

KUALA LUMPUR (Sept 21): The financial sector plays a vital role in helping the economy and society to mitigate climate change risk as well as support the country's transition towards a low carbon economy.

Bank Negara Malaysia (BNM) Deputy Governor Jessica Chew said that as part of its mandate to manage risks to financial stability, BNM expects financial institutions to understand how climate-related risk drivers can impact their risk exposures — including credit, market and insurance risks from their lending, underwriting and investment activities.

The central bank also expects financial institutions to be able to identify, measure and manage these risks well, Chew said in her speech at the 'Developing and Financing Green Housing in Asia' conference that was hosted by Cagamas Bhd on Wednesday (Sept 21).

She said financial institutions had from July this year started reporting their climate-related risk exposures based on the Climate Change and Principle-based Taxonomy developed for the financial sector

BNM: Financial sector vital to manage climate-related risks, support transition

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to assess and classify economic activities within their portfolios.

Aside from building a strong foundation for risk assessments and disclosures, she said that the taxonomy is expected to encourage the flow of capital towards supporting transition activities.

Meanwhile, she said BNM recognises the need to minimise macroeconomic and social dislocations in the short term as the nation transitions to a low carbon economy.

"The financial sector taxonomy therefore does not adopt a binary classification of green and brown activities, but also recognises credible efforts by businesses to actively reduce the harm that their operations might pose to the environment during transition.

"Based on an analysis of their material exposures to climate-related risks, financial institutions would be required to take actions to address high and unmitigated exposures," she added.

Chew also said BNM has also strengthened the standards that it expects financial institutions to meet in managing climate-related risks. This includes an expectation for financial institutions to work with and support their customers in managing their transition.

"If businesses are committed and willing to undertake changes to reduce their greenhouse gas emissions and green their operations, the financial sector should help them make the transition," she added.

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