DEEP DIVE

Transforming the finance system



3x

If biodiversity pressure continues on its current path, financial losses could be 3 times higher than in a Paris-aligned world.

European Central Bank, 2024

Why do the Living Planet Report's findings matter?

- **Nature loss is reaching company balance sheets, and through them, financial portfolios.** As aspects of nature loss such as soil erosion and water overexploitation compound climate change, companies face higher input costs, operational disruption and asset write-downs. These pressures pass to financial institutions as weaker credit quality, impaired collateral or volatile returns, with shared dependence on one ecosystem or region correlating losses. The European Central Bank found that ~75% of eurozone corporate loans are highly dependent on ecosystem services, and that if biodiversity pressure continues on its current path, financial losses could be 3 times higher than in a Paris-aligned world.
- **Environmental crime is a blind spot in financial institutions' compliance risk screening processes.** Environmental crimes such as illegal mining, deforestation, and unreported fishing overlap with financial crimes such as corruption, money laundering and human rights abuses, and generate $110-281 billion a year. Financial institutions' exposure can be indirect and direct. Criminals use front companies to mix legal and illegal goods and payments early in the supply chain, so the risk sits in trade finance, commodity trading and in clients directly involved in these activities. Institutions that cannot demonstrate analysis of environmental crimes face the same compliance pressure seen in other financial crimes.
- **Regulation is advancing, though unevenly.** Some regions are deregulating, but many governments are moving ahead on climate and nature. The EU Deforestation Regulation (EUDR) applies from December 2026, while Malaysia, Japan, Singapore and South Korea have strengthened disclosure, China is expanding green finance, and Brazil is leading on transition finance frameworks. For lenders and investors, rules that restrict market access such as the EUDR put borrowers and investees' revenue and collateral at risk; rules that expand disclosure allow better access to climate and nature data; and rules defining green or transition finance influence funding costs and capital flows.
- **Helping clients make their business models resilient to nature loss protects the quality of an institution's own book.** Resilient borrowers have more stable cash flows, lower default risk and stronger collateral, while also being better placed to meet rules such as the EUDR. Institutions that engage early can price risk more accurately, earn new income from green finance and advisory, and deepen client relationships.



WHAT FINANCIAL INSTITUTIONS CAN DO AND QUESTIONS FOR BOARDS

1. **Assess nature risk and disclose:** Use TNFD frameworks to map dependencies, build nature into credit, underwriting and investment processes, and upskill teams. This will reveal concentrated physical exposures early enough to price or mitigate them and prepare the institution for disclosure expectations.
2. **Engage with clients and investees:** Share nature risk findings with clients and investees, coordinate with peers, and extend products to nature-positive outcomes using credible standards and rigorous labelling. This supports borrowers' or investees' resilience and credit quality, improves relationships with clients, opens new business and limits greenwashing risk.
3. **Screen for environmental crime:** Apply enhanced due diligence and transaction monitoring to high-risk commodities, such as palm oil, and use tools, like the Environmental Crime Financial Toolkit, to map exposures. This protects against potential reputational and legal risks related to illicit financing.
4. **Engage with peers and policymakers:** Call for consistent, comparable nature disclosure standards and for long-term policy commitments that improve the economics of nature investment and decrease the cost of regulatory divergence.



Questions for boards:

1. What share of our loan, underwriting or investment book is in sectors highly dependent on nature?
2. Is nature risk in our risk appetite and stress testing, and who is accountable for it?
3. How do we screen for environmental crime in trade finance, commodity exposures and client onboarding?
4. What will regulators and shareholders/investors expect us to demonstrate on climate and nature in the next 12 months?