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Climate Risk

Source : BNM CCPT Guidance Document

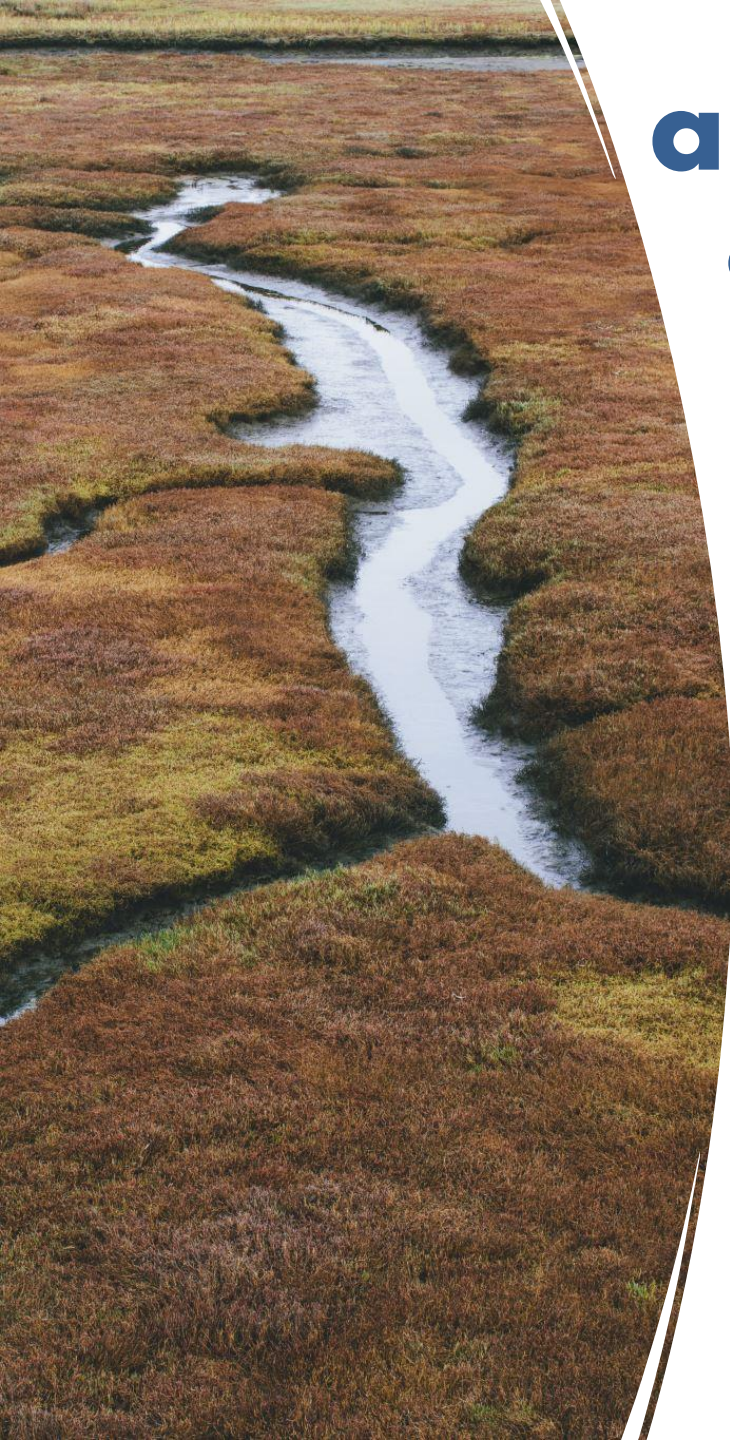
Definition, Impact and Mitigation

Climate Risk

Climate Risk refers to the *potential adverse impacts* resulting from **Climate Change**; in three types:

- a. Physical Risk
- b. Transition Risk
- c. Liability Risk



An aerial photograph of a winding river or stream flowing through a vast, flat, marshy landscape. The vegetation is a mix of brown and green, suggesting a wetland environment. The river is a light, silty color, contrasting with the darker, textured ground.

a) Physical Risks – arises from two types :

i. Acute Risks: Immediate, severe events like hurricanes, floods, droughts, and heatwaves that can damage infrastructure, disrupt supply chains, and threaten health.

ii. Chronic Risks: Long-term changes such as rising temperatures, shifting precipitation patterns, and sea-level rise affecting ecosystems, agriculture, and water resources.

A photograph of three paper boats on a body of water. One boat in the foreground is red, while the two behind it are white. The water is a calm, light blue-grey color. The background is a soft-focus view of the water extending to the horizon.

b) Transition Risks

These arise from the *shift to a low-carbon economy*, including

- policy changes,
- technological advancements,
- market shifts, and
- evolving consumer preferences.

This can impact businesses reliant on *fossil fuels* or *carbon-intensive processes*.

c) Liability Risks

Stems from legal risk and claims on damages and losses due to inaction or lack of action on effects of Physical Risks and Transition Risks.

Example – if Bank's financing of environmentally harmful projects or failure to assess climate risks adequately, it could be liable for negative impacts.



Impacts of **Climate Risk**

Economic: Financial losses due to infrastructure damage, reduced agricultural yields, and higher operational costs.

Environmental: Threats to ecosystems and biodiversity, habitat alterations, and species extinction.

Social: Health issues from heatwaves, displacement of communities, and economic hardships.



Managing **Climate Risk**

Involves :-

- identifying and assessing risks,
- implementing mitigation and adaptation strategies,
- collaborating across sectors.

This includes :

- resilient infrastructure,
- sustainable practices, and
- policy advocacy to enhance resilience and reduce vulnerabilities.

