

**TACKLING
NATURE-RELATED RISKS
IN CENTRAL BANKING
AND SUPERVISION**



BE ONE WITH NATURE



In this summary we highlight the key messages and recommendations of the Sustainable Finance Lab report 'Finding a way with nature; How central banks and supervisors can start acting on nature-related risks'. The main focus is on the Netherlands and other countries in Europe. However, the recommendations are relevant for other national central banks and supervisors globally as well. The full report can be found [here](#). WWF-NL funded this research as part of its strategy to encourage a meaningful shift in finance in the Netherlands by integrating nature into all financial decision making, to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive ones. As such, the research also directly contributes to WWF's Greening Financial Regulation Initiative strategy, that aims to engage with central banks, financial supervisors and regulators on the need to integrate environmental risks into financial regulation and daily operations.

KEY MESSAGES

- The financial sector has a large, mostly negative impact, as well as a large dependency on nature. This poses considerable risks to financial institutions and the system as a whole. Urgent action is needed to halt nature degradation.
- Central banks and supervisors are increasingly aware of this, but effective actions to manage and limit nature-related risks and impacts are emerging too slow.
- The recommendations in this report identify the first steps that central banks and supervisors can already take today, as well as an agenda for the coming years that allows them to effectively limit and prepare for nature-related risks.

There is an **urgent need** for central banks and supervisors to address nature-related risks

Nature is degrading faster than ever

The financial sector is contribution to this loss

This poses risks for financial and price stability

Action from central banks and supervisors is lacking

What **first steps** can be taken?

Guiding principles

Integrated approach to climate and biodiversity

Acknowledge endogenous risks

Adopt a precautionary approach

Focus on harmful activities

Examples of priority activities

- Deforestation
- Pesticide production
- Mining in biodiversity sensitive areas
- Intensive farming
- Fossil fuels

Recommendations

Short term (0-2y)	Medium term (2-3y)	Longer term (4-5y)
<ul style="list-style-type: none"> • Expand own research • Update the fit and proper assessment, monitor governance and share good practices • Enhance disclosure and due diligence requirements • First steps on nature transition plans 	<ul style="list-style-type: none"> • Mandatory transition plans for nature • Integrate nature-related risk management and transition plans in existing supervisory policies. • Enhance macroprudential toolkit for nature • Include nature in monetary policy 	<ul style="list-style-type: none"> • Higher capital charges for nature • Revisit the Pillar I framework • Design nature TLTROs

THE ROLE OF FINANCE IN HALTING NATURE LOSS

Nature provides healthy and well-functioning ecosystems on which all human wellbeing is based. However, nature is degrading at rates faster than ever, with the WWF Living Planet Report showing a decline in monitored wildlife species of 69% since 1970. Urgent action is needed.

Financial institutions are impacted by nature degradation. Studies indicate that they have significant exposure to nature-related risks, including both physical and transition risks. Financial institutions also contribute to nature degradation, for example by funding projects linked to deforestation and pollution. The financial sector however can also play a positive role by aligning financial flows with global biodiversity goals, such as the Global Biodiversity Framework. The financial sector thus has a critical role in addressing nature degradation. Nature degradation affects the financial sector (outside-in) and the financial sector also has an impact on nature degradation (inside-out).

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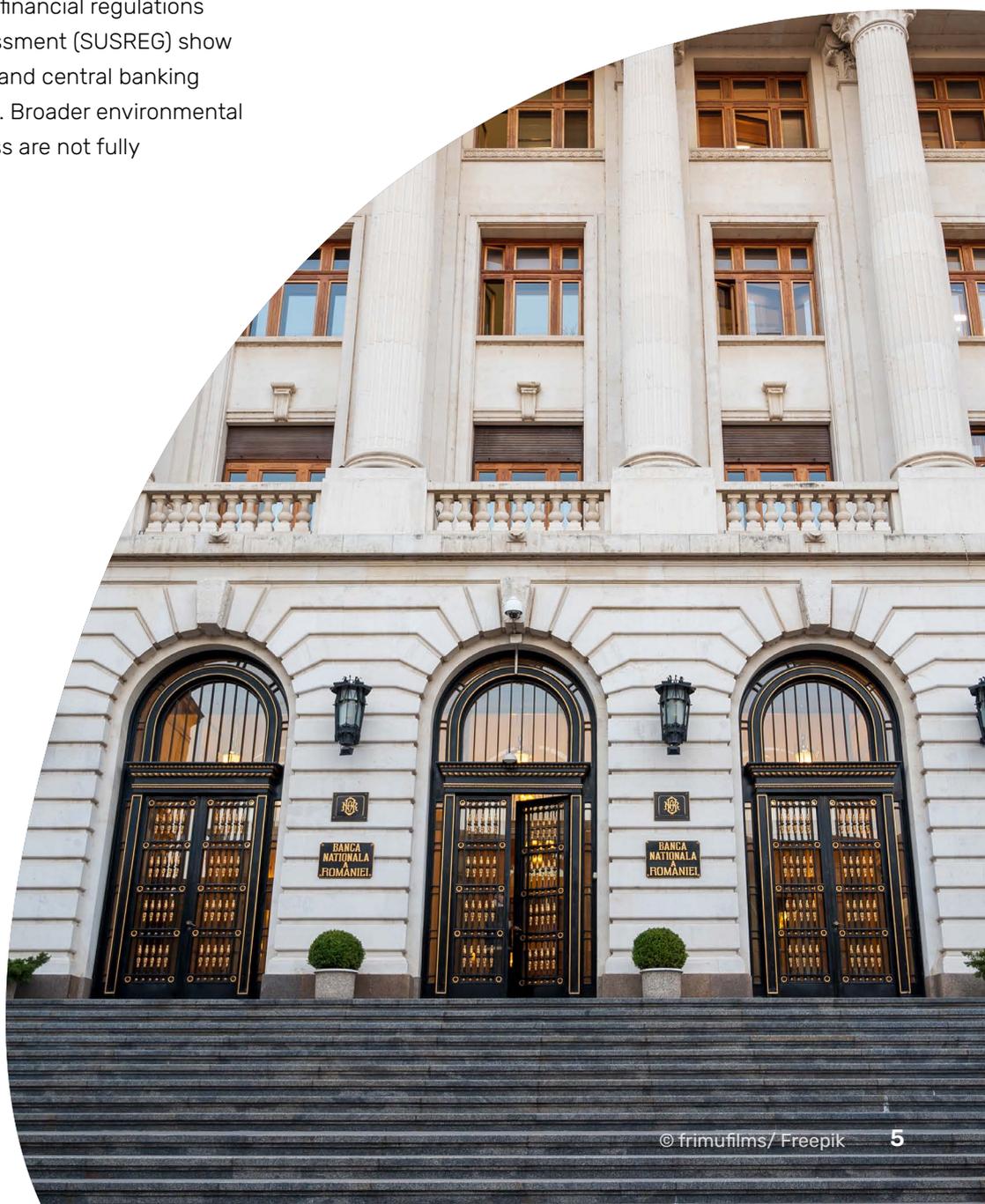
INTERACTION BETWEEN NATURE AND THE FINANCIAL SECTOR



THE ROLE OF CENTRAL BANKS

Most central banks and supervisors recognise the importance of addressing climate risks. A growing group of central banks and supervisors have started to work on nature-related risks as well¹. However, so far this has mostly focused on increasing awareness and performing research. Concrete policies and actions for managing nature-related risks are still lacking. WWF's recent findings of its annual sustainable financial regulations and central banks activities assessment (SUSREG) show that current financial regulations and central banking activities mainly focus on climate. Broader environmental considerations such as nature loss are not fully accounted for.

Central banks and supervisors do not operate in isolation and are dependent on for example governments for policies and regulation. Therefore, collaboration and alignment on the development of concrete policies and actions between different players is key. However, there is a lot that central banks and supervisors could already do given their mandate for financial and price stability and the clear global agreements and national and regional targets and policies in place. We developed guiding principles and recommendations for the short, medium and long term to support this.



1. <https://www.ngfs.net/en>

ADDRESSING

NATURE-RELATED RISK:

GUIDING PRINCIPLES

FOR CENTRAL BANKS

1. INTEGRATED APPROACH:

Climate change and nature loss are deeply interconnected and should therefore be addressed together. The climate crisis cannot be solved without halting nature loss.

2. ACKNOWLEDGE ENDOGENOUS RISKS:

Central banks and supervisors are urged to acknowledge both the outside-in and the inside-out perspective and the endogenous risks created by the financial system. They are uniquely positioned to address the systemic nature of climate change and nature degradation.

3. ADOPT A PRECAUTIONARY APPROACH:

A precautionary approach is recommended, emphasising proactive measures even with imperfect data and methodologies. Cost of inaction is high and central banks and supervisors should act before it's too late and tipping points have been reached that make restoration impossible; rather be roughly right than exactly wrong.

4. FOCUS ON HARMFUL ACTIVITIES:

Concentrate first on sectors causing the most harm. Prioritise supervisory measures on impactful sectors where data and methodologies are available, for example agriculture, forestry, mining and energy.



ADDRESS HIGH IMPACT

SECTORS

We identify five different areas where central banks and supervisors can start today. These are all big drivers of nature degradation for which public goals are defined, and for which databases and tools are emerging to assess these activities. This means central banks and supervisors can take first action steps on nature by starting with for instance:

- deforestation
- pesticide production
- mining activities in biodiversity sensitive areas
- intensive farming
- fossil fuels



RECOMMENDATIONS

SHORT TERM

(0-2 YEARS)



CENTRAL BANKS OWN RESEARCH

- Central banks and supervisors should **embrace available (sub)sector overviews providing insights in harmful (sub)sectors** and agree on a (sub)sector overview with harmful activities of (sub)sectors.

KNOWLEDGE AND GOVERNANCE OF FINANCIAL INSTITUTIONS

- **Update the fit and proper assessment and assess knowledge levels specifically for nature-related risks.** At least one board member should have detailed knowledge about nature.
- **Monitor the governance of the organisation with respect to nature-related risks in regular supervisory practices.** Monitor how often these matters are discussed in board level meetings, and how often trainings or knowledge sessions on these topics are organised.
- **Share Good Practices,** for example on the integration of nature-related risks in all phases of the risk management cycle, and specifically on transition plans.

DISCLOSURE REQUIREMENTS AND DUE DILIGENCE

- Mandatory disclosures of impacts, dependencies and nature-related risks following the TNFD framework. Align these requirements with developing reporting requirements such as the CSRD, SFDR and EU Taxonomy. This includes **mandatory disclosures of exposures to harmful activities.**
- Mandatory requirement for financial institutions to **demonstrate that there are no nature crimes in their financing value chains,** either through AML rules being broadened or stand-alone mechanisms.

TRANSITION PLANS

- **Require financial institutions to include nature in their climate transition plans,** taking into account the interconnectedness of biodiversity loss and climate change, but also the potential trade-offs.



RECOMMENDATIONS

MEDIUM TERM

(2-3 YEARS)



TRANSITION PLANS

- **Mandatory transition plans for nature**, integrated or at least consistent with climate transition plans. This includes identifying the largest nature-related risks, defining specific nature-related target and describe actions for mitigating those.

MICROPRUDENTIAL POLICY

- Integrate **nature-related risk management and transition plans in existing supervisory policies. Apply stricter penalties, like capital add-ons or fines**, for financial institutions that are underperforming or underestimating the risks, or in case transition plans are not credible or not sufficiently aligned with the goals.

MACROPRUDENTIAL POLICY

- **Expand the economy-wide stress tests** conducted by the ECB and EIOPA to include nature-related risks. Conduct a specific stress test for the insurance sector as well.
- In financial stability assessment, **include indicators for measuring and monitoring levels of systemic risks** specifically to nature.
- **Integrate nature in existing macroprudential policies** such as **concentration limits and the systemic risk buffer**.

MONETARY POLICY

- Apply **lessons learned from decarbonising the monetary policy instruments** to nature-related risks.
- **Expand 'tilting'** in the Asset Purchasing Programme **to include nature-related risk** in addition to present climate considerations.
- **Account for nature-related risks in the collateral framework** through adjusting haircuts of the worst nature-degrading companies.



RECOMMENDATIONS

LONGER TERM

(4-5 YEARS)



MICROPRUDENTIAL POLICY

- Introduce higher capital requirements for exposures harmful to nature, by means of an **adjustment factor to the models used for capital in Pillar I**.
- **Revisit the Pillar I framework** to make it more forward looking and to allow for longer time horizons.

MONETARY POLICY

- Design 'nature TLTROs' that could **stimulate nature-positive bank lending**.



ABOUT WWF

WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. Through its Greening Financial Regulation Initiative ([GFR!](#)), WWF engages specifically with central banks, financial supervisors as well as insurance regulators on the need to fully integrate climate, environmental and social risks into mandates and operations.

GREEN FINANCE

In the Netherlands, WWF-NL works on 'financing green', increasing investments in sustainable development; and 'greening finance', improving the integration of environmental risks and opportunities into financial decision-making, regulation and supervision.

MORE INFORMATION

For more information visit our [website](#) or contact our Greening Finance Netherlands Lead, Christine Wortmann, at cwortmann@wwf.nl.





Why we are here.

To stop the degradation of the world's natural environment and to build a future in which humans live in harmony with nature.

wwf.nl