

NCFA - DROUGHT TOOL PROTOTYPE DEVELOPMENT

and the impact on corporate loan portfolios

Dr Navin Peiris, Senior Director, RMS

Background and Objectives

Most industries reliant upon water in some form – systemic risk (?)

Corporations ability to service loans therefore also dependant

70%

20%

Gaps in financial institutions' (FI) analytical capabilities

Currently, FI's quantification of environmental risk is limited

Difficult to translate environmental impact into loss

Location and certain financial data not utilised in analysis

Potentially systemic nature important for whole portfolio

Need to quantify portfolio's exposure and enable differentiation



Interconnectivity

Direct water availability – key driver

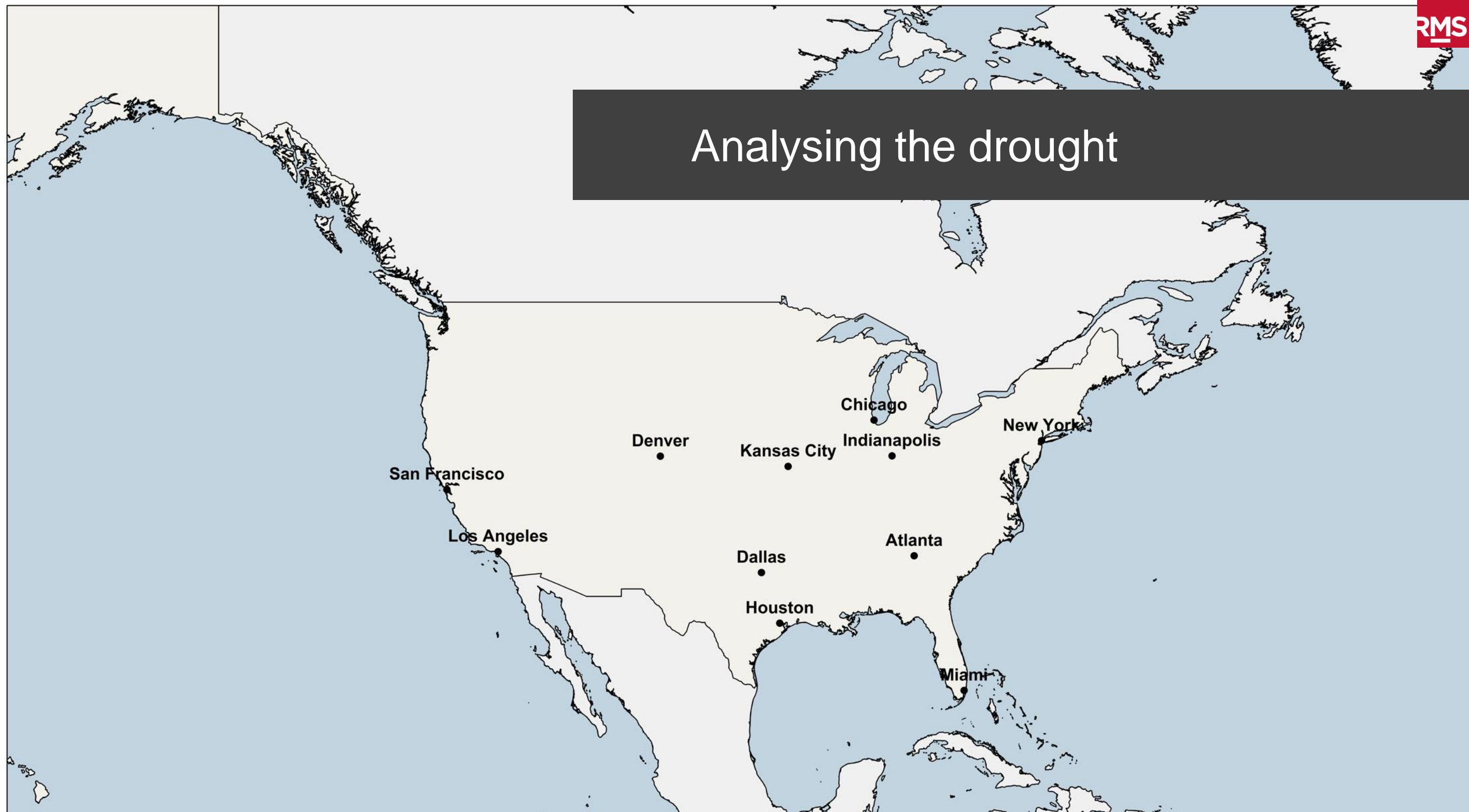
Power / electricity – dependant upon generation method

Regional supply and demand – materials and labour

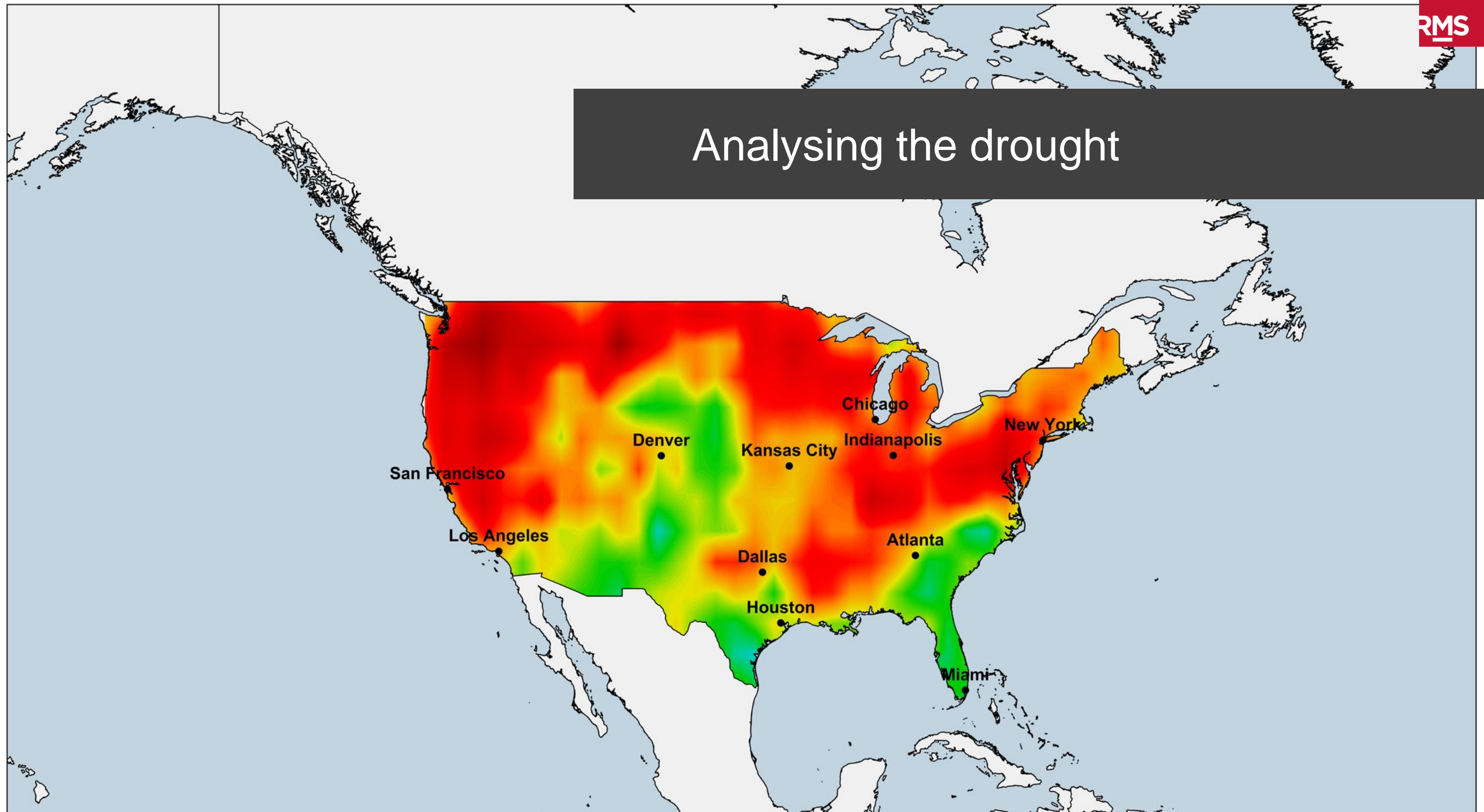
International macroeconomic impact



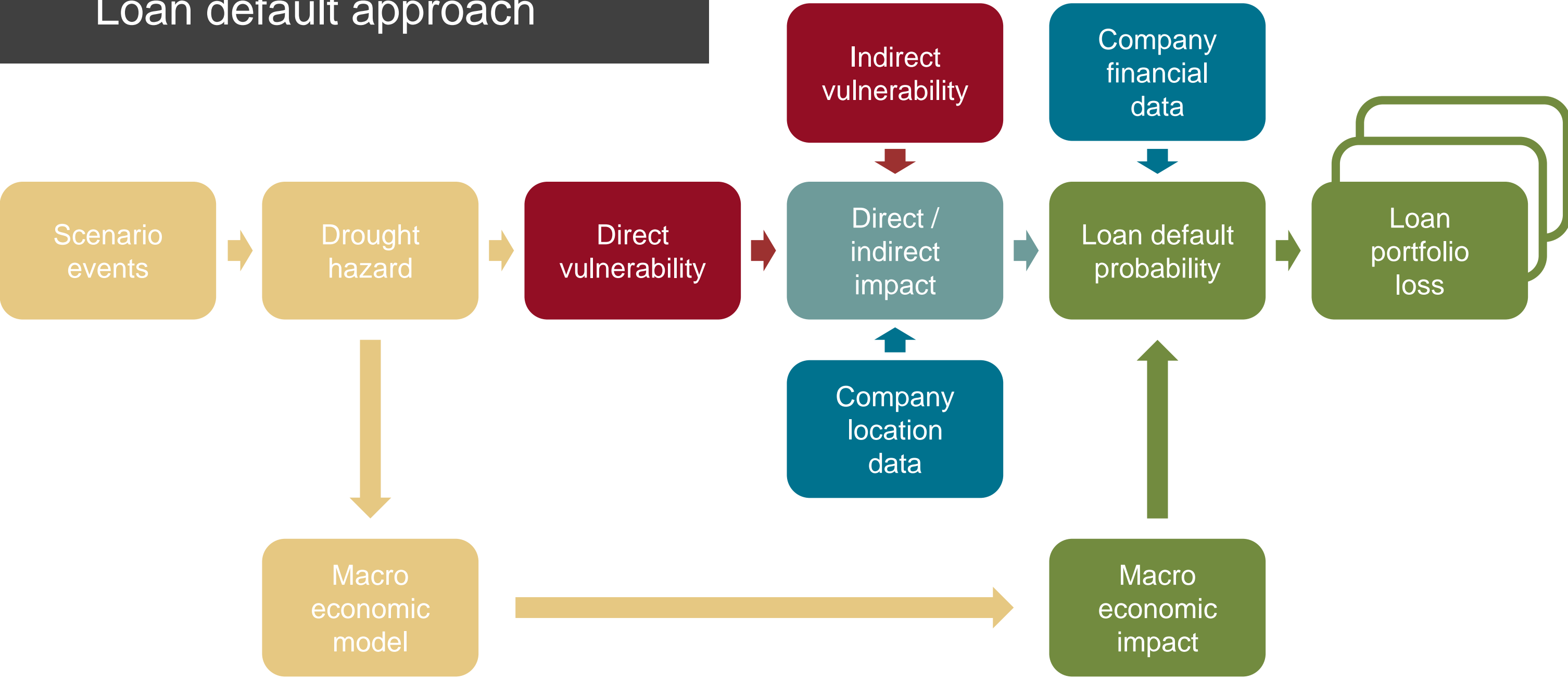
Analysing the drought



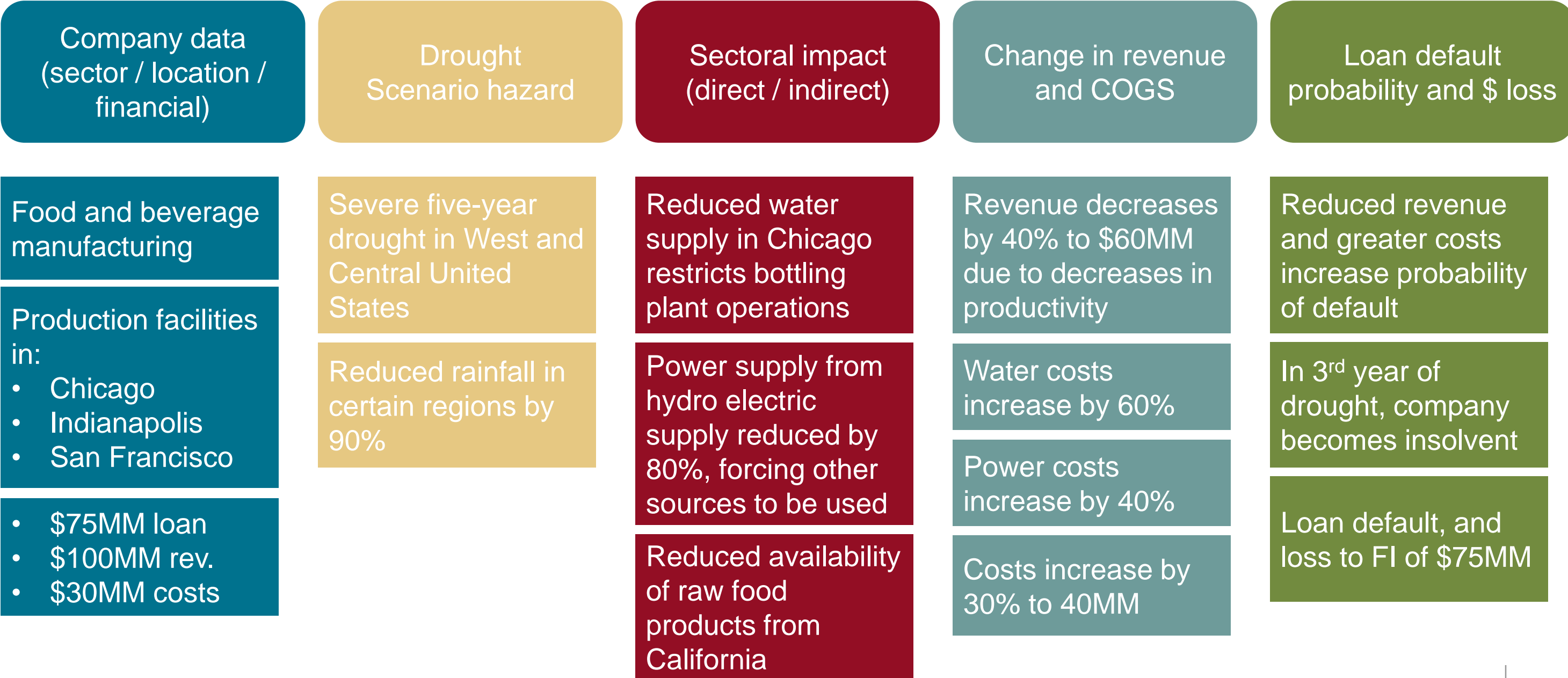
Analysing the drought



Loan default approach



High level example



Value and benefits of NCFA drought tool

Provides FI's context into potential scale of drought-driven default loss

Build intuition around sectors & regions more / less exposed to drought

Modular in nature – enabling FIs to tailor components to internal view

Provides general framework to develop environmental risk models

ACKNOWLEDGEMENTS



**Natural Capital
Finance Alliance**
Finance sector leadership on natural capital

Secretariat:



QUESTIONS