ÅSA LARSON
Executive Director,
Swedish Financial Supervisory Authority (Finansinspektionen)

Climate risks seen from a supervisory perspective

One problem in defining specificities of climate and other ESG related risks is to differentiate and untangle climate risks from other types of risks handled by each financial institute. So I'd say that the specificities for these types of risks are all about challenges – in the timeframe of the risks, uncertainty of the impact of the risk and also the uncertainty of how this risk can spread to other areas of the financial sector and to society. Not to mention the challenge in determining the size.... This is a fairly new risk area and there is a lot we do not know yet.

There is a lot of published information on sustainability and also the way insurers and other financial companies provide this information to consumers, to investors and to supervisors. In many cases, companies use different types of voluntary standards and frameworks that do specify what and how information should be compiled and published. This is in itself a challenge since it makes it difficult to assess how companies are financially affected by various sustainability factors. We also still have different disclosure requirements in different regions in the world. That means that a potential client, an investor or a researcher looking for information will find different data and answers depending on where he or she is situated.

Climate changes and the transition to a low-carbon economy include many and major changes over a long period of time in complex ecological and social systems. It is, as we all know, very difficult to predict the future. Longer time horizons increase the uncertainty and the elements of genuine uncertainty, where risks are particularly difficult to translate into probabilities, are significant. When uncertain, it is important to work along the lines of scenario analysis. Such analyses can help to illuminate and accept uncertainty. It can also increase the ability to handle unexpected outcomes.

One way to calculate transition risk in financial companies is to analyse how compatible the exposures are with national or global climate goals. A particularly relevant climate scenario is that of the limited global heating. We see that more and more investors request information on the extent to which companies' operations in a forward-looking perspective are compatible with objectives of the Paris Agreement and how they are affected by the Paris Agreement's commitment to limit the global warming.

My contribution to the panel will be about the importance of data, in order to measure, compare and understand the risks related to sustainability and climate changes. I will also give a few examples of activities and tools in this risk area my authority (the Swedish FSA) has initiated.