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Initial insights from the financing climate adaptation and resilience roundtable

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The financial services sector has a critical role to play in addressing climate change by directing investment toward sustainable energy, resilient infrastructure, and climate innovation. Yet progress is stalling due to political headwinds, sector-specific challenges, and limited global emissions reductions. As the window for achieving the 1.5°C target narrows, the urgency of financing climate adaptation and resilience is becoming increasingly clear.

To help address this challenge, the High Meadows Institute, in collaboration with Tapestry Networks, is exploring the creation of a **Financial Sector Roundtable on Climate Adaptation and Resilience**. Designed as a Chatham House Rules forum, the roundtable would provide a trusted space for senior leaders across the financial sector to engage in candid dialogue about the challenges of the climate transition and to advance practical strategies to increase investment and institutional support in this critical area.

As part of this exploratory effort, High Meadows and Tapestry are conducting a series of conversations with leaders from banking, insurance, asset management, private equity, and other segments of the financial services industry. Two recent convenings—held in London on April 9 and virtually on May 8—brought together participants to explore how adaptation and resilience intersect with climate risk management, the barriers limiting financing in these areas, and the steps required to unlock greater capital flows.

The following themes reflect early insights from these discussions and will help shape the roundtable's design and agenda. We welcome your reflections and suggestions as we continue to develop the framework and focus for this initiative.

Please feel free to share these notes with colleagues who may be interested in the roundtable or who could provide additional perspectives as we move this initiative forward.

Warm regards,

Chris Pinney
President and CEO
High Meadows Institute
cpinney@highmeadowsinstitute.org

Eric Baldwin
Executive Director
Tapestry Networks
ebaldwin@tapestrynetworks.com

Climate adaptation financing is in its early stages

In recent years, most financial institutions focused on net zero commitments, financing energy transition, and other mitigation efforts. A participant said, *"We are struggling with that is adaptation? What will it cost? How should it be funded? Should we focus on individual companies or geographies?"* Now, participants see an opportunity to better define climate adaptation and develop more precises frameworks and taxonomies to improve the way they track, measure, and manage adaptation related finance.

- **Adaptation efforts are being financed but often go untracked.** *"It is very difficult to unpick adaptation and resilience from transition because they are so woven together,"* observed one participant, while another noted, *"A lot of adaptation is already happening but is not tagged and is just hard to measure. It becomes more anecdotal."* Few financial institutions have a distinct category for adaptation and resilience financing, which limits how they identify and track specific adaptation and resilience activities. Often, projects that include climate adaptation may be captured as normal capital or operating expenditures by clients or are embedded in other forms of finance or insurance, like real estate or infrastructure. One executive said, *"There are going to be activities that would happen anyway, because our clients and municipalities and others are building things to be adaptive because they have to. And that does not get captures as increased adaptation because they're upgrading aging infrastructure that will have the latest technology and will be more efficient."* For example, climate adaptation features are often already included as part of real estate development projects, but that tends to be driven by local regulation rather than financial institutions. A participant noted, *"This type of work is getting done not because banks are telling developers that they should consider these issues. I don't think we're there yet. I think to a great degree it's local regulations and guidelines that require adaptation infrastructure."*
- **There is a need for clearer definitions, distinctions, and taxonomies.** *"Bankers always want a taxonomy. Defining the activity helps to unleash the activity,"* observed one executive. Another participant said, *"It's hard without some independent verification to say this was an adaptation financing that meets this standard."* Standardized definitions and taxonomies that delineate climate adaptation finance would promote tracking and scaling such investments. One bank executive said, *"Our bankers really want taxonomies. Of course, you can do transition finance without having to have a taxonomy for it, but there's something about defining an activity that helps to unleash the activity. So, we probably would benefit as a community from having some shared understanding of what is adaptation finance."* Another participant noted, *"There is an opportunity to really focus on a developing a proactive position and defining the parameters in such a way that work for the institutions, their investors, and thread the needle with policy."* An executive noted, *"The challenge with any of these sort of definitional taxonomies is it's not necessarily mutually exclusive between climate transition and mitigation and adaptation."* Some individual institutions have made progress, however: *"We set out a framework that gives us the taxonomy to start tagging. We tag things as sustainable finance. Some deals we will do anyway but it's helpful to understand what percentage of the loan book is adaptive."*

Collaboration among a range of private and public sector stakeholders will be necessary to scale adaptation finance

An executive said, *"Ultimately for financial institutions, for banks, investments need to be evaluated from a risk-return perspective. "The question becomes, financially, why should it be done? Who should fund it?"*

Much of climate adaptation financing serves the public good, making it difficult to establish a direct commercial return on investment. Identifying clear financial incentives for private sector involvement remains a significant challenge, particularly in developing and emerging countries. An executive said, "*The countries that are the most vulnerable to climate change impacts are the poorest countries. An important part about adaptation finance is talking about the real and significant limitations to financing developing and emerging countries. And again, what is the role of a bank? Sub-sovereigns are not typically target market clients for international banks. Our capital models treat this kind of financing unfavorably."* As a result, emerging markets often require fully wrapped financing from development banks and access to local currency solutions to make such investments viable.

Financial institutions are only one part of a broader ecosystem needed to mobilize adaptation finance. A banking executive noted, *"We really need that support system for banks to do what they do best, which is allocate capital based on risk returns."* A collaborative approach involving governments, development banks, philanthropy, and the private sector is necessary to effectively structure financing solutions. This ecosystem approach ensures that different sources of capital with varying risk-return profiles work together. There is some precedent: participants reflected on how, in response to past disasters such as the wildfire in Paradise, California, and Hurricane Helene in North Carolina, ecosystem-level blended finance efforts brought together a diverse group of stakeholders including municipal bankers, state-level funders, local utilities, nonprofits, and banks. This coordinated approach supported the rebuilding and upgrading of infrastructure in the aftermath, strengthening long-term community resilience.

Financial institutions are also considering how best to work with customers: *"We have a choice. We can not do business with them if we see too much exposure to climate risk, or we can work with them to adapt their business model. So we can set expectations regarding what our clients should demonstrate to us."*

Embedding climate adaptation into risk management holds promise but faces obstacles

The growing impact of climate change is driving the recognition that adaptation is now an economic imperative and a risk management issue for financial institutions. A participant observed, *"Right now, adaptation is really connected to physical risks: wildfires, flooding, extreme weather is happening everywhere, and that is economically hitting states, companies, people, and costing billions and billions of dollars. So there has to be something done from an adaptation perspective, because these events will* *continue to happen. If companies are not climate proofing themselves in the way that makes sense for their company, then they're going to lose more money by not being more resilient."* Financial institutions are incorporating climate risk into their overall approach to risk management. One participant said, for example, *"We have started adjusting credit where its clear physical risk will impact the credit worthiness."* Reframing climate-related issues as risk management rather than ESG or sustainability may facilitate broader acceptance and integration, but organizations remain relatively immature in their ability to assess climate risk. Participants identified several approaches to improving climate risk management:

- **Improved data and modeling**. *"Our ability to assess physical risk isn't where it should be,"* according to one participant. Predicting long-term climate impacts remains a challenge for financial institutions, due to limitations in both the availability of physical climate risk data—particularly at the level of individual assets—in financial institutions' ability to integrate that data into their models, but also because many financial products are of relatively short duration. Improving data quality is essential to establishing a clear understanding of how financial institutions plan for the future, including adaptation and resilience. An executive said, *"[Regulators] are asking us to hypothesize what the world will look like in 10, 20, 70 years. Banks are not set up to do that. We look at our business over the next three-to-four years. Over that time horizon, we are still talking about a few cents on the dollar in terms of the real financial impact to banks."*
- **Identifying the climate risks with the greatest potential impact**. Framing adaptation around the most critical risks—such as extreme heat, intense precipitation, and water scarcity—can help ensure that financial decisions are aligned with the areas of greatest human and economic vulnerability. A participant suggested, *"Focus on where is the greatest risk and the best data." "The idea would be to frame the definition [of climate adaptation and resilience] around what are the most severe impacts and then what are you doing to support adapting to those,"* said a participant.
- **Overcoming organizational silos between risk and sustainability groups**. One participant noted that there is still resistance to integrating climate risk into risk functions in many financial institutions. While there are some early efforts, many risk managers still view climate issues as the remit of sustainability teams and separate from their core risk management responsibilities. One participant said, *"I wonder how enterprise risk managers or leaders fit in this construct, because I see a lot of resistance to integrating or baking in climate physical risk. That door is cracked open, but there is still a view that says, 'That's climate stuff, that's sustainability, that's over there. That's not my world; that's not what we do.' There's an artificial wall there."* Part of the challenge is that risk leaders may lack expertise in climate risk, limiting their ability to integrate it into the overall approach. *"Most risk managers or leaders have no climate background, and they don't know how to deal with climate issues, so currently these issues are handled in stand- alone groups."*

Financial institutions can influence the public conversation around climate finance and adaptation

Discussions of climate-change related issues are highly politicized and controversial. In order to engage with stakeholders, including investors, regulators, and policymakers, participants identified several ways to minimize the level of potential opposition to adaptation initiatives:

- **Develop a new lexicon that avoids politicized language.** Participants emphasized the importance of avoiding politically charged language when discussing climate adaptation and resilience, particularly in the United States. The current administration has clearly signaled its opposition to climate-related initiatives, but the political and reputational challenge is more fundamental. "*It's not this administration and whether or not the administration survives. There is no world where all 50 US states agree,"* warned one participant noting that state attorneys general and local regulations will continue to create complexity. A participant stated, *"We need to refine the lexicon by which US firms can talk about these things without running afoul of states attorney generals or others. We need to talk about the risks in a different way."* Participants emphasized that climate adaptation is about effective risk management, a driver of business outcomes, rather than as an ESG or sustainability. *"This needs to be seen as a fiduciary driver and a business security agenda,*" the same executive continued. For some, *"Climate finance has come to mean 'doing less.' Adaptation should be about doing more. Part of an abundance agenda."*
- **Educate stakeholders and the public on climate finance concepts.** The complexities of climate risk and climate financing create an important educational task for the financial services sector. At a basic level, consumers need a better understanding of the link between climate change and the impact on financial products, like insurance premiums. One insurance executive said, *"When we see the frequency and severity of events increasing, we have to increase pricing and then homeowner's insurance gets more expensive. That creates a strain for people living in [in other areas] who don't understand why their rates are going up. There is a clear education gap to help them understand why there is more burden on the consumer."* The complexity of the financial instruments needed to support adaptation also need explanation: *"We need to help ordinary people understand in plain English what blended finance is, and how some of these ecosystems really work,"* one participant noted. Given that public policy and public finance will inevitably be needed to support any private financing for adaptation, policymakers and the voters who elect them represent an important audience. *"Consumers have to ask for [the policy changes that could promote adaptation], which goes back to education. How do you mobilize a constituency base to get legislators to listen? If consumers aren't asking for it then there's no demand,"* said one participant. This may be a long process. *"There needs to be a concerted effort by the industry that focuses on educating the common individual and trying to explain what it is you're trying to do in climate finance ...Ten years from now you want change to make a policy environment that is conducive to what we need to do."*

- **Create forums for engagement across sectors and stakeholders.** A director noted, "One of the reasons I was particularly keen to engage with this group is that asset managers or insurers obviously can't do it alone and banks can't do it alone either. There is some level of need for really pragmatic thought about, here's what we can do, here's what private finance can do, and here's what public finance can do." Another participant shared, "*You saw institutions take an either-or approach: either we're going to lean in on mitigation or we're going to say, well, we've lost that battle, so we're going to focus on adaptation*," while another said, "*What we need is adaptation inclusive transition plans*." Looking forward, participants recommended engaging with the following types of individuals and organizations in future discussions: real economy participants, including construction, real estate, energy and utilities. In addition, a variety of sources of finance can be brought to bear: private equity, development banks, credit agencies, green banks, microfinance organizations and other non-governmental organizations, sovereign wealth funds, and domestic banks in emerging markets. A participant said, "*We need that support system: policy, wrapped finance, international development banks, etc*."

Participants

The following individuals participated in the convenings or in bilateral calls leading up to the convenings:

Andre Abadie, Managing Director, Head of Center for Carbon Transition, JPMorgan

Stephen Beer, Head of Responsible Investment Strategic Relationships and Integration Strategy, Asset Management, Legal & General

Lisa Boyd, Co-Head of GCS Practice, Managing Director, Joele Frank

Michelle Edkins, Managing Director, Head of Active Investment Stewardship, BlackRock

Alessia Falsarone, Non-Executive Director, Generali; Executive in Residence, Circular Economy and Sustainable Business, University of Chicago

Bruno Gardner, Head of Climate Change and Nature, Phoenix Group

Gregorio Giorgi, Vice President, Sustainable and Transition Finance, Barclays

Ingrid Holmes, Executive Director, Green Finance Institute

Betty Huber, Head of the ESG practice, Latham and Watkins LLP

Annie Chor Joyce, Managing Director, Head of ESG, Amundi US

Sarah Kapnick, Global Head of Climate Advisory, JP Morgan

Tessa Lennartz-Walker, Principal Consultant, Climate Risks, Resilience, & Adaptation, South Pole

John Murton, Senior Sustainability Advisor, Standard Chartered

Shonaid Jemmett-Page, Non-Executive Director and Customer and Sustainability Committee Chair, Aviva

Maggie Peloso, Global Climate Officer, Chubb; Executive Director, Chubb Charitable Foundation

Geneviève Piché, Head of Sustainable Finance and Advisory, Corporate & Investment Banking, Wells Fargo

Val Smith, Chief Sustainability Officer, Managing Director, Citi

Matthew Vahidi, Managing Director, Joele Frank

Tim Whitehead, Head of Sustainability Risk, Goldman Sachs

High Meadows Institute

Allison Kostka, Communications and Operations Manager

Chris Pinney, President, and CEO

Tapestry Networks

Dennis Andrade, Managing Director

Eric Baldwin, Executive Director

Tiffany Luehrs, Senior Associate