



Physical Risk Impact Measurement

Helping banks to meet ECB requirements when performing physical risk assessments.

A fresh take on risk and valuation

How to measure physical risk for your exposures?

PILLAR 3

CLIMATE RISK MEASUREMENT

PHYSICAL RISKS

CLIMATE RISK STRESS TEST

ESG DISCLOSURES

The ECB has formulated requirements for banks to perform comprehensive, sound, and forward-looking physical risk assessments. Therefore, Finalyse developed a prototype to demonstrate how banks should quantify their physical risks, using geospatial mapping, forward-looking hazard data and exposure characteristics, which matches the ECB's requirements (in terms of assessment level; time horizon; documentation & measurement of materiality).

The first Finalyse Risk prototype is focused on flood risk and offers a practical implementation of a forward-looking risk assessment in combination with an open-source engine.



For more information, visit

www.finalyse.com/banking/physical-risks-impact-measurement

Benefits

- Compliant with ECB C&E risk measurement expectations.
- Forward-looking and granular assessment.
- Applicable to multiple geographies, time ranges and RCP scenarios.
- Leveraging ISIMIP2b methodology and IPCC framework.
- Impact functions that output a percentage of damage based on the observed meters of flooding.
- Different impact functions, sourced from relevant academic literature, can be applied to multiple exposure types (Residential buildings, Commercial buildings, Industrial buildings, etc.).
- Flexible and customizable.

Motivation

Physical risks are associated with potentially significant materiality in the event where they would have an impact on a bank's balance sheet. The ECB highlighted that banks' physical risk assessments had several shortcomings, such as

1. Being limited to only a set of physical hazards.
2. Lacking in granularity.
3. Not sufficiently forward-looking.

Finalyse Flood Risk Prototype has been designed to fulfil the existing gap in the physical risk measurement methodologies and help banks in meeting the ECB expectations.

AMSTERDAM

BRUSSELS

BUDAPEST

DUBLIN

LUXEMBOURG

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