

A new policy paradigm from the LSE Maryam Forum: 4. A new path on climate change, oceans and financial risks

*COVID recovery packages offer big opportunities to invest in climate and ocean resilience. But for that to happen, the climate emergency needs to be recognised as a threat to financial stability. **Swenja Surminski (LSE), Torsten Thiele (LSE), Karina Rodriguez (LSE)** and the **LSE Maryam Forum Climate Change and Oceans Working Group** set out their recommendations.*

Humanity faces horrendous risks if it ignores “global commons” – that is, goods or assets whose benefits and/or costs transcend national borders. COVID-19 is one of these. Climate change and the oceans are primary global commons, and the urgency to act on them has never been greater. Fortunately, the global context in which to do so has recently improved. The G7 UK Presidency and the G20 Italian Presidency in 2021 are expected to bring these issues back to the global emergency list, with the COP26 conference being hosted in Glasgow next November.

An important focus should be climate and ocean resilience, and related financial risks. Decision-makers undervalue investment in climate resilience, even though evidence shows that strengthening it is highly cost-effective and can generate multiple benefits. This has caused a major imbalance in funding, with significantly more spent on recovery and repair than on risk reduction and increasing resilience. This is unsustainable, and so there is an urgent need to redirect financial flows towards investments that help reduce climate risks.



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Policymakers tasked with ensuring financial stability, including central banks and regulators, need to assess and manage the financial stability risks of climate change. Indeed, their effective management is already a key consideration for investors and regulatory authorities.

Recommendation 1: COVID recovery finance packages should explicitly support green, nature-friendly solutions and reduce risks to nature, including ocean ecosystems

A nature-based stimulus investment scenario outperforms a business-as-usual stimulus investment scenario globally, and significant social, economic and environmental benefits could be realised if we channelled more of the stimulus packages towards nature-based solutions like the restoration of the world's forests, wetlands and ocean ecosystems.

COVID-19 recovery packages can be used to bring about a material shift toward climate and green activities. Multilateral Development Banks are already working in this area, and in co-operation with governments can help to mobilise additional private capital and engagement.

More broadly, it is imperative to shift the policy and business focus from “post-event response” to “pre-event resilience”. Ultimately this will depend on how well resilience can be made a bankable investment proposition – a major challenge today. [Partnerships between public and private sector and civil society](#), such as the Zurich Flood Resilience Alliance, can help facilitate much needed progress.

Recommendation 2: Restoring our “natural capital” should be a key policy goal

The UK Natural Capital Committee is a good example of this approach. We need to prioritise adaptation and resilience projects in climate portfolios.

Recommendation 3: Central banks and regulators need to incorporate the climate emergency as a risk to financial stability

The case for incorporation of financial stability risks is now well established, but these assessments need to be made comprehensive to include risks to oceans and natural capital.

Climate change poses risks to financial stability through two main channels. Firstly, the physical risks resulting from the ongoing manifestation of climate change (floods, droughts, etc.) can impact financial assets and liabilities. Secondly, transition risks can materialise when the economy adjusts towards a low-carbon economy (stranded assets, revaluation risk of brown industries). Even though the full impacts of climate change would not be felt until further into the future, both risks can affect financial stability in the short term.

The case for “greening” monetary policy would need to be made through a public cost-benefit analysis, as also highlighted in the Rethinking Finance and the Global Financial Architecture working group's [policy recommendations](#).

Recommendation 4: Governments should encourage “natural capital” solutions for business investments

While the role of natural capital is gaining recognition in the private sector, it tends not to be seen as an investment opportunity. Making this work at a commercial level, under commercial financing terms, is still a key challenge. To make it happen, we need to move away from a classical cost-benefit analysis that is rooted solely in physical infrastructure.

This post represents the views of the authors and not those of the COVID-19 blog, nor LSE. It is the fourth of a series of six recommendations by the LSE Maryam Forum.

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