

GRI Research Grants Funding Proposal Submission Guidelines: Climate Risk and Sustainable Finance

The Global Risk Institute in Financial Services (GRI) is the premier organization that defines thought leadership in risk management for the financial industry. It brings together leaders from industry, academia, and government to draw actionable insights on emerging risks. The GRI research grants support academic projects that make material contributions to priority topics for GRI's financial institution member base. Grants are designed for academics from a range of risk, finance and climate related disciplines such as accounting, business, economics, environment, finance, law, management, psychology, sociology, natural sciences and others.

Grant criteria

GRI grants are for new or early-stage research projects with a time horizon of one to two years. GRI is seeking original research that practically addresses one of the priority themes outlined below. Research should demonstrate academic rigour, research excellence, and practical applicability in the financial sector. Strong preference will be given to submissions with at least one researcher at a Canadian academic institution. Proposals from research teams outside of Canada should demonstrate clear relevance to the Canadian financial services market.

Research output from GRI funded projects will be shared with GRI member organizations and the wider sustainable finance and climate risk community in Canada and beyond. Researchers may be invited to present at an event at the conclusion of their work. Distribution of research output does not preclude subsequent publication of the work in a journal of the researcher's choice. Successful applicants will be required to submit bi-annual research reports and annual financial reports. Funding ranges from CAD\$20,000 to CAD\$60,000 per year, and maximum allowable overhead per project is 20 percent.

Submission process

All submission packages should be sent to Alyson Slater aslater@globalriskinstitute.org with the subject line "GRI Climate Risk and Sustainable Finance Proposal Submission: *Last Name of Project Lead*". Each submission package must include:

1. **Completed Application Form:** This form should be filled out in a clear and concise manner and should be treated as a standalone document that conveys all requested information.
2. **Detailed Project Proposal:** This should introduce the project, detailing both the scientific and industry-specific motivations for the research. Briefly lay out the proposed methodology, highlight how this work fills existing gaps in the literature, and comment on the expected outcome. Explicitly state how the work will benefit the Canadian financial sector. The proposal should also include a timeline and not exceed six pages excluding references and appendices.
3. **Project budget:** The proposal must include a detailed budget.
4. **CV(s) of lead researcher(s)**

Application Deadline & Review Process

Awards will be determined by GRI's leadership team with inputs from a committee comprised of financial institutions and academics. The 2020 submission deadline is **Tuesday June 9, 2020**. Applicants will be notified directly as to the final funding decision by **Friday July 10, 2020**.

GRI Research Grants GRI Climate Risk and Sustainable Finance: Research Priorities

The GRI Research Grants will support academic projects that are aligned with any of the following themes. Where appropriate, proposals should additionally be inspired by the report “Mobilizing Finance for Sustainable Growth. Final Report of the Expert Panel on Sustainable Finance.”¹

1. Climate change, credit risk and housing finance

In GRI’s annual risk survey, household over-indebtedness, housing market, and credit risk all typically feature in the top 10 risks to financial institutions and to overall financial stability according to respondents from across the Canadian financial sector.² GRI aims to support efforts to help risk managers look at these risks through the climate lens. Climate change and the transition to a low-carbon economy will change the status-quo in terms of costs and opportunities for firms, households and other market players. Interest rates and inflation may be impacted as the effects of climate change manifest, as do actions to mitigate or adapt to changing weather patterns.

These changing costs will affect household and firm cash flows and wealth, which are key determinants of credit worthiness. Climate-related costs are thus a source of credit risk, and have started to be worked into credit ratings. Assessing climate risks requires methodologies based on forward-looking scenarios and complex interdependencies. Research proposals that demonstrate possible approaches to assessing credit risk along various climate scenarios are welcome.

The mortgage and housing finance sector in Canada is an important segment of the economy. Better understanding the risks and opportunities that climate change brings to this sector is of interest given possible changes to asset values, risk profiles for flood or fire, and cash flows for households, among other factors. Understanding the dynamic interplay between the mortgage and insurance market, which is rapidly adjusting to current and future climate risks by changing the availability and pricing of insurance policies, is complex. There are also factors to be explored in the secondary markets such as re-insurance and mortgage finance and securities.

2. Sizing the financial risk of carbon price and policy uncertainty

The unpriced cost of carbon is a looming risk for financial institutions in Canada and worldwide. Despite a failure to agree upon a global market thus far, about 20% of carbon emissions are presently under a pricing scheme, and many more governments have indicated they will move forward with a pricing scheme as a part of their renewed NDCs beyond 2020 under the Paris Agreement. The relevant questions for financial institutions include 1) When will widespread carbon pricing happen? 2) Will it be smooth or abrupt? and 3) How will issuers and clients of all types absorb this new cost? There are a variety of methods in use that aim to better assess elements of carbon risk such as internal carbon prices, calculating the carbon footprint of portfolios, or trying to carbon assess earnings at risk. Research that helps financial institutions understand this risk, evaluate existing approaches or present new tools for risk assessment, signposting and management are welcome.

¹ Expert Panel on Sustainable Finance. June 2019. <https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html>

² 2019-2020 Risk Outlook Survey. January 2020. Global Risk Institute in Financial Services. <https://globalriskinstitute.org/publications/2019-2020-risk-outlook-survey/>

Canadian federal and provincial climate policy has been characterized by major variability on carbon pricing approaches. Policies have ranged among cap and trade, carbon taxes and regulation, and hybrid models. Frameworks and insights for examining the costs of Canada's climate policy instability and uncertainty for financial institutions, are sought. The approach(es) should be policy agnostic and be relevant for lending, investing, insurance or other financial channels. Research could suggest tools and approaches for addressing the physical, legal and transitional risks for investors and lenders facing climate policy uncertainty. Papers could consider how fiscal and regulatory policies affect the physical, legal and/or transitional risks for financial institutions.

3. Sustainable finance market innovation

The field of sustainable finance is growing exponentially, with more than half of all assets under management in Canada now in a fund with an ESG label. Green bonds and sustainability linked loans are on the rise, and the development of 'transition finance' is expected to leap forward in Canada in 2020 with the issuance of the CSA's Transition Taxonomy. However, the field remains 'niche' and not fully integrated into mainstream financial markets, products or decision making.

Academic investigation into what is needed to drive capital to support more resilient, climate friendly solutions as a part of the core way our economy functions is sought. GRI seeks innovative thinking and forward-looking approaches that address how to embed environmental outcomes into mainstream financial services for commercial and retail clients as business as usual. Papers could build on lessons learned from other markets that may inspire pathways for Canada. What fiscal and other incentives or circumstances are needed to cause the financial industry to evaluate investment opportunities differently - namely through a climate lens? What are the opportunities for FinTech and sustainable finance? Models could demonstrate how certain measures would drive results. Opportunities that may lie in the post-pandemic economic recovery phase to integrate climate and sustainable finance measures more centrally in the financial system could be explored.

Proposals aligned with Recommendations 9 to 15 in the Final Report of the Expert Panel on Sustainable Finance are encouraged.

4. Climate change and pension funds – grant with the National Pension Hub

Through collaboration with leading Canadian pension plans, service providers, academia, and policy makers, GRI hosts the National Pension Hub for Pension Knowledge and Research (NPH). The NPH has issued a call for proposals concurrently to this call, with an area of shared interest – climate change.

Pension funds are increasingly looking for ways to assess, measure, manage, and mitigate the risks associated with climate change. The National Pension Hub is looking for research that practically addresses the challenges of climate change for long-term institutional investors. Some potential areas of interest include: How do markets price the risks of climate change? What methods can long-term investors use to hedge these risks most effectively? How should climate change be considered when constructing long-term investment portfolios?

Visit the National Pension Hub call for proposals page for more details, and please note different submission dates and evaluation criteria: <https://globalriskinstitute.org/national-pension-hub/nph-call-proposals/>