



LITTLE BLUE RESEARCH CASE STUDY

Guide to assess natural capital risk in the banking sector

Client: Natural Capital Finance Alliance and PwC

PwC approached Little Blue Research (LBR) to provide natural capital expertise for the Natural Capital Finance Alliance setting out the material natural capital dependencies of 169 sectors of the global economy.

Service: Strategy & risk

Capital: NATURAL

Assessment location: Global

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Case study details

Client need

PwC approached LBR to support the development of the world's first step-by-step guide for financial institutions to conduct a rapid natural capital risk assessment for the Natural Capital Finance Alliance as part of the development of the Exploring Natural Capital Opportunities Risks and Exposure (ENCORE) model. The aim of the guidance was to improve banks foresight by uncovering and exposing risk that would otherwise have been undetected. The work also aimed to enable banks to better monitor the evolution of natural capital risk.

The challenge

- Inputting into a global assessment of the materiality of natural capital dependencies for 169 sectors of the economy.
- Identifying sectors similarly affected by natural capital dependencies.
- Working with PwC to conduct four pilot studies with partnering financial institutions to measure the risk associated with different aspects of banking i.e. portfolio assessment, assessment of specific transactions, risk process evaluation, etc.
- Defining and agreeing materiality criteria and assessment framework.
- Expert consultation to validate methodologies.



Outputs and results

- ✓ Pilot risk assessments for four banks including: portfolio assessment, assessment of specific transactions and evaluation of current risk processes in relation to natural capital.
- ✓ Input into the ENCORE model by consolidating and checking descriptions of natural capital dependencies.
- ✓ Input into materiality criteria for the ENCORE model.
- ✓ Input into "[Integrating natural capital in risk assessments: a step-by-step guide for banks](#)", *Natural Capital Finance Alliance and PricewaterhouseCoopers, 2018*.

What happened next

The [ENCORE](#) model and banking framework were released in 2019 and have been developed further by UNEP World Conservation Monitoring Centre to include the impacts associated with different economic sectors. Following this work LBR have provided informal review of the draft guidance for the Science Based Target Network and enhancement of ENCORE.

Following the completion of this project, LBR has continued to work with financial institutions to identify and evaluate natural capital risks.



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