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PERSPECTIVES ON THE EFFECTS OF CLIMATE CHANGE IN FINANCIAL INSTITUTIONS

Dr. Revenio C. Jalagat, Jr.

Assistant Professor, Al-Zahra College for Women, Sultanate of Oman. revjalagatjr@gmail.com

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Abstract

Climate change has become a growing concern for many businesses nowadays as many researches have been done to assess its impacts in human health and the environment in general which includes the work environment. In response to this, this study aimed at investigating the impacts/effects of climate change in financial institutions particularly the banking and insurance companies. It also shed light on the varied opinions of different authors about how climate change positively and negatively affect these businesses and to bank employees. Secondary data were utilized to provide valid justification of the arguments formulated in this study. Key findings showed that, climate change provides both risks and opportunities as it can be viewed positively and negatively. However; risks can be minimized with application of financial techniques and good investment decisions that benefits the business industry in the long-run. Suggestions were drawn to design and develop appropriate strategies and measures through massive awareness and orientations not only to businesses but to individuals to be headed by concerned agencies and, institutionalization of climate change policies to company plans and strategies.

1. INTRODUCTION

Increasing importance and orientation on the significant effects and impacts of climate change had been experienced in international fora. It has also gained attention by many companies across the globe. In Oman, it can be seen as an emerging concern as companies, banks and government agencies are getting more attention on preserving the environment and the good utilization of resources basically the water and the clean and green environment. Plans and programs are designed in response to the widespread impacts of the climate change. Being considered as one of the cleanest country in the GCC and other countries, Oman has put emphasis on the mechanisms that counters the negative consequences of climate changes as the company have learned from their past experiences from disasters that had happened in the past. According to the Minister of Environment and Climate Affairs, Mohammed Bin Salim Bin Said Al Tobi, Oman is vulnerable to climate change as the country had experienced two severe cyclones which is believed to cause damages on livestock and fish resources, water scarcity, increased temperatures and ecosystem degradation (Y Magazine, 2016). Moreover, the country is committed to reducing greenhouse gas emissions which aims to combat global warming since 2005 (Y Magazine, 2016). So, not only that the government is concerned with these effects but also the private sectors that include the banks and other financial institutions. Hence, protecting the environment is everybody's concern and the banking sector can be instrumental in assuring that the actions and responses are in line with the government's measures to lessen the possible negative impacts of climate change.

In this research article, the investigation is focused on evaluating the impacts/effects of climate change in the financial institutions and to the bank employees. It also investigates the different authors' point of views as bases for critical analysis as to whether such views are relevant to the situations that either affirm or contradict the subject. Lastly, it provides insights and statements on the positive and negative impacts brought about by climate change.

2. LITERATURE REVIEW

2.1 Effects of Climate Change in Banks and Insurance Companies

Problems and concerns on environment and ecology including but not limited to climate change poses greater impact on economic situation globally (Ceres, 2008). Financially, concerns on environment have become a global issue that potentially affects economic growth country to country and increases the economic risks. This gives rise to the threats that encountered by Bankers and Asset Managers to consider the risks involved on the effects of climate change to bank assets and in general, provide direct impacts on financial capabilities and operation of banks. But the author failed to disclose the specific areas or aspects in businesses where there are perceived negative impacts of climate change which in turn may provide rooms for another interpretation.

However, Hair (2006) contrasted the idea of this negative impacts expressing that Banks may provide positive impacts by developing financial techniques to counter the negative effects of climate change. For instance, the banks can provide adequate insurances, calamity bonds and other measures to ensure that bank assets and other properties are secured in the long run. McKinsey (2007) seconded Hair's statement stating that achieving good investment decision from either direct investment or project financing or even indirect investment of shares is generally affected by climate changes and therefore risks can be reduced by preventive measures and appropriate assessment of the risks involved. While these statements are good and acceptable options to reduce the impacts of climate change, it lacks clarity as to the scope of its applications considering that climate change varies its impacts location to location or even among the affected countries. Hence, how big or small are the impacts could also be considered as options in establishing the measures in mitigating the negative consequences by implementing strategies and techniques to counter the climate change related calamities.

For example, Goodwin (2007) stressed the impacts of lending and climate change in banks claiming that both individual and corporate loans of big size loans are mostly secured by properties either land or building. The rapid changes in the climate such as unpredicted rains, floods, cyclones and climate related calamities would likely results to reduction in property prices and potential loss of economic activity as well as credit crunch. Accordingly, Innovest (2002) supported the claims depicting that loans and lending without adequate collateral or property security would negatively affects the collectivity of loans and would limit options for banks to extend granting of such loans. Wellington and Sauer (2005) also affirm the impacts disclosing that the climate change indirectly results to negative impacts primarily on client's operations, consumptions and daily needs like natural disasters that destroy client properties resulting to the difficulty of insurance recoveries and perceived increases in insurance premiums for the coming years. However, Thompson's observation contradicts the results in insurance companies and asset management sector where the large portion of the activity involves assets that have direct impact on climate change.

As evidence for instance, insurance companies which are badly affected by climate changes would resort to drastic increases in premiums and payments to secure the properties from succeeding calamities that will in turn results to distress on the part of the clients. Stern (2007) also explained the negative impact of climate change to the banking sector due to the bank's exposure to climate changes especially extreme weather conditions that affects asset quality and potential damage of properties taken as collaterals and securities. In addition, carbon restrictions potentially resulted to lower economic activities. In such cases, default risks rise because of unexpected costs for mitigations and even risks from regulatory compliances and in order to address it, banks will undergo large investment outlays to restore properties and insurances.

However, Llewellyn (2007) argued that although banks are affected by climate change directly or indirectly, he claimed that big banking institutions are less affected by climate change because its services are more diversified and have sufficient back-ups to counter perceived negative impacts of climate change. Moreover, because of the more opportunities to stretch the funds for large banks, more options can be chosen whether to grant more short term loans or long-term loans. The burden instead will go through insurance companies and asset management companies who are caretakers of the properties and that are more exposed to risks brought about by climate change (Hare, 2007). But it cannot be denied that the increasing dangers brought about by climate change continuously increases that leaves many countries and companies to be alarmed.

One of the most affected areas in banking is the asset management division where the most likely physical impacts took place. Since the impact of change is most likely unpredictable, the risks likely occur associated with assessing the estimates for instance, the future carbon prices, emissions or footprints, revenue opportunities arising from climate changes and hedging strategies using carbon markets (Dlugolecki and Mansley 2004; Henderson Global Investors and Trucost 2005; UNEP FI 2006). Moreover, many companies and organizations allocated enough funds on climate-change related investment opportunities such as the "theme funds to prepare themselves for earning potentials that can be associated with the drastic climate changes as has been adopted by many fund management industries. As a result, in the study of Freshfields, Bruckhaus, and Deringer (2005), climate change can be viewed in positive terms like treating it as investment opportunities rather than a calamity or disaster. As such, he added that banks and other institutions should be sensitive and responsible to look for ways how to view these climate changes in positive point of view as well as incorporating these in overall management strategies and assess the potential risk and return in every climate-related decision that companies have to pursue.

2.2 Effects of Climate Change to Bank Employees

Undeniably, the impact of climate change in banks is geared towards leadership and those employees and all the people in the organization are affected and the ones who make the moves to lessen the impacts of climate change to manageable levels. Cogan (2008) discussed the impacts to the bank employees with regards to climate change as enumerated:

a. The risks that management operations will be affected by climate change that carries the burden on the employees and management to decide in order to lessen the risks of damages.
b. Greater responsibilities that are unexpected or more workloads rest on employee shoulders that are not encountered on normal course of operations. The economic value of negative impacts shall be borne by the employees in some cases.
c. The unpredictability of the situation urged the employees and the officers to increase the amount of contingencies that thereby alters the funds which are used in the normal course of operations.
d. Time can be wasted on taking more efforts in planning because of incorporating the climate change in the planning strategies and developing sound solutions to the problems.

However, on the other hand the urgency of the situation allows the employees to think of the problem on the positive side that enhances their capabilities to decide on undesirable situations. For instance, employees can be the avenue where programs and plans can be created to help prepare and counter the dangers of climate change effects. The growing orientations and the perceived effects of climate in the other parts of the globe enable the people and the employees to be creative and turn threats into opportunities. Moreover, bank personnel can be the leading example in financial institutions in conducting awareness and programs in looking for ways and means to assess the costs and benefits and orient people how to counter the perceived impacts of climate change.

Bonini et. al. (2008) evaluation on the impact of climate change to the banking sector is relevant and justifiable as they pointed out that, even if the impact is indirect, but it is important that employees would bear in mind that negative consequences of the change to employees would affect their businesses and also their properties where most of the loans are secured by properties. This would somehow losses confidence of the local market. Banks should help the customers/clients, the society at large to be vigilant and be prepared when undesirable weather condition comes even to the point of extremities so that the impacts can be measured accurately and thereby lessen its damages as the case maybe. Furthermore, the readiness of the employees and executives to implement the plans and programs leading to positive results should be done so that risks will be measured and maintained at the minimum level. In other words, the risk management team in any organizations should assess the risks as a result of the climate changes and that responses should be focused on finding the solutions to the problems.

Willows and Connell (2003) have identified the three areas where bank personnel should possess which include leadership, policy and practice. He further noted that, implementing policies and programs should be within the bounds on leadership capabilities and that officers should enforced the measures that clearly contribute to the solutions which consider the presentation of the set of recommendations. Policy should also be clear and understandable by both the implementers and the subjects because appropriate and good policies would also lead to proper implementation. And more importantly, it should become part of daily living or daily operations in which cases the policy is institutionalized that would cater long-term sustainability. Further, the institutionalization or the incorporation of the preventive measures against the impacts of climate change would be helpful to the companies not only the banking sector because it is where they will realize the risk and benefits of climate change by converting the threats into opportunities for higher returns in long-term scenarios. The three factors are just a few of the many possible ways that the bank can do to achieve an acceptable level of success in promoting and developing ways and means to counter the increasing negative effects of climate change (Porter and Reinhardt, 2007). However, the substance of having these three would be a good start in assuring that the sustainability of making actions and responses amidst climate change is maintained and maximized.

The bank employees play a vital role in seeing to it that the programs that they have implemented would in some way or another contribute to the success of the clients, the financial institution and the society as a whole considering that climate change is already an economic threat to industries and its impact is growing as well as increasing attention globally. Efforts that can be made by employees will produce significant impact that starts from the office, to the industry, the community, the country and globally.

3. Findings and Conclusions

Evaluating the impacts of climate change resulted to both risks and opportunities and can be viewed positively and negatively. Various authors agreed that while climate change is faced with risks but at the same time it is also an opportunity to reckon with. For instance, both Hair (2006) and McKinsey (2007) emphasized that financial techniques and good investment decisions would negate or lessen the potential riskier impacts of climate change and that it will instead provide positive contribution to the company in the long-run. However, opponents would also argue that the negative impacts of climate change would result to potential dangers because primarily it affects the assets where most loans are secured by collaterals and it affects the financial conditions of the banks (Goodwin, 2007; Innovest, 2002). In this case, it can be safe to assume that climate change can be perceived as both contributing to the risks and opportunities as it takes place. The evaluation also concluded the impacts of the banking sector and other financial institutions and the employees working in the industry. The findings more likely suggest the importance of designing and developing appropriate measures to lessen the impacts of climate change and convert it into meaningful opportunities by having awareness and orientations to the people so as preparation can be done.

Moreover, climate change is a growing concern that caters not only on the national, regional but on a global scale. For this reason, everyone should be concern and responsible as in the banking and insurance sector. It shows that instead of measuring the damages that it can inflict to individuals, companies and society, it is better to develop ways and means to be sustainable in the long-run and make sure that right policies are implemented and maintained at the maximum level so that institutionalization of policies will be achieved and in turn provide returns to the company and its employees.

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