

The Nature of Finance

EXECUTIVE SUMMARY

Assessing the nature-related risks and
opportunities for the Irish Financial Sector

2023



About this report

Report prepared by KPMG Sustainable Futures on behalf of Ireland's International Sustainable Finance Centre of Excellence (ISFCOE).

The ISFCOE functions as a neutral facilitator, presenting research findings from expert authors in sustainable finance. We prioritise disseminating verified facts and insights, following a strict validation process. We abstain from taking a stance or suggesting actions based on the findings, ensuring an independent and unbiased approach in our publications.

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Please note that the views expressed in this report belong to the authors and are not necessarily those of the reviewers.



Executive Summary

Nature is in a perilous state, both in Ireland and across the world, with most critical indicators trending in the wrong direction. The loss of nature is dangerous for human wellbeing and, as noted recently by the European Central Bank, "[is] also existential for the economy and the financial system, as our economy cannot survive without nature."¹

The financial sector is waking up to and increasingly taking action on the issue of climate change, by integrating climate risk assessments and modelling into financial decision-making. In recent years, nature has also arrived on the agenda, thanks in part to landmark studies by the Dutch, French and Malaysian central banks, and NGO and industry initiatives such as Business for Nature and Finance for Biodiversity.

This report is understood to be the first independent assessment of nature and biodiversity-related risks and opportunities for Ireland's financial sector. It is hoped that this study will raise awareness of how Ireland's financial sector both impacts and depends on nature, and spurs further research into how these links to nature can generate both risks and opportunities for Ireland's financial services and economy.

The study is comprised of four main elements:

1. Assessment of nature-related risks and opportunities for national lending portfolios
2. Assessment of nature-related risks and opportunities for insurance written in Ireland
3. Exploration of forward-looking nature scenarios and what they could mean for Ireland's financial sector
4. A proposed Nature Finance Roadmap for Ireland and recommendations to guide future work on this topic

You can read the full report at www.isfcoe.org

¹ Frank Elderson, ECB 2023. The economy and banks need nature to survive (europa.eu)



The main findings of the study and key recommendations are provided below.

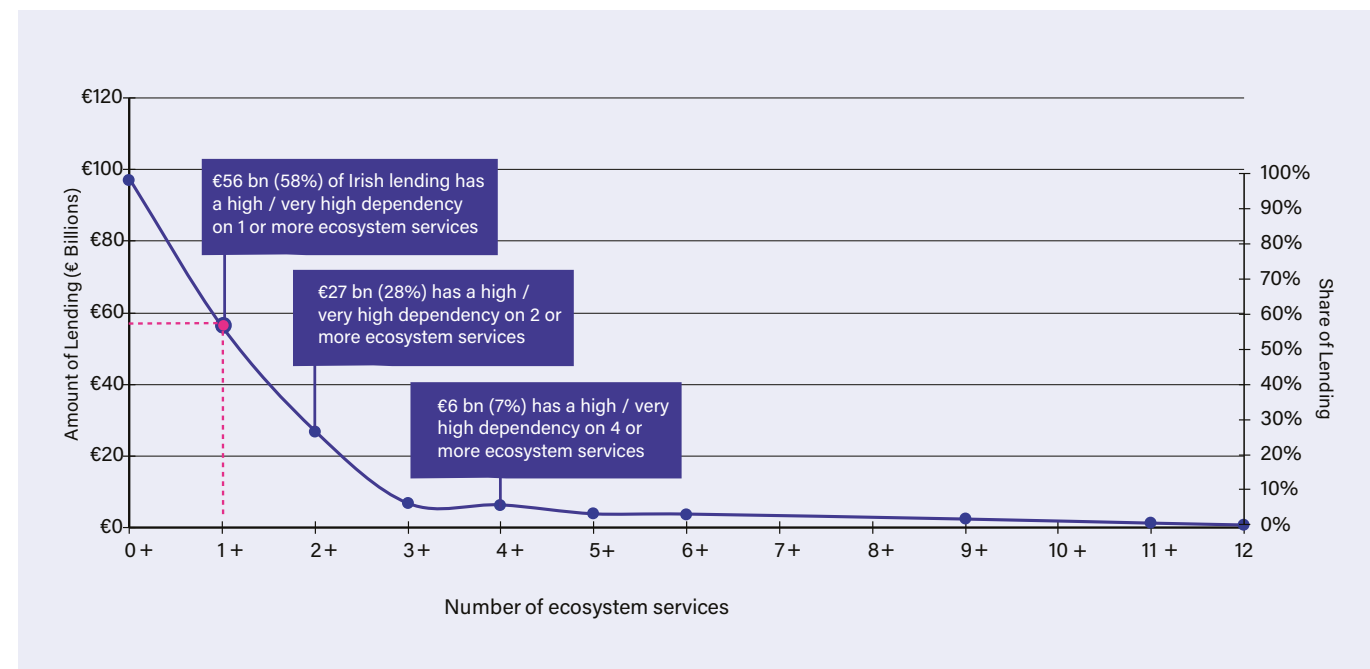
On national lending portfolios, we find that:

58% of Irish lending (€56 billion) to non-financial corporations is exposed to economic sectors that are highly dependent on 1 or more ecosystem services.

94% of Irish lending (€92 billion) to non-financial corporations is exposed to economic sectors that have a high impact on 1 or more aspects of nature.

This means that the financial sector is exposed to nature at a time when we are seeing unprecedented nature loss globally and in Ireland. Loss and degradation jeopardise nature’s ability to provide critical ecosystem services enjoyed by people and businesses alike. The sectors that depend on ecosystem services for business continuity could suffer interruption or delays due to the loss of these services, potentially increasing the risk of default, stranded assets or ability to repay loans. In this way, nature loss can generate risks that are transmitted to the financial sector. These transmission channels must be explored in greater detail to improve our understanding and mitigation of nature-related risks.

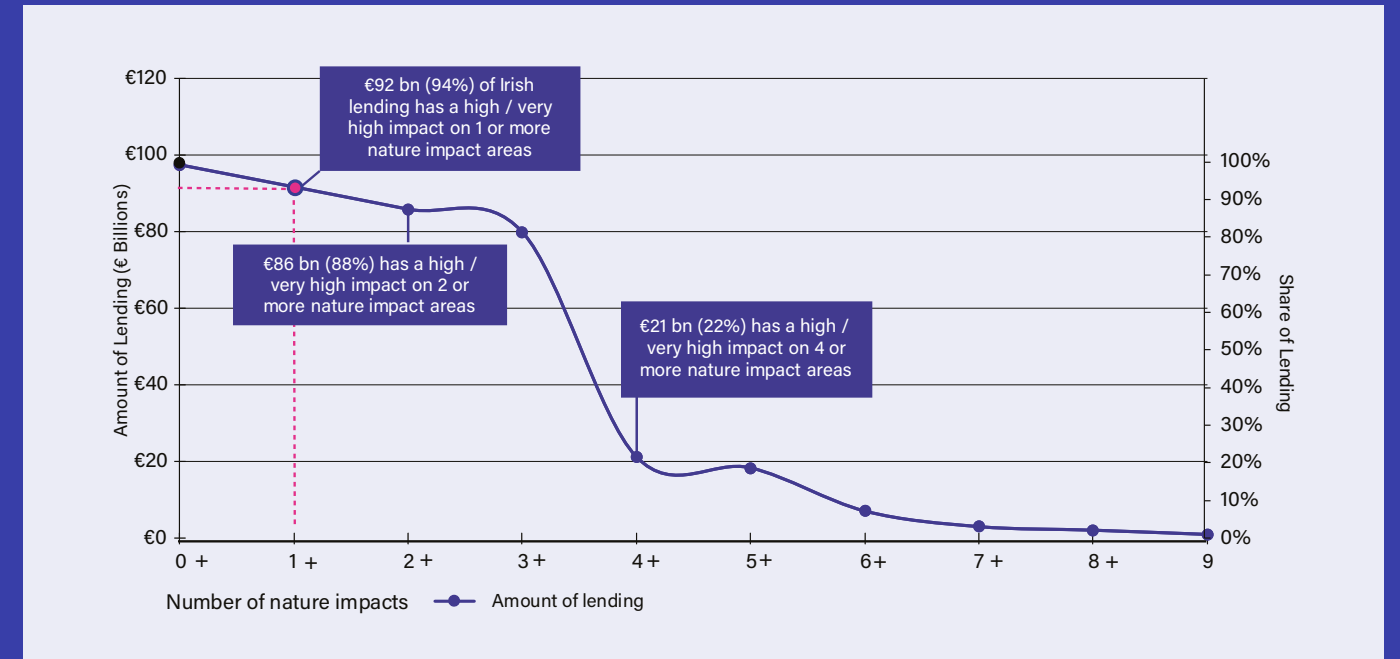
Figure 1 – Share of Irish lending with high or very high dependency on ecosystem services



Note: Data from March 2023. Figures exclude the non-bank financial intermediation sector

Note: The full list of ecosystem services are: Animal-based energy; Fibres and other materials; Genetic materials; Ground water; Surface water; Maintain nursery habitats; Pollination; Soil quality; Ventilation; Water flow maintenance; Water quality; Bio-remediation; Dilution by atmosphere and ecosystems; Filtration; Mediation of sensory impacts; Buffering and attenuation of mass flows; Climate regulation; Disease control; Flood and storm protection; Mass stabilisation and erosion control; and Pest control.

Figure 2 – Share of Irish lending vs number of high or very high impact on nature impact areas.



Note: Data from March 2023. Figures exclude the non-bank financial intermediation sector

On insurance underwriting, we find that:

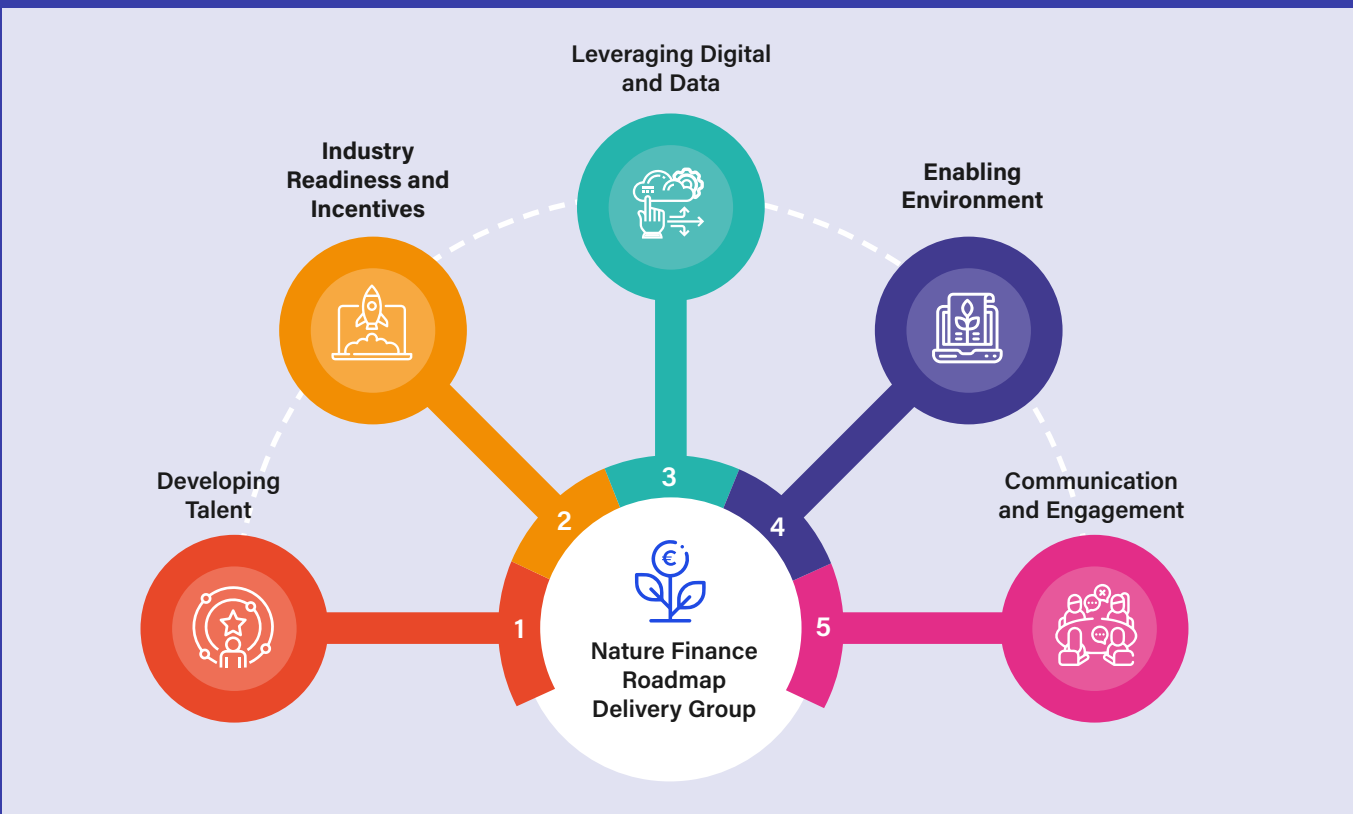
- Few quantitative methodologies exist to link insurance underwriting activities to economic sectors or nature.
- Approaches from the literature on climate risk for the insurance sector can be adapted for analyses of nature-related risks, and through a case study we explore whether these risks and opportunities are being fully accounted for. Our research finds that significant gaps remain, and we recommend urgent and collaborative work to close them.
- As Ireland hosts one of the largest insurance services sectors in Europe, there is an opportunity for collaborative public and private sector efforts to close the methodological gaps for underwriting that we have identified and to position Ireland as a leading centre supporting nature positive insurance.

As financial institutions better understand their impacts and dependencies on ecosystem services and the potential for nature-based solutions, they can look to improve their pricing of loans and identify potential investment opportunities, unlocking capital towards these activities.

Nature Finance Roadmap

We propose a draft Nature Finance Roadmap to position Ireland as a leader on the nature finance agenda. The Roadmap mirrors Ireland's Sustainable Finance Roadmap (published in 2021) and is structured around five main pillars: 1) Developing talent; 2) Improving industry readiness; 3) Leveraging digital and data; 4) Creating a nature positive enabling environment; and 5) Enhancing communications and engagements on nature and finance risks and opportunities.

Crucially, the Roadmap proposes an additional Pillar 0 – the establishment of a Nature Finance Roadmap Delivery Group. The role of this Delivery Group will be to take the proposed roadmap and further develop the actions, assign lead organisations and individuals and agree on the delivery timelines.



Conclusions

Our study led to the following set of conclusions:

- In line with the findings of the ECB and other central banks, our quantitative analysis shows a clear link between bank lending in Ireland and economic sectors that are highly dependent on ecosystem services and impacting on nature.
- Urgent collaborative efforts between the financial sector and the State are needed to strengthen the enabling environment for nature finance and a nature positive economy in Ireland.
- The nature finance skills gap is a key barrier to progress.
- There is an urgent need to develop common frameworks, tools, and languages.
- Access to robust and standardised data is critical for improved decision making and action.

Ireland has an opportunity to position itself as a leader on the nature finance agenda.

Ireland has many of the elements required to drive a nature positive financial sector and economy and show leadership to other financial centres. Increasing national and EU regulatory signals, measurable climate and biodiversity action plans and targets, and indications of strong public support from the Citizens' Assembly on Biodiversity Loss are solid foundations to build on. The draft Nature Finance Roadmap sets out the high-level actions to help position Ireland as a leader. However, success will require increased and sustained efforts, support and coordination across stakeholder groups. An early and important signal of intent will be the establishment of a Roadmap Delivery Group in 2024. This Group can kickstart the delivery of innovative and ambitious nature positive actions to unlock long-term benefits for Ireland's people, nature and economy.

You can read the full report at www.isfcoe.org