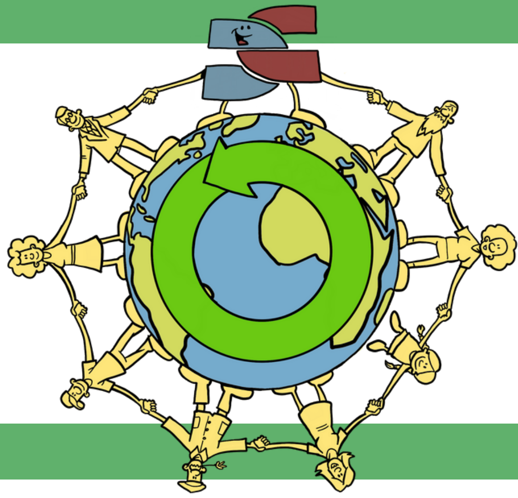
EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

COOP27

Co-operative Banks Local Action for Clients' Adaptation to Climate Change



CALL FOR ACTION ON CLIMATE ADAPTATION

Voiced at the occasion of the UN COP 27

Climate change is one of the greatest challenges facing us all. Every day, it is more and more evident how climate change is already impacting numerous areas and territories worldwide with tremendous consequences on people and societies. Awareness about climate risks has increased considerably, especially in the financial sector. Climate and environment related regulations and supervision are increasing strongly in number and scope. Financial institutions equally have a role to play by financing the transitions towards a more sustainable economy. The members of the European Association of Co-operative Banks are committed to accompany their clients and communities through the necessary transition to more sustainable and resilient business models. For this reason, in continuation with its event in 2021 that marked the COP 26, the EACB is organising the “COOP 27” event to showcase the climate adaptation actions of co-operative banks and their main clients while presenting views to policy makers on how best to facilitate the co-operative banks’ role to help increase resilience of the local economies. In this context, the EACB would like to address to EU and international regulators and policymakers a call for:

POLICY ACTIONS

Next to climate mitigation and the transformation to the net zero economy in 2050, climate adaptation is needed in the areas impacted by natural catastrophes. Each area is exposed to different physical risks and to various extreme natural events.

By providing finance at local and regional level, co-operative banks support the communities to face this challenge, supporting the integration of adaptation strategies and resilience in the medium and long term. Moreover, climate adaptation needs to be a concerted action of consumers, businesses, governments, the financial sector, and other stakeholders.

"Co-operative banks are locally rooted organisations, member based, customer and long term oriented, and on that basis they provide their customers financial services."

Co-operative banks are locally rooted organisations, member based, customer and long term oriented, and on that basis they provide their customers financial services. These services include products supporting climate transitions, such as loans, savings products, as well as investment products to help customers to become more sustainable. In this respect it is important for co-operative banks to make it a just transition.

Financial institutions can play an instrumental role in financing transitions and in helping to increase the awareness of small and medium enterprises (SMEs) about the climate change’s challenges they are facing, in order to help them to take investment decisions oriented towards enhancing resilience and ensure business continuity in case adverse natural events will occur.

For instance, in 2019 EACB members cooperated with the United Nation Disaster Risk Reduction office (UNDRR) - and in several countries with national SME organisations - to conduct a resilience survey with the aim of building a baseline understanding of where SMEs are in terms of perceiving and managing risks, investing in resilience, and preparing for, responding to and recovering from disasters caused by natural hazards, extreme weather events, and cascading impacts. This was a first step to then provide recommendations to make investments, businesses, and societies more risk sensitive. The picture emerged from the survey depicts a low degree of awareness of SMEs to the risks they are exposed to. Co-operative banks could be really important in helping them to start this transition.

"Co-operative banks - as well as other financial institutions - plan to take more account of the risks of extreme weather conditions and climate impact in their financing decisions and conditions. "

They develop financial products which incentivise clients to take more heed of climate adaptation opportunities. An illustration of the latter is the transformation of flat roofs into "green roofs" by growing plants on them, for which several financial institutions already provide loans and insurance solutions. For example, Dutch insurer Achmea and Rabobank are active in this respect. The ‘green roofs’ serve sustainability purposes and are of help against (local) flooding.

Members of co-operative banks are also financing buildings that use sustainable high-quality bio-based materials, CO2 and nitrogen friendly and gas independent buildings, to face at the same time climate adaptation and the energy transition.

To finance those projects, large loans to businesses increasingly have sustainability performance indicators. Typically, the interest rate for such loans is based on and adjusted to the borrower’s sustainability targets. In this way, banks incentivize their clients towards better sustainability performance and they also encourage businesses to make their operations more climate resilient. Limiting use of natural resources such as water is one of the performance indicators that can be applied in those Sustainability Linked Loans.

Climate risks have a double materiality. On the one hand, climate change has an impact on the economy, on companies, and on financial institutions. On the other hand, economic activity of companies has an impact on the climate. We consider it key that companies become increasingly aware of this double effect - when it is material of course, the focus should be on the most impactful aspects.

"The EACB welcomes the work of the European Financial Reporting Advisory Group on European Sustainability reporting Standards."

We therefore welcome the work of the European Financial Reporting Advisory Group (EFRAG) on European Sustainability reporting Standards which will ensure that companies become aware of their individual situation regarding this double effect when it is material and can steer their activities with a goal of reducing impact.

There is an increasing awareness of climate risks – and more broadly ESG risks, but nevertheless they cannot be fully estimated and there are many unknowns. When it comes to a strategic sector like agriculture, many farmers are also already working on limiting risks and managing their footprints, for example, with more efficient water use and limiting the use of pesticides. However, the climate related risks are increasing due to climate change, as is the vulnerability of ecosystems. That is why the transition to more sustainable business models is more urgent than ever.

Climate change not only poses a risk, it also provides for opportunities. Companies that prepare for the climate transition early can gain market share against competitors that will have to struggle with the new challenges when there is only few time left. Meeting new policies and regulations at an early stage will provide opportunities and also the financing of investments will be crucial. It has to be underlined that major investments are needed to jointly move towards a more sustainable economy. A great financing task for financial institutions.

"To enable transition and adaptation finance, the members of the EACB see a need that the legislative framework should rather enable additional lending and investment, but not create new obstacles."

To enable climate finance more data and better accessibility of these data are needed. The availability of relevant client data on sustainability performance is a precondition for banks to assess the climate risks of customers. For this reason, the EACB supports the creation at European single and accessible register for sustainability data reported by - and about – companies and sectors. We explicitly welcome the latest developments on the creation of the ESAP. This action aims at creating a single point of access to public financial and sustainability-related information about EU companies and EU investment products. Free, user friendly, centralised and digital access to financial and sustainability-related information made public by European companies, including small companies, will facilitate the decision-making process for a broad range of investors, including retail investors.

In this way of working co-operative banks help to unlock the economic capital to finance climate transitions and they play a role in the economic intermediation itself. Of course listed banks perform this role as well, but co-operative banks are by comparison more locally oriented and organised.

"By standing close to their clients and by providing financial services to consumers who want to make their homes and local communities more sustainable, co-operative banks can help to make the local and region climate transitions successful. "

In closing, what co-operative banks observe in the process to becoming a more sustainable society is the following.

"None of us can do it alone, and we can leave no one behind."

Companies, research institutes, banks and other financial institutions, governments, customers and all stakeholders must work well together in order to achieve the climate goals and sustainability transitions. None of us can do it alone, and we can leave no one behind.

We make a call on everyone involved to work together on those priorities:

1	**Engage with SMEs, households and communities to increase awareness of the climate change challenges they are facing in order to help them take investment decisions oriented towards enhancing resilience and ensure business continuity in case adverse natural events will occur.**
2	**Carefully evaluate data and assess appropriate methodologies for risk management to underpin decision making on risks, due to insufficient knowledge and awareness on climate change adaptation, risk, vulnerability and resilience.**
3	**Support planning, monitoring, reporting and evaluating of climate change adaptation, and based on the risk assessment establishing local and national adaptation strategies and create applicable guidance.**
4	**Strengthen the cooperation and engagement of the banking sector and local governments to address in a better way the different needs of the territories when an extreme natural event occurs. Make public funds easily available for communities and local entities impacted by climate change.**
5	**Strengthen the utility sector and create risk maps to better understand the interdependencies between companies with the aim to increase the resilience of value chains and networks and avoid the "social desertification" of entire areas.**

The co-operative banks model follows the principle that customers can become members of the bank, thereby having a stake in the business and having a say in the policies. The objective of co-operative banks is therefore not to maximize profits, but to serve their members in the long-term. Thus, co-operative banks promote the social, environmental and economic wellbeing of the communities they belong to. They are a driver of sustainable growth, with **2,700** locally operating banks and **43,000** outlets serving **223** million customers, mainly consumers, SMEs and communities. Europe's co-operative banks represent **89** million members and **705,000** employees and have an average market share in Europe of 22%. Co-operative banks are engaged in sustainable finance and are key drivers for climate financing at the regional and local level.

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