

## *Open Letter to Jackson Hole's 2023 Economic Policy Symposium*

We write to urge attendees at this year's Jackson Hole Symposium to more quickly and vigorously address climate related financial stability risks.

This annual symposium has been called "[the world's most exclusive economic get together](#)" and "a key focus of Wall Street investors, academics and the press." It is convened amidst the incomparable beauty of the nearby Grand Teton National Park. The Jackson Hole Symposium can be thought of as a kind of policy solutions incubator for tackling global economic challenges.

It should not seem unreasonable, therefore, to expect a conference entitled "Structural Shifts in the Global Economy" to include robust discussion of two of the most important factors in the global economy and financial system: the climate crisis and attempts to remedy it with a rapid transition to clean sources of energy. Climate impacts are intensifying rapidly, and the pace of the clean-energy transition is increasing. Financial institutions, the financial system, and regulators are unprepared and doing too little to mitigate climate-related financial risks. Worse, financial institutions are actively inflating the risks. We urge the participants in this symposium to devote serious, sustained attention to climate-related financial risk, and commit themselves to adopting solutions commensurate with the urgency and gravity of the problem.

### **A. Climate change impacts are outpacing authorities' efforts to address climate-related financial risks.**

**The economic and financial impacts of climate change are clearly outpacing authorities' current efforts to get ahead of the risk.** Climate-related financial risks are crystallizing in the worldwide insurance sector, at the same time that the banking sector continues to finance new fossil fuel projects, driving further climate risk.

**Worsening climate impacts provide one illustration of the rapid increase in physical climate-related risk.** The National Oceanic and Atmospheric Administration reports that the U.S. experienced 18 separate weather and climate disasters that cost more than \$1 billion each in 2022, tying 2017 and 2011 for the [third-highest](#) number in a calendar year. With damages of more than \$165 billion, it was also the third most costly year on record for billion-dollar climate disasters. The total cost of U.S. billion-dollar disasters over the last 5 years (2018-2022) is \$595.5 billion, with an annual average cost of \$119.1 billion, the latter of which is nearly [triple the 43-year inflation adjusted annual cost](#). Notably, these figures include only weather and climate disasters that each cost more than \$1 billion. The total cost of all disasters is likely far higher.

In the first six months of this year, record flooding in the Northeast over a few days in July is projected to cost up to \$5 billion [in damages](#), and extensive climate driven wildfires led to [severe air pollution](#), economic damages, and lost lives in Canada and the U.S.

**B. Financial industry practices and risk management deficiencies increase systemic vulnerability to climate-related financial risk.**

**In the insurance sector**, climate related financial risks are increasingly, and dangerously, crystallizing. Insurers continue to finance and underwrite the greenhouse gas emissions that drive climate change, which in turn causes harm that insurers increasingly are unwilling or unable to insure against.

In **Australia**, the Climate Council has [found that](#) one in 25 Australian properties will be effectively uninsurable in seven years.

Insurance gaps in the [European](#) financial system threaten its resilience to increased climate-related and environmental damages; only around 25% of all climate-related catastrophe losses in the European Union are currently insured. As natural disasters become both more frequent and more severe, insurance costs are expected to rise. Some insurers may reduce risk coverage or stop providing certain types of catastrophe insurance altogether, which would widen the insurance gap further. Results of the European Central Bank’s 2022 (ECB) [climate stress test](#) reflect fiscal impacts: “The results of the exercise show that both types of climate risk — transition risk and physical risk — have a material impact on the risk profile of the Eurosystem balance sheet.”

In the **U.S.**, the summer of 2023 will be remembered for insurance companies retreating in [Florida](#), [California](#), and [numerous other areas](#). Treasury Secretary Yellen has noted the growing “[protection gap](#)” and the disproportionately higher negative impacts for underserved and disadvantaged communities and households. The local financial institutions and citizens most impacted have not created the risks they now face, and most lack the capacity to respond adequately.

**In the banking sector**, banks’ contributions to climate related financial risk have been documented in Sierra Club [reports](#) for over 14 years. By financing fossil fuels at a rate vastly in excess of science-based climate targets, banks are driving physical climate-related risk and inflating transition risks to themselves and the broader financial system. ECB benchmarking exercises have consistently found that banks under the ECB’s supervision are falling far short of meeting its expectations for sound management of climate-related risk. Beyond merely creating risk for themselves, banks are failing to perform their role in a well-working market and broader economy. In the words of [one ECB board member](#), their shortcomings at managing climate-related financial risk make it “difficult to see how banks can sufficiently help their

customers navigate the transition and become resilient to climate change and environmental degradation in a timely manner.”

**C. A better path exists if financial regulators are willing to act; forward-looking solutions are available and should be operationalized now.**

To be sure, financial regulatory authorities are taking some steps toward mitigating climate-related risks. Financial authorities are driving forward work to improve financial system resilience to climate-related risks. The International Sustainability Standards Board recently finalized climate corporate disclosure standards. Several banking and insurance regulators’ have begun work on guidance for managing climate-related risks. And private sector work has begun on transition plans that the G7 has observed can act as an important tool for reducing risks as the real economy and the financial sector transition to net zero.

But these steps fall far short of what is needed. Many Jackson Hole Symposium attendees can galvanize much more effective responses. They can and should issue the following recommendations pertaining to prudential regulation or general governance of the banking and insurance sectors.

First and foremost, authorities should **apply the precautionary principle**—an approach that is suited to instances of high potential harm and high uncertainty, and be used to address a [number of risks](#), from [climate to biodiversity](#). Climate-related risk fits that description tightly, as it includes nonlinearities, tipping points, and tail risks that are impossible to model or manage via discrete risk calculations by individual firms, and which collectively have a high likelihood of causing systemic disruption and collapse. Regulators can use the precautionary approach to more effectively execute on their mission to ensure the [safety and soundness](#) of institutions.

As the [ECB](#) has found, the risks of inaction are more costly than acting on partial data or on qualitative information about future risks. Effective use of the precautionary policy response in reducing climate related financial risks needs to center around incorporating it into prudential frameworks, as is already the case for other risk types. This implies upward adjustments to capital requirements for financing of activities such as fossil fuel expansion that are incompatible with international climate commitments and the imperatives of climate science and technological reality, including the use of [capital risk weights](#). This measure will change the incentives for financial institutions by eliminating the undue advantage for fossil fuel financing, which exists due to underpricing of micro- and macroprudential climate-related risks. By consequence, this will also make financing of sustainable economic activities and activities that contribute to the transition relatively more attractive.

**Secondly, [systemic risk capital buffers](#) could be used to address financial stability impacts of climate change.** These buffers would come on top of other regulatory capital requirements, and in Europe, for example, climate specific systemic risk buffers can be added to current national macroprudential frameworks; moreover, they can be tailored to cover sectors or specific institutions. The flexibility of such an approach promotes financial system resiliency, including by mitigating the build-up of risk (if imposed in a timely manner). System-level measures could include [concentration thresholds](#) or surcharges that would establish additional capital requirements for the systemic risk contributions of fossil fuel exposures.

Thirdly, [transition plans](#) could prove critical for financial institutions and their regulators. Corporate sector transition plans are a forward-looking tool that could provide financial institutions, as users of these plans, with a much better understanding of climate-related financial risks. By drafting their own plans under regulatory supervision, financial institutions will develop and demonstrate their understanding of climate-related financial risks and their ability to navigate the massive economic transition that is already underway. Transition planning will also guard against reputational and other risks that flow from having made public climate commitments that, as yet, few financial institutions have developed serious plans to meet. Overall, transition plans can help supervisors and market participants better assess the level of climate-related transition risks faced by individual financial institutions, as well as systemic risk on the aggregated level. (Additional macroprudential options are explored [here](#) and [here](#)).

These recommendations can provide an improved foundation for financial system climate resiliency. They can also fill gaps in current responses to the accelerating economic and financial impacts of climate change, and thus foster a more orderly transition to a net zero economy. This is what it needed to preserve the Tetons' majesty for the future.

**Sincerely,**

The Sunrise Project

E3G

Public Citizen

Americans for Financial Reform Educational Fund

Amazon Watch

Carbon Collective Investing

Cascadia Climate Action Now

Climate Action Now

Climate Alliance Switzerland

Climate Families NYC

Climate First! Inc

Climate Hawks Vote

Coastside Jewish Community

Connecticut Citizens Action Group

Defend the Gulf

Democracy Watch

Earth Action, Inc.

Earth Guardians

Eko

Extinction Rebellion L.A.

Extinction Rebellion San Francisco Bay Area

Extinction Rebellion Boston

Flat Shoals Community Youth Club, Inc.

Freshwater Accountability Project

Fridays for Future Digital

Friends of the Earth US

Greater Birmingham Alliance to Stop Pollution

Ginwi Collective

Hip Hop Caucus

Illinois Workers In Action

Indigenous Environmental Network

Maine Youth Action

MARABE

Mazaka Talks

Micah Six Eight Mission

Mid-Missouri Peace Works

Mid-Ohio Valley Climate Action

Minnesota Interfaith Power and Light

MN 350

New Mexico Climate Justice

Oil and Gas Action Network

One Earth Sangha

People's Climate Movement New York

Positive Money UK

Positive Money US

Rainforest Action Network

Regenerating Paradise

Revolving Door Project

Rise Economy (formerly California Reinvestment Coalition)

Rivers and Mountains GreenFaith

Scientist Rebellion - San Francisco Bay Area

Seeding Sovereignty

Stand. Earth

Texas Campaign for the Environment

The Phoenix Group

THIS!Is What We Did

Third Act

Women from the Mountain

Youth Climate Finance Alliance

Zero Hour

1000 Grandmothers for Future Generations

7 Directions of Service

350 Colorado

350 Conejo / San Fernando Valley

350 Eastside

350 Hawaii

350 New Hampshire

350PDX

350 Santa Fe

350 Seattle

350 Wenatchee