

The finance sector is leading the economy in identifying and responding to climate-related risks and opportunities. As the transition to a global low carbon economy progresses, demand for clean energy, resource efficient infrastructure, and an environmentally-focused industry will increase. The finance industry is well-positioned to capitalise on these opportunities while managing climate-related risk.

Megatrends are influencing the operations and risk profiles of Queensland's finance sector. Expectations of transparency for climate-related risks are growing, and have led financial institutions to use increasingly sophisticated means to price these risks. Carbon pricing mechanisms, both mandatory and voluntary, are increasingly used to drive emissions reductions. Sectors across the economy are contributing to climate resilience and reducing emissions, through use of renewable energy and more resource-efficient practices and infrastructure. At a global level, these megatrends are creating new opportunities and mechanisms for investment and managing climate risk.

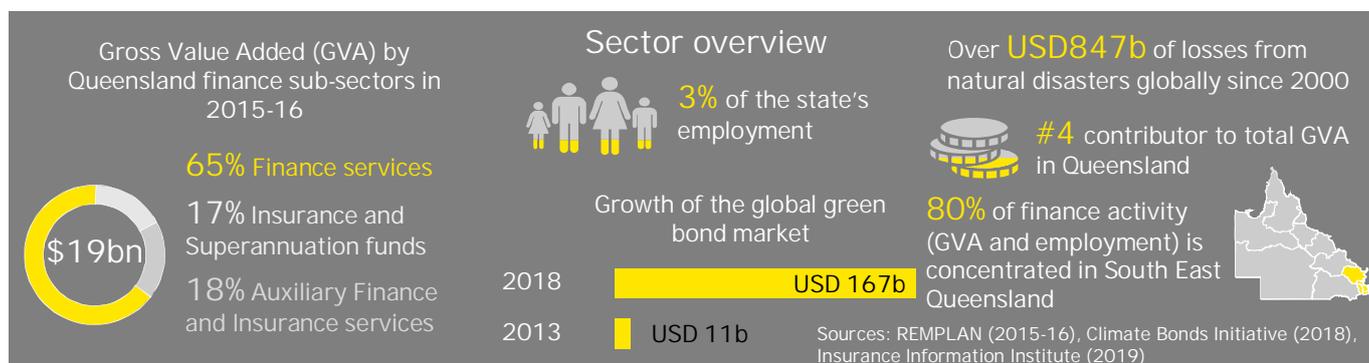
Banks and insurers continue to align their climate change disclosures to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), globally, outperforming the non-financial sectors. However, more comprehensive strategic analysis often resides with market-leaders, and wider financial organisations could increase their disclosures and transparency. The finance sector can further assist in the transition to a zero net emissions economy in Queensland by providing financial support to industry through instruments such as green bonds and fiscal incentives.

Megatrends

- Economic trends such as growing social impact investments, green bonds and divestment from emission intensive activities
- Disruption of business, government and society through technology (e.g. robotics, artificial intelligence and virtual reality), emerging markets and fintech services
- Growing investor demand for transparency and disclosure of Environmental, Social and Governance (ESG) metrics to investors and stakeholders

"The transition to a low carbon economy is underway and moving quickly. The weight of money, pushed by commercial imperatives such as investment, innovation and reputational factors, is increasingly driving that shift, rather than scientists or policymakers."
Geoff Summerhayes (APRA)

The finance sector underpins economic activity across all other sectors of the Queensland economy. The sector is relatively mature in considering the impact of both physical and transitional risks on financial portfolios, and structuring businesses accordingly. Through reallocation of debt and capital to lower emissions technologies, and the pricing of climate change risk in insurance and investment products, the sector is driving a low carbon economy. The wide uptake of the TCFD recommendations by major global financial institutions illustrates the leadership role played by the finance sector in identifying and reporting on climate risks and opportunities.



EY analysis shows that the transition to zero net emissions economy presents investment opportunities to realise the benefits of climate change and to effectively manage risks in the transition.

Key risks in a zero net emissions economy

- ▶ Reduced investment returns from damage to coastal infrastructure, private property, state-owned assets and supply chains.
- ▶ Increased insurance losses, increasing premiums and inability to provide insurance services for a number of industries.

Key opportunities in a zero net emissions economy

- ▶ Diversification of investment portfolio through innovative financial products and services.
- ▶ Partnerships with the construction sector to invest in resilient and efficient infrastructure.
- ▶ Investing in domestic and international markets through low carbon technologies and transitional fossil fuels.

The current Queensland context

Finance

- ▶ The global green bonds market grew from US\$11bn in 2013 to approximately US\$167bn in 2018.
- ▶ Development banks, and financial and non-financial corporate institutions have driven the growth of the green bond market.
- ▶ The TCFD have received support from 20 Australian financial institutions since the release of the recommendations in 2017.

Insurance and superannuation

- ▶ In 2016, individual large claims and natural hazards cost QBE \$1.7 billion, or 15 per cent of the company's net earned premium.
- ▶ Natural disasters have proved expensive for private and public insurance companies. For example, in 2018, Cyclone Debbie caused over 45,000 claims with an estimated total value of \$1.3b.
- ▶ Some Queensland agriculture sector participants are finding insurance unaffordable or difficult to obtain, in part due to climate risk.

Queensland in a zero net emissions economy

Finance

- ▶ Financial institutions will play a driving role in the transition to a zero net emissions economy through investing in low-carbon technologies, clean energy and resilient infrastructure.
- ▶ Financial institutions increasingly incorporate climate risk into financial risk ratings, exposing public and private sector to re-evaluation of credit risk ratings.
- ▶ Public and investor pressure for action and disclosure on climate change would increase.
- ▶ Climate change may lead to stranded assets, both from changes in climate policies, and the physical impact of extreme weather events.

Insurance and superannuation

- ▶ Extreme weather events are projected to become more intense, with associated risk changes for insurance products.
- ▶ Consumer preferences may drive demand for 'ethical' superannuation options which minimise investment in industries which contribute disproportionately to global emissions levels.

How can Queensland position itself for the transition?

Attract investment

To attract investment in the finance sector, the Queensland government can:

- ▶ Invest in a diversified portfolio of new products and services enabling Queensland to transition to zero net emissions.
- ▶ Invest in emerging carbon pricing mechanisms, such as the Land Restoration Fund, to bring economic and reputational benefits.
- ▶ Invest in innovation and deployment of clean energy and low-carbon technologies.
- ▶ Partner with public and private stakeholders to develop and implement climate risk mitigation measures across supply chains and industry sectors. This may include resilient infrastructure, green buildings or low-carbon technologies.
- ▶ Provide information on climate-related risks and opportunities to private and public institutions across the state.

Facilitate growth

To facilitate growth of the finance sector, the Queensland government can:

- ▶ Engage with public and private stakeholders to set out transition strategies and policies
- ▶ Explore new opportunities to provide financial support such as green bonds and fiscal incentives to stimulate green innovation and research and development (R&D). This could be focused on emerging technologies including bioproducts, sustainable materials, energy efficiency and sustainable farming practices.
- ▶ Participate in domestic and international emerging markets such as the generation of carbon offsets through clean energy sources.
- ▶ Undertake technical and economic assessments to prioritise potential options to transition the Queensland economy to zero net emissions and reduce climate-related risks.

To attract investment in the finance sector, the industry can:

- ▶ Position Queensland as a global leader working towards a zero net emissions economy, the finance sector can do this through providing financial instruments to other industry sectors to support the transition. This may include green bonds or carbon markets.
- ▶ Work with sectors to design products/services which support the transition and meet the needs of both parties including natural capital banking.

To facilitate growth of the finance sector, the industry can:

- ▶ Invest in training and educating the emerging and existing labour force in natural capital banking, how to work with clean energy markets and investment opportunities under a zero net emissions economy.
- ▶ Support and integrate broader industry policies oriented to financially support the uptake of gas and renewables.
- ▶ Implement measures to progress climate-related opportunities and manage the risks. This could include valuing natural capital, using climate screens for investments and reducing premiums on infrastructure insurance where resilience measures have been constructed.

Proactive strategies and investments will enable the Queensland finance sector to remain resilient and sustainable in the face of climate change. The sector has a significant opportunity to lead the way to a zero net emissions economy through demonstrating the importance of climate-related financial disclosures.