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GCD & UNEP FI Collaboration
Climate Risk Webinar for Banks
Thursday, July 11th, 2024

Introducing UNEP FI's Risk Centre

The Risk Centre provides a wide range of resources on sustainability risks from which financial institutions can benefit from as part of their UNEP FI membership.

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	BENEFITS OPEN TO ALL UNEP FI MEMBERS	PAID PILOTING OPPORTUNITIES
Thematic areas	*Scenario analysis, stress testing, risk assessment, disclosures and reporting, TNFD implementation, legal risk and transition planning*	
Coverage	Gain access to **webinars and skill-building workshops**, including: • Members area with access to unique content of the Resource Hub • Discussions and Q&As with experts and peers on timely topics • Practical guidance for implementation and on best practices	Gain access to the Centre's **in-depth working groups**, providing the following benefits to institutions: • Collaborate with peers and industry experts to develop new resources, outputs, including guides, tools, and reports • Set industry practices and benchmarks on key risk topics • Shape Risk Centre activities and identifying key areas of focus on risk for your institution • Receive early access to WG outputs, ahead of public release
Potential topics and partners (to be prioritized with members)	■ New Scenario Releases ■ Customer transition plan assessments and use ■ Just transition finance ■ Plastic pollution risk overview ■ Scenario use cases and applicability, (NGFS) ■ Emissions data, (PCAF) ■ Benchmarking credit risk methodologies, (GCD)	■ Nature and climate scenarios and stress test methodologies ■ Risk tool Demonstrations and development ■ Legal risks incl. greenwashing discussion ■ TNFD implementation support ■ Risk disclosure best practices

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Sharing Data and Beyond

ESG & Climate Risk platform
for credit risk measurement and management

Creating Standards and Best Practices since 2004

Data Pooling

Knowledge Sharing

Analytics and Reports

Industry Collaborations

Member banks

GCD

send data

receive data

- Collects data
- Provides standards
- Control Data Quality
- Anonymizes
- Analyses

LGD/EAD
Data pooling of historical defaults and realised LGD and CCFs

PD/Rating
Data pooling of ratings, PDs and defaults and migration matrices

Named Peer Ratings
Data pooling of predicted PD/Rating, LGD and CCF for named counterparties and specific banking book clusters

ICC Trade Register
Data pooling of trade finance products

GCD is a non-profit organization by banks for banks

Agenda

Overview and scope

Activities and participation

Survey examples and input

Next steps

Overview and scope

GCD & UNEP FI Collaboration

PROBLEMS FACING BANKS

Variation in climate modelling methods, scope, sources & targets

Lack of standardized ESG credit risk methodologies

Lack of sectoral benchmarks

PROJECT DELIVERABLES

UNEP FI and GCD will publish a joint report of credit risk modelling approaches covering:

- Overview of common methodologies
- Assessment of the similarities and differences in the methodologies used
- Best practices and limitations in methodologies
- Guidance for developing climate risk modelling with benchmarking
- Recommendations for improving standardization

Value of Bank Collaboration

What are your peers doing? How?

Insights and learnings from different jurisdictions

Wide range of industry practices

Climate Risk cannot be addressed in isolation

Scope

Insights Banks Want to Gain from the Project

Climate Risk Integration in Credit Models	• Methodologies for assessing climate risks in credit models • Sector and exposure class specific factors
Scenario Analysis	• Data, methodologies, and scenario analysis • Impact of climate risk on credit losses and financial projections
Data and Tools Utilization	• Data sources and tools to support quantitative assessments
Best Practices	• Industry practices for incorporating climate risk factors into traditional credit assessment processes • Comparison to peers

Live Polling (Scope)

Select the following elements that you feel should be included in the **scope of the survey**:

- Sector-specific focus

- Exposure class specific focus

- Counter-party level analysis

- Portfolio-level analysis

- Others

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Activities and participation

Why participate?
Be part of a powerful industry collaboration

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Access **best practices** by your **peers** in climate risk methodologies

Access to valuable **insights** and actionable **recommendations** from UNEP FI and GCD experts

Help shape **industry standards** and **benchmark**

Leverage your **membership** with UNEP FI Risk Centre or GCD member banks

Participate easily with already established **secure IT** infrastructure

Banks in the driver's seat!
Offer suggestions and feedback on the survey draft,
Get the maximum **benefit** for your bank
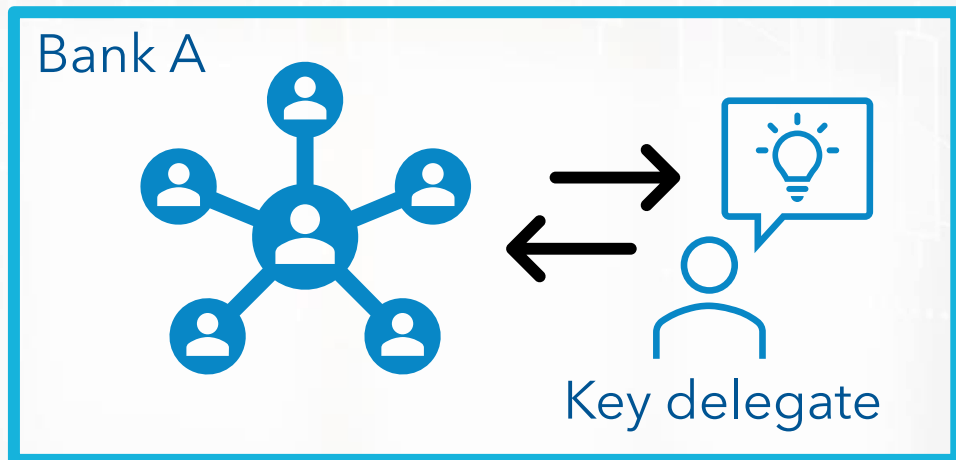
Participation

Who can participate?

► GCD members and UNEP FI Risk Centre banking participants

► Participation of non-members will be determined on a case-to-case basis
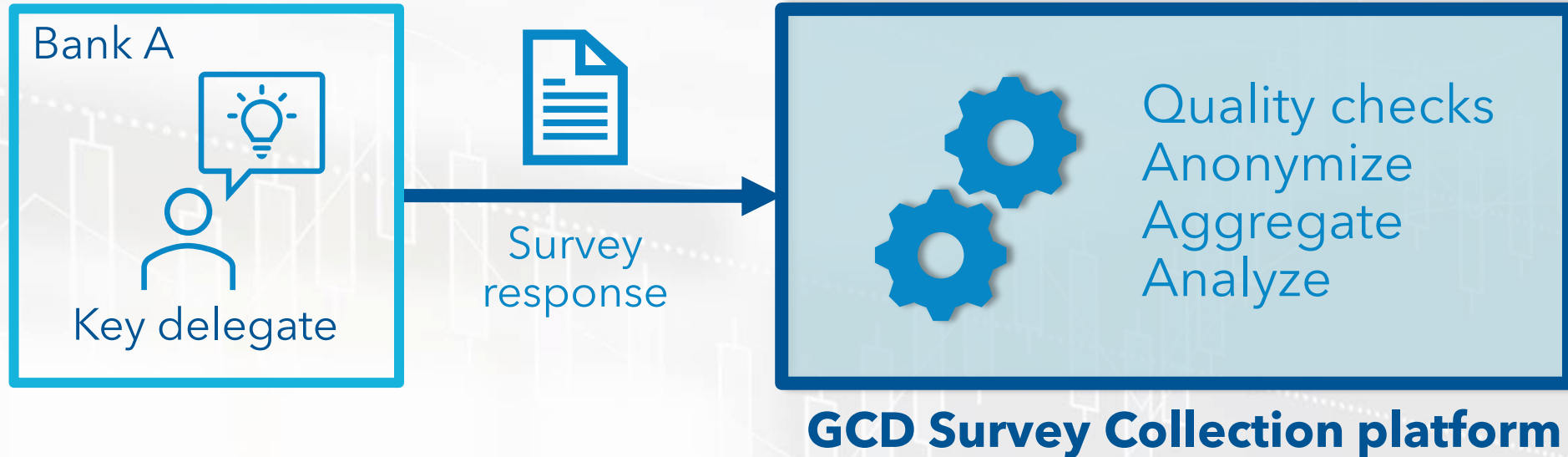
What is the time commitment?

~1 hour ► Pre-survey call (onboarding)

~2-3 hours ► Survey participation

~1 hour ► Post-survey result session

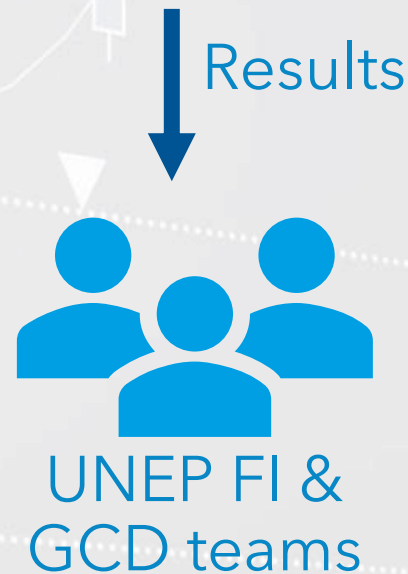# What are the expectations for participating in the exercise?

Bank A

Key delegate

► Offer suggestions and feedback on the survey draft

► Submit detailed survey responses, incorporating input from different teams, within the specified timeframe.

► Be willing to participate in follow-up calls if necessary.

How does it work?

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Bank A

Key delegate

Survey response

Quality checks
Anonymize
Aggregate
Analyze

GCD Survey Collection platform

Results

UNEP FI &
GCD teams

✔ Analyze results
✔ Write a comprehensive report for participants
✔ Discussions with banks

What do you get back?

Report for participants

Early access
More detailed
More supporting documentation

Public Report

Plan

Q3/2024

Onboard members

▶ 1-1 calls with interested members

▶ Sign up interested banks to participate

▶ Receive input from participating banks

Deadline: August 30th, 2024

Q4/2024

Data Collection

▶ Banks submit survey responses

▶ One submission per bank.

Kickoff: September 2024

Q1/2025

Data Analysis

▶ GCD and UNEP FI will analyze the results

▶ GCD and UNEP FI will draft a report to benchmark credit risk methodologies

Q2/2025

Results

▶ Publication Release

▶ Delivery to banks

▶ Presentation on key findings.

▶ GCD members receive tailored peer benchmarking report

Survey examples and input

Sample survey questions (1/3)

Questions focused on understanding methodologies used to assess climate risks for various **exposure classes**

Questions aimed to understand methodologies and **key assumptions** used to assess **physical** and **transition** risks

Examples of qualitative questions

Q. What exposure classes are you assessing climate risk for?
- Corporates
- Retail SMEs
- Non-retail SMEs
- Households
- Real estate
- Specialised lending/project finance
- Other

Q. Which forward-looking transition risk indicators are you using to assess policy, technology, market, legal and reputational risks?

Q, Have you taken into account tipping points for assessing physical risk?
- Yes, comprehensively: We have fully integrated tipping points into our physical risk assessments.
- Yes, partially: We have considered tipping points in some aspects of our assessments.
- No, but planning to: We are planning to integrate tipping points into our future assessments.
- No, not currently considered: Tipping points are not currently included in our physical risk assessments.
- Unsure: We are unsure if tipping points are considered in our assessments.

Q. Which of the following physical risk elements are being incorporated into your assessment?
- Direct damage to property and assets
- Downtime from damage to property and assets
- Increased insurance costs
- Indirect impacts caused by deteriorating macro environment
- Indirect impacts caused by damage to local infrastructure
- Impacts due to disruption of supply chain

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Sample survey questions (2/3)

Questions to identify **models** used, their key **assumptions** and **uncertainties**

Questions to benchmark **data** use and **standardise** data collection practices

Examples of qualitative questions
Q. Model used for assessing PD: • Merton model • Adjustments to Internal Credit Rating Models • Machine Learning Models • Logistic Regression Models
Q. What are the models used, and their uncertainties?
Q. What are the underlying assumptions and methodologies used by you (or a third-party vendor you work with) for calculating technology risk?
Q. How do you address the challenges of limited scope 3 data?
Q. What are your practices to ensure the quality of the proxy climate data?
Q. Which of the following types of data sources have you used to assess physical risks: • Commercial vendors • Open-source data portals • Meteorological/weather datasets • Government databases • Climate scenarios • Geolocational/geospatial technologies • Artificial Intelligence • Client data • Internal systems • Other

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Sample survey questions (3/3)

Questions focused on various aspects of **scenario analysis**, including scenario selection and enhancements

Examples of qualitative questions

Q. How did you adapt the scenarios to a more granular level? Outline the changes made? What were the challenges you faced? how do you adapt to your region-specific requirements?

Q. How did you perform scenario expansion?
- Engaging with a third party for greater geographical granularity
- Engaging with a third party for sectoral geographical granularity
- Engaging with a third party for greater incremental transition variable types
- Leverage internal teams to provide greater geographical granularity
- Leverage internal teams to provide greater sectoral granularity
- Leverage internal teams to provide incremental variable types

Q. What transition scenario variables are used to assess the Real Estate sector?
- Building type
- Building emissions
- Energy usage and type
- Size/square footage
- Retrofit
- Other (please specify)

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Live Polling (1/2)

Is such a survey and the objectives of the exercise useful for your institution?

- Yes
- No
- Maybe

Would you be interested and have the capacity to take part in such a survey?

- Yes
- No
- Maybe

Have you taken part in such a survey in the past (e.g. for a supervisor), if yes please specify.

- Yes
- No

Do you have a preference for multiple choice or text questions?

- Multiple choice questions
- Text questions
- No preference

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Live Polling (2/2)

What aspects of credit risk methodologies would you like covered in the benchmarking survey?

Do you have any other suggestions for the survey and its questions?

Would you be interested in conducting a sample quantitative exercise as part of the survey? If yes, do you have suggestions on the focus?

- o Yes
- o No
- o Maybe

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Next steps

1 GCD and UNEP FI teams will reach out to all member banks. Banks are requested to confirm their participation **by August 30th, 2024**

2 Upon confirmation, Banks will be onboarded

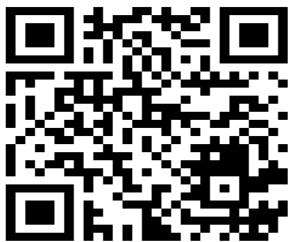**3** **September 2024 Survey kick off with the participating banks**

Contact ✉

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About GCD

Global Credit Data (GCD) is a not-for-profit association owned by over 50 member banks worldwide. With 20 years of experience, GCD is a trusted data consortium in the financial industry, offering unique data pooling, benchmarking services, facilitating knowledge exchange, and fostering research with a mission to help banks understand and model credit risks.

About UNEP FI

United Nations Environment Programme Finance Initiative (UNEP FI) brings together a large network of banks, insurers and investors that catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. Financial institutions work with UNEP FI on a voluntary basis and the initiative helps them to apply the industry frameworks and develop practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.