Achieving Net Zero:

Transitioning to Renewables and Possible Role for Deposit Insurers

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Climate risks and how it may affect us

Study revealed over the past four decades alone, earth's temperature has risen by 0.18°C per decade. Compared to the 0.08°C increase during the 1880 to 1981 period, it increased by almost twice the amount per decade from 1981 onwards[1]. The Intergovernmental Panel on Climate Change (IPCC) in 2014 suggests that greenhouse gas emissions (GHGs) in the atmosphere is the most probable cause of global warming. It is undeniable that this will have an impact on our means of production and the survival of the earth's population through physical risks in the form of natural disasters and changes in weather patterns that will affect food supplies. Naturally, if there is no effort to reduce it, the warming of the earth's temperature will continue (IPCC, 2018).

Therefore, global efforts have been initiated and enhanced in the past three decades with the establishment of the Kyoto Protocol which binds industrialized and transitional economies to limit GHG emissions. Another milestone in countries committed to reducing GHG emissions came with the ratification of the Paris Agreement (Accord) which is a legally binding agreement on climate change with the aim of limiting global warming well below 2°C, preferably 1.5°C, compared to pre-industrial levels[2]. The long-term target of a net-zero world climate (net-zero emission) where countries are allowed to emit GHG but must balance it by absorbing GHG through forests and oceans, aims to be achieved by the middle of this century. Indonesia has also recognized this, and in its Nationally Determined Contribution (NDC) document, has pledged to achieve a 29% emission reduction on its own by 2030. This could increase to a 41% reduction if we take international support into account.

[1] *Climate Change: Global Temperature*. (2022). NOAA Climate.gov. Retrieved October 31, 2022, from https://www.climate.gov/news-features/understanding-climate/climate-change-global-temperature

[2] UNFCCC (2022)

How can it be achieved?

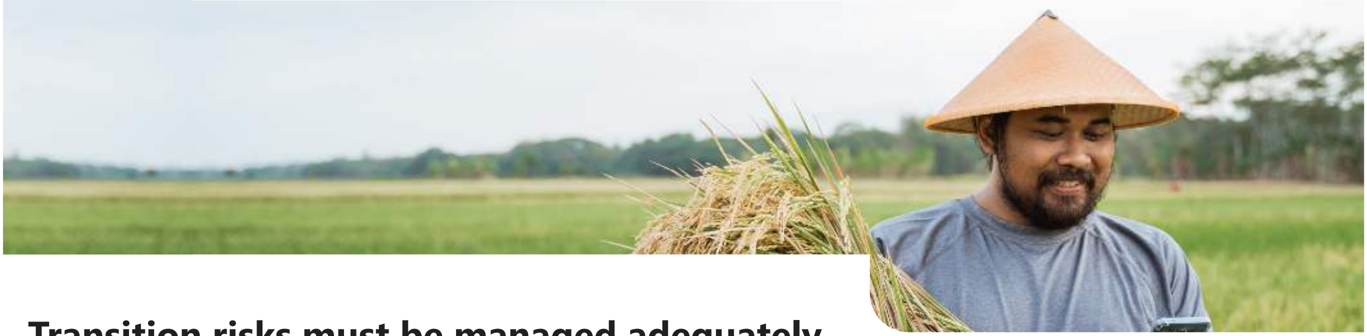
Many of us still do not realize that the transition to a net-zero world may be one of the greatest challenges facing humanity. This process requires nothing less than a complete overhaul of how we consume, produce, and distribute goods and services. According to the United Nations (UN), the energy sector is the source of about three quarters of current greenhouse gas emissions and holds the key to preventing the worst impacts of climate change. Replacing polluting fossil fuels with energy from renewable sources, such as wind or solar, may be the key to dramatically reducing carbon emissions.

The UN Secretary-General has outlined five critical actions that need to be prioritized if the world is to transform its energy system globally to reduce emissions effectively[3]:

1. Making renewable energy a global public good, this requires sharing technology and removing intellectual property barriers;
2. Increase the playing field for renewable energy technology, the Government needs to implement policies and processes that will accelerate renewable energy projects so that renewable energy fulfills its potential;
3. Shifting subsidies to renewable energy, shifting subsidies from fossil fuels to renew able energy may not only reduce emissions, but also contribute to sustainable economic growth;
4. Increasing global access to components and raw materials, which leads to an even distribution of production facilities to produce renewable energy;
5. Triple investment in renewable energy, according to the SG office, at least $4 trillion per year needs to be invested in renewable energy by 2030 – including investment in technology and infrastructure – to enable us to achieve net zero emissions by 2050.

These initiatives may be needed to realize the potential of renewable energy sources and achieve energy security in the future.

[3] https://www.un.org/en/climatechange/raising-ambition/renewable-energy-transition



Transition risks must be managed adequately

However, it should be noted that these efforts and initiatives to move to a carbon neutral world are not risk free. Transition risk is the risk associated with social change arising from the transition to a low-carbon economy[4]. Examples of these risks may include the negative effects of disincentives to non-green projects or companies as a product of policies that prefer more sustainable ones, assets being abandoned as companies shift to more sustainable modes of production and shifting consumer preferences. If the transition is not well planned and without adequate risk mitigation processes, the transition can adversely affect the balance sheets of financial and non-financial companies through asset value corrections or higher financing costs for companies that do not have the means to switch. to more sustainable business processes.

On the aggregate level this can affect the overall economic output. For banks and financial intermediaries, the expected scale and synchronous nature of transition-related changes have the potential to make the impact on their credit exposure far greater than previously anticipated therefore it is imperative for regulators to monitor these risks closely[5].

Possible role of deposit insurance: initial thoughts

As mentioned earlier, the transition will require financing. Previously, it was widely assumed that the financial sector would not be directly affected by climate change and initiatives to reduce its impact. That opinion has recently begun to shift because of how banks and other financial intermediaries can influence corporate decisions by setting conditions for financing and pricing funds. There is now a general consensus that financial companies can be at the forefront of achieving these carbon emissions goals, especially given how ambitious the targets are. They are critical in mobilizing the resources necessary to achieve this goal. Insurers can also play a role in contributing to efforts related to economic decarbonization. This can be done by implementing policies that can encourage stakeholders to commit to more sustainable actions. For example, deposit insurers can diversify their investment portfolio by including green bonds issued by the government. Another initiative may be in the form of certain incentives related to the contributions of its member banks if they manage to reach a certain threshold of sustainable financing. However, more research is needed to further explore this possibility. That's why we consider discussion related to this topic very important and bringing it to the G20 side event through the LPS International Seminar and Bloomberg CEO Forum will shed more light on it. We believe that every individual has a role to play in ensuring a safer, healthier and greener future for the next generation. No matter how big or small one's contribution was, no effort in this matter would be wasted.

[4] Basel Committee on Banking Supervision: Climate-related risk drivers and their transmission channels (Bank for International Settlements, 2021)

[5] Basel Committee on Banking Supervision: Climate-related risk drivers and their transmission channels (Bank for International Settlements, 2021)