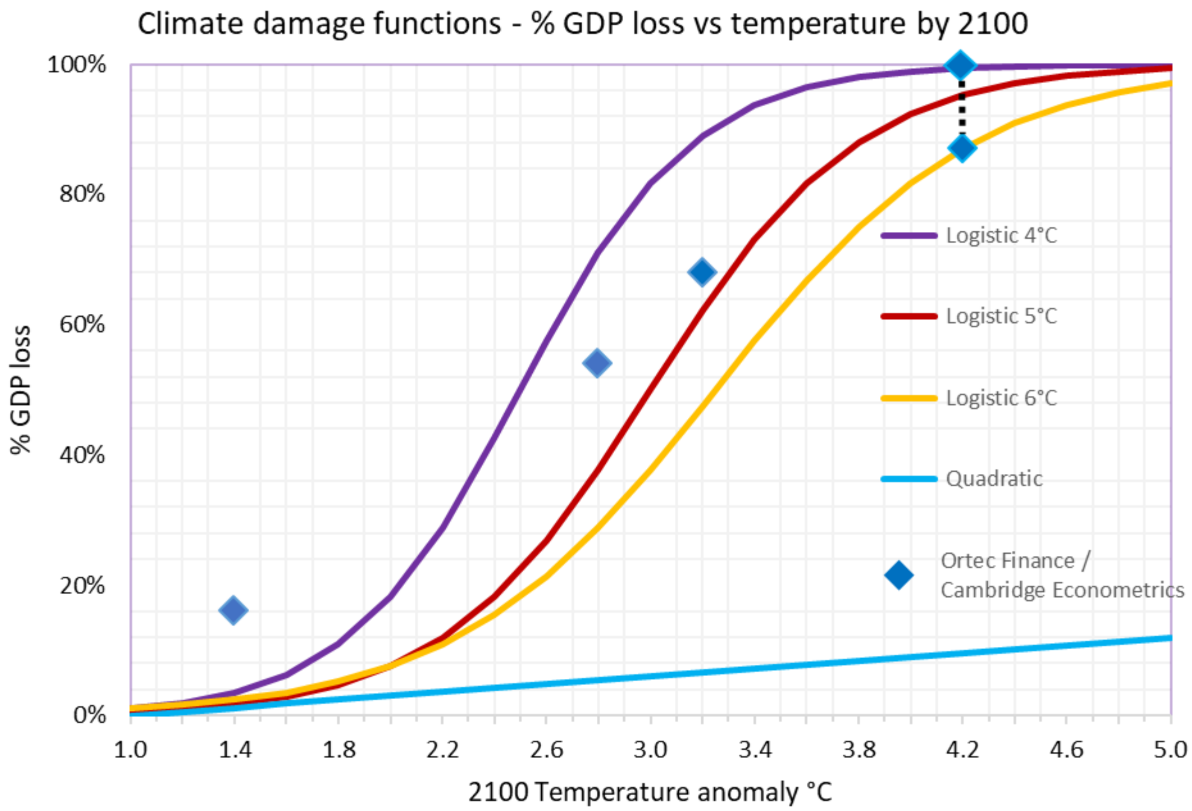
Physical risks have profound economic impacts

Short term risks:

- Locked-in physical impacts from historical emissions
- 2023/24 El Niño event
- Extreme weather having a more profound economic impact (due to climate change and urbanisation)

Longer term risks:

- Tipping points, with possibility that some could be hit at 1.5 degrees
- Heat stress
- More severe extreme weather events



Source(s): IFOA (2023), 'The Emperor's New Climate Scenarios'; Ortec Finance ClimateMAPS scenario results.

5 levers to accelerate change

3. Ambitious & immediate policy action

Low-carbon regulations, information, support for nascent low-carbon technologies, fiscal incentives, investment in adaptation

2. Emissions disclosure

Corporate disclosure under a consistent framework

4. Policy certainty

Building investor confidence in policy commitments

1. Financial regulation

Standards to assess climate-related risks

5. Capital stewardship

Taking account of the impacts on the natural world in investment strategies