

## Integrating Climate-related Risks into Regulation and Supervision



### Introduction

During the past few years, St. Kitts and Nevis along with the Eastern Caribbean Region have experienced many environmental and climate-related disasters such as hurricanes, floods, landslides and droughts. These disasters have affected not only the ecosystems, human communities and strategic infrastructure but also the economies of these Small Island Developing States (SIDS). According to the United Nations Development Program article: “The Climate is Changing, so Must the Caribbean”. Over USD 12 billion in damages have been recorded in the Region over the last five (5) years. This cost is projected to reach to 9% of the regional GDP by 2030.

Having recognized the effects of climate-related risks on the region, the Eastern Caribbean Central Bank (ECCB) along with regulators across the Eastern Caribbean Currency Union (ECCU) and the Eastern Caribbean Securities Regulatory Commission (ECSRC) have undertaken a joint effort to establish a climate-related financial framework to help negate the negative effects of climate-related risk on the Financial Services Sector.

From March 2021 until October 2021, the United Nations Environment Programme Finance Initiative (UNEP FI), in conjunction with the Agence Française de Développement Group (AFD) and Expertise France, the Eastern Caribbean Central Bank (ECCB) and the Organisation of Eastern Caribbean States (OECS) delivered five (5) online training workshops on “*Integrating Climate-related Financial Risks*” in the Eastern Caribbean Region. These workshops were organized with the aim to initiate the development and implementation of climate-related regulations. Regulators across the ECCU were in attendance.

One (1) important feature of the training was for regional regulators to develop a strategic roadmap with the aim of developing and integrating climate-related financial risk management into the supervisory framework of each jurisdiction.

### Key Terms

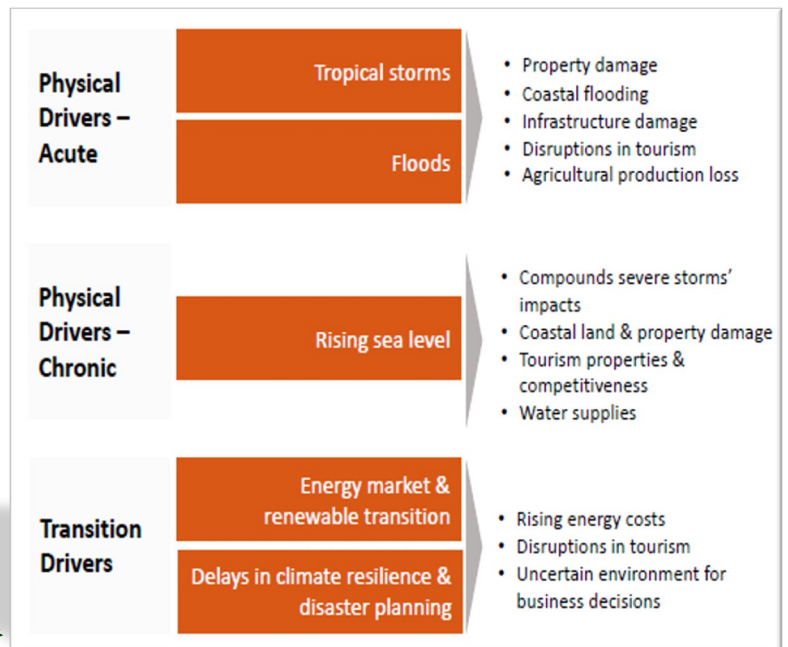
**Climate-related risks** refer to risks posed by the exposure of financial institutions and/or the Financial Services Sector to physical and/or transition risks caused by or related to climate change (such as damage caused by extreme weather events or a decline in asset value in carbon intensive sectors).

According to the Intergovernmental Panel on Climate Change (IPCC), climate risk results from the interaction of hazard, exposure and vulnerability. Hazard refers to the potential occurrence of climate-related physical events or trends that may cause damage and loss.

**Physical risks** may be defined as impacts that could arise from extreme climatic and weather related events such as hurricanes, droughts, degradation of soil quality or marine ecology, as well as environmental incidents.

**Transition risks** may be defined as impacts that arise from human efforts to address environmental and climate challenges such as low-carbon emissions, changes to public policies and technological innovations.

### KEY CLIMATE-RELATED RISK DRIVERS IN THE ECCU



### Regional Effort

Regulators in the ECCU will receive technical support for incorporating climate-based financial risk management into the supervision and regulation of the ECCU financial system.



As part of the technical assistance being provided to the region, coordinated efforts will raise awareness, develop capacity and fully supervise the management of climate-related risks.

An important part of the assistance is a preliminary assessment and preparatory work for the next phase. The following two (2) reports have been produced to date:

1. Assessment of Climate-Related Financial Risks in the ECCU Non-Banking Financial System: Integrating Climate-Related Financial Risk in Financial Supervision - This Report provided a preliminary diagnostic of the climate-related risks facing the non-banking financial institutions in the ECCU Region and provided a consolidated harmonized strategic roadmap to integrate climate-related risks.
2. Guidance on Strengthening the Supervision of Climate-related Financial Risks in the ECCU Non-Banking Financial System: Integrating Climate-Related Financial Risk in Financial Supervision - This Report provided guidance on how the ECCU Regulators can strengthen their existing frameworks to integrate climate-related risk effectively.

**Events held so far**

- ◆ A Strategic Roundtable Meeting (face-to-face) was held at the ECCB Headquarters on 30 January 2024 with attendees from the ECCU Regulators. Presentations were made by representatives from the A2F Consulting LLC on “The Assessment of Climate Risks in ECCU”, “The Vision of Supervision of Climate Financial Risk”, “Discussions on Implementation Approach Phase 2” and “The Way Forward and Next Steps to be Taken”.
- ◆ An Awareness Campaign was conducted and a survey distributed on 29 February 2024 to build awareness and test the readiness of the targeted financial institutions in the relevant sectors namely: Credit Unions, Money Services Businesses, Insurance Companies and The Development Bank of St. Kitts and Nevis.
- ◆ Climate Related Financial Risk Workshop (virtual) was facilitated by Representatives from the A2F Consulting LLC with the relevant stakeholders namely: Credit Unions, Money Services Businesses, Insurance Companies, The Development Bank of St. Kitts and Nevis and ECCU Regulators during the period 18—21 March 2024.



- ◆ Continue awareness campaigns;
- ◆ Decide on the implementation modes and techniques to be used in the ECCU;
- ◆ Update and refine the existing Regulatory Framework and processes;
- ◆ Continue capacity building among the ECCU Regulators; and
- ◆ Roll out the framework to relevant sectors.

Supervision	H U R R I C A N E S T H R E I
Hurricanes	F N R N L N K T Z T H Q U C N
Integration	N L O E G A M A D V G A U C T
Carbon Intensive	B O O I U R N I S V U Z Q U E
ECCU Region	F J I O S N G D B A O V T R G
Regulation	M L Y S D I F V S H R J O E R
Floods	X P V G S S V G I L D J Q G A
Transition risks	V F G E K I L R I Z I I D I T
Landslides	K Z Q Z N B M D E X A D E O I
Physical drivers	B D P P J Y G E R P M H E N O
Drought	R E G U L A T I O N U L J S N
Emission	S R E V I R D L A C I S Y H P
	T R A N S I T I O N R I S K S
	B V T A E W U R F G L L W V E
	E V I S N E T N I N O B R A C



FOR MORE NEWSLETTERS:  
[Financial Services Regulatory Commission - Newsletters \(fsrc.kn\)](http://www.fsrc.kn)

**REFERENCES**

Assessment of Climate-Related Financial Risks in the ECCU Non-Banking Financial System: Integrating Climate-Related Financial Risk in Financial Supervision  
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Guidance on Strengthening the Supervision of Climate-related Financial Risks in the ECCU Non-Banking Financial System: Integrating Climate-Related Financial Risk in Financial Supervision  
<https://www.eccb-centralbank.org/news/eccb-takes-further-steps-to-green-eccu-financial-system>