

## Sustainability Blog

By PwC Deutschland | 16.05.2023

# Managing biodiversity risks and opportunities

**An introduction for financial institutions**

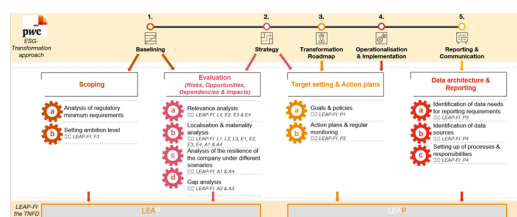
Our economy is highly dependent on biodiversity and healthy ecosystems. As a consequence, biodiversity decline and damaged ecosystems pose material risks for financial institutions while their conservation and restoration provides opportunities. In this blog post, I present best practice for financial institutions in dealing with biodiversity risks based on the new PwC Point of View **“Managing biodiversity risks and opportunities - An introduction for Financial Institutions.”** Learn how conducting sector-based and location-specific portfolio analysis leads to identifying related dependencies and impacts and ultimately to developing effective risk management strategies and promoting sustainable business practices. The publication includes two case studies from banking and insurance.

## Why financial institutions should address biodiversity risks

The topic of biodiversity has gained more attention since the international community agreed to the Global Biodiversity Framework with 23 specific nature positive goals at the COP15 on biological diversity in Montreal last December. The Global Biodiversity Framework could be a milestone for the protection of biodiversity similar to the Paris Climate Agreement for the fight against climate change. Furthermore, there are existing and upcoming regulations for the financial sector involving reporting requirements on biodiversity. In addition, supervisors expect financial institutions to integrate biodiversity risks into their risk management, most recently the European Central Bank (ECB) in the context of the Thematic Review, but also EIOPA with its staff paper on nature-related risks. However, the **Pwc / WWF study “From Net Zero to Nature Positive”** came to the conclusion that many German financial institutions still find it challenging to tackle the issue of biodiversity. In order to support implementation, PwC has developed a guideline for financial institutions with four steps for action.

## Four recommended steps for tackling biodiversity risks

We recommend four steps for a holistic management of biodiversity risks and opportunities. The following figure provides an overview:



[\(Click here for full size image\)](#)

In the following we explain the process in more detail, using the example of NGS Bank, a fictitious company. NGS Bank is a public limited company located in Frankfurt am Main, Germany, with 30,000 employees, a total balance sheet of €250 billion, and is supervised by the ECB (SI). Its core business model is the granting of corporate loans across various sectors, and it has a medium ESG ambition level, aiming for net-zero financed emissions by 2050 while financing the transition of the economy. The bank strives to be compliant with regulatory requirements and take into account its stakeholders' interests to preserve its good reputation.

## Step 1: Scoping

The first step involves taking a look at the minimum requirements set by regulation and determining the company's level of ambition with regard to biodiversity protection. NGS Bank's sustainability department started to address the topic of biodiversity, agreeing to internally use the definitions by the Task Force on Nature-Related Financial Disclosures (TNFD). The bank's monthly internal sustainability newsletter explained the most important terms and emphasised the relevance of biodiversity loss, including physical and transitory risks. A kick-off meeting for all relevant departments was announced. Additionally, NGS Bank joined the TNFD forum, which provides useful information without any obligations for members.

Based on the SFDR, NGS Bank has to publish the Principle Adverse Impact (PAI) statement for the first time by 30 June 2023, including information on investments in companies that negatively impact biodiversity-sensitive areas. NGS Bank participated in the ECB's Thematic Review on Climate and Environmental Risks in 2021 and 2022. In late 2022, NGS Bank received a feedback letter by the ECB criticising the focus only on climate risks. The ECB expects a materiality analysis for climate and environmental risks, including biodiversity risks, by the end of March 2023 by all financial institutes.

NGS Bank will be required to report under the CSRD for the financial year 2024, starting from 2025. Therefore, the sustainability department is conducting a materiality analysis to determine whether it must report according to ESRS E4, the reporting standard for biodiversity. In addition, NGS Bank will have to report on taxonomy compliance for the financial year 2023 for the 2 climate objectives (1-2) and on taxonomy eligibility for the other 4 environmental objectives (3-6). It is therefore planned to address the technical screening criteria for biodiversity of the taxonomy in 2023. (The draft Delegated Act on the 4 remaining environmental goals of the taxonomy is currently in public consultation with the final adoption expected in June.)

Although the EU Nature Restoration Law, which puts the objectives of the Global Biodiversity Framework into a legal framework, currently has no direct impact on NGS Bank, the Compliance Department is monitoring developments. In the future, the bank may consider asking credit receivers how the law affects them and what measures they plan to take.

The management of NGS Bank has opted for a medium level of ambition, focusing primarily on meeting regulatory and supervisory requirements. A decision on joining the TNFD or another initiative will be made after initial experience has been gained.

## Step 2: Evaluation (*risks, opportunities, dependencies & impacts*)

The second step in this process involves several important elements, including identifying relevant sectors for the protection and restoration of biodiversity, localising investments and financing activities, and conducting a materiality analysis for financial and non-financial materiality.

After a sector-based portfolio analysis of impacts and dependencies on biodiversity and ecosystems a heat map was created. NGS Bank decided to include all sectors with a "medium" or "high" overall score in the

next sub-steps. In order to localise investments and financing activities, from now on, NGS Bank will request location data from companies as part of the financing process in the sectors with “medium” or “high” score.

For existing business, NGS Bank wants to send out questionnaires to its clients asking for location data. In the future, NGS Bank hopes that the CSRD will make the data more accessible. For the identification of biodiversity-sensitive areas, NGS Bank has purchased data.

For the materiality analysis of financial risks, the risk department took a closer look at the dependencies and location data of the relevant sectors. “Medium” materiality was found in the IT, materials and utilities sector. For the materiality analysis of non-financial risks, the risk department of NGS Bank has linked the location data of the companies in the corporate loan portfolio from the relevant sectors with the purchased data on biodiversity-sensitive areas. When location data and biodiversity-sensitive areas overlap, there is a material non-financial risk. This was the case for all relevant sectors.

To take advantage of opportunities, NGS Bank will take a closer look at the market for nature-based solutions with a view to providing financing there. NGS bank will use the process and results of the materiality analysis for the materiality analysis required by the CSRD.

Concerning the internal risk management, NGS Bank has decided to wait for the nature scenarios of the NGFS. Then it plans to proceed in the same way as for the scenario analysis of climate risks. The scenarios will also take transitional risks into account, which the NGS Bank has not focused on yet.

As NGS Bank had not yet analysed biodiversity risks, these risks are not yet sufficiently mitigated. In particular, the impact materiality (inside-out perspective) is not yet part of the risk management. To mitigate its biodiversity-related financial risks and non-financial risks, NGS Bank intends to ask the companies with material financial and/or material non-financial risks whether they have mitigation plans (engagement strategy). If no plans are in place, NGS Bank will require the development of transition plans in the future. Otherwise, credit conditions will deteriorate or no more loans could be granted to this company.

### **Step 3: Target Setting & Action Plans**

NGS Bank's sustainability department has closely examined the Global Biodiversity Framework (GBF) and its implications for financial institutions. NGS Bank considers the following objectives as most relevant: directing financial flows towards GBF goals, increasing financial resources, and requiring corporate reporting on biodiversity-related risks and opportunities.

As the final guidance from the Science-Based Targets Network (SBTN) is not yet available, NGS Bank is using the interim targets provided by SBTN. The bank plans to join the SBTN in the near future. Each target has corresponding key performance indicators (KPIs) to measure progress towards achieving the goal.

Recognizing that biodiversity is a complex and multifaceted issue, NGS Bank has decided to develop a comprehensive biodiversity policy that covers various aspects such as land use, water consumption, use of pesticides, and deforestation. The sustainability department is currently working on the policy, which will complement the existing climate policy.

To avoid overwhelming its existing clients, the comprehensive biodiversity policy will initially apply only to new business. The bank plans to gradually apply the policy to its existing business by engaging with companies in its portfolios.

#### **Step 4: Data architecture & Reporting**

NGS Bank has made significant progress in identifying all the biodiversity KPIs it needs to report on (e.g. under SFDR, EU taxonomy, and CSRD). The bank has grouped these KPIs and has already taken measures to report on most of them. However, in order to ensure data quality, the bank will purchase some additional data and subject it to a critical quality check.

To manage biodiversity risks, the bank's management will be informed on a monthly basis as part of the internal climate and environmental risk radar. As part of the standard business initiation process, the bank will also collect geodata, while for existing business, the bank will collect the required data through questionnaires. The bank plans to take a step-by-step approach, starting with the most relevant sectors.

Different departments have been assigned responsibility for ensuring the availability and quality of data related to different KPI groups. The IT department has already begun preparations for the technical implementation of these measures. These steps demonstrate NGS Bank's commitment to sustainable practices and ensuring that its business operations align with its biodiversity policy.

#### **The time to start is now**

Financial institutions should address biodiversity risks and opportunities as well as their biodiversity impact by taking action now. They should start by scoping the regulatory requirements and determining their level of ambition. Furthermore, they should analyse the relevant sectors, localise their investments and financing activities, and conduct a materiality analysis for both financial and non-financial risks. As a next step, financial institutions should identify the dependencies and impacts of each sector, assess the risks and opportunities, and develop effective risk management strategies. It is important for responsible financial institutions to take proactive measures to mitigate biodiversity risks and engage with their clients to raise awareness and encourage best practices. To accelerate progress and gain support, financial institutions should also consider joining the TNFD or other initiatives and work collaboratively towards a sustainable future.

[To further PwC Blogs](#)

#### **Keywords**

[ESG](#), [Sustainable Finance \(SF\)](#)

#### **Attachments**

[pwc-point-of-view-managing-biodiversity-risks-and-opportunities.pdf](#)

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