# Latest IIPP paper argues nature-related financial risks more complex than climate risks

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The latest working paper by the UCL Institute for Innovation and Public Purpose (IIPP) outlines a precautionary policy approach for central banks and financial supervisors to manage the systemic financial risks posed by nature loss.

Even before the COVID-19 pandemic brought home the painful consequences of our cavalier relationship with the environment, the UN had declared 2020 to be the “crunch year for nature”. Of the 20 Aichi biodiversity targets set in 2010, not a single goal has been achieved to halt the destruction of life-enabling ecosystems. The finance sector has also awoken to the significant risks posed by nature loss. 26 global financial institutions have signed the Finance for Biodiversity Pledge, committing to protect and restore nature through their financing activities. A new Taskforce for Nature-related Financial Disclosures (TNFD) has also recently launched, aiming to develop reporting frameworks to help private finance understand their risks, dependencies and impacts on nature.

New research published by IIPP has highlighted that we cannot rely on voluntary disclosure initiatives alone to manage the systemic financial risks posed by nature loss. The working paper, authored by Katie Kedward, Josh Ryan-Collins, and Hugues Chenet, argues that nature-related financial risks are in many ways far more complex than climate risks, and serious threats are already occurring in the short-term, as COVID-19 – with its suspected zoonotic origin – has made abundantly clear.

The authors emphasise that the 'radical uncertainty' of environmental breakdown means it is not a conventional market failure; the relevant information that markets require to reorient capital may never be known in full. Given this, they call for central banks, financial supervisors, and finance ministries to adopt a precautionary approach to managing nature-related financial risks. Instead of waiting for the development of complex disclosure frameworks, effective supervisory interventions can be taken now to prevent flows of finance continuing to facilitate unsustainable corporate activities.

This research has garnered considerable attention in the financial press, featuring in pieces by Global Capital, Business Green, Environmental Finance, and Central Banking. In an Op-Ed for Global Capital citing the UCL IIPP working paper, Jasper Cox notes that 'financial supervisors and regulators are too preoccupied with collecting research and data on environmental threats, rather than simply using their own judgement & other tools at their disposal.' He argues that 'in becoming more interventionist, finance's umpires will make mistakes – but acting too cautiously is ultimately more reckless.'

Since publication of the IIPP paper, the Network for Greening the Financial System (NGFS) has released new research into environmental financial risks beyond climate change. Members of the TNFD have also echoed our call for nature-related micro- and macroprudential regulation to support disclosures in a follow-up report released in September.

Read the working paper

Read a blog on the paper