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Introduction

On behalf of the Government of Japan, which is one of the sponsors, I thank the OECD for this opportunity to speak at the opening of Day 2 of the Forum on Green Finance and Investment.

Financial initiatives to tackle climate change face significant challenges these days. Until now, global discussions have largely been centered on transition risk associated with reducing greenhouse gas (GHG) emissions. Since this risk is long-term and highly uncertain, related discussions may have become overly abstract in some cases, and proposed measures may be excessive. This may have called the rationale for climate measures into question, while raising concerns that these measures could hurt economic growth and people’s lives.

Meanwhile, we are witnessing the increasing frequency and severity of extreme weather events—such as floods and landslides—across the globe. Addressing physical risk has become an urgent priority.

At this juncture, the key question is how we can move forward with approaches that are effective, pragmatic, and grounded in reality. To that end, it is essential that we consider both transition and physical risk; advance responses tailored to country- or region-specific needs; and strengthen collaboration between the public and private sectors.

In this context, Japan’s efforts so far may inform such discussions. While my country has sometimes been criticized as being less ambitious in its climate efforts, the measures that we have taken are practical, tailor-made, and growth-oriented. This is why I will be highlighting Japan’s initiatives to promote sustainable finance in this speech.

Promoting climate transition finance in Japan

Let me first introduce you to Japan’s domestic efforts.

First of all, Japan has set its Nationally Determined Contribution (NDC). The 2020 NDC aimed to reduce GHG emissions by 46 percent by 2030 compared to 2013, and net zero by 2050. As part of our new NDC targets following COP29, Japan is now also committed to reducing GHG emissions by 60 percent by 2035 and by 73 percent by 2040.

To achieve these targets, the government has announced a plan to combine both public- and private sector financing to mobilize JP¥150 trillion (approximately US$ 1 trillion) over the coming decade, for investments in Green Transformation (which is called "GX" in Japan).

In 2024, the government issued the world's first sovereign transition bonds. The proceeds from the bonds are strictly allocated to research and development and projects that contribute to our national GX strategy. The government aims to catalyze private capital flows by taking the lead through public sector investment.

The government has also developed a range of enabling frameworks for the purpose of mobilizing private finance for climate transition. For example:

- "The Basic Guidelines on Climate Transition Finance" in 2021 provides a framework for financing that promotes transition activities;
- "Sector-specific roadmaps" aim to help high-emission industries chart credible decarbonization pathways; and
- "Transition Finance Follow-up Guidance" was developed in 2023 to facilitate post-financing dialogue between fundraisers and financiers.

Japan is committed to achieving its NDC targets through these measures and strong public-private collaboration.

Asia GX Consortium

Next, I will briefly talk about a regional initiative led by Japan's Financial Services Agency (FSA) to support climate transition in Asia.

Asia accounts for approximately half of global GHG emissions. Expanding transition finance in the region is therefore critical to achieving global climate goals, while also providing substantial investment opportunities.

To promote transition finance across Asia, the FSA, together with financial authorities from

ASEAN countries, took the lead in establishing the Asia GX Consortium in October 2024. This initiative is supported by the Asian Development Bank and financial institutions active in the region. Through the sharing of practical case studies from across Asia, the Consortium aims to facilitate hands-on discussions, develop concrete methodologies, and support the structuring of viable transition finance projects.

Addressing physical risk

Let me now turn to the issue of addressing physical risk, which is a matter of global urgency.

Unlike transition risk, physical risk is highly localized and context-specific, which poses challenges, such as data scarcity. Nevertheless, there is increasing recognition among financial supervisors that physical risk can turn into financial risk. Therefore, discussions are underway on how to incorporate these risk drivers into financial institutions' risk management frameworks.

A related issue is the natural catastrophe (NatCat) insurance protection gap, which arises when insurance cannot sufficiently cover losses caused by natural disasters. The gap causes households and businesses to lose physical assets and puts them under financial distress; this has significant implications for economic and financial stability. Japan initiated the discussions on this protection gap at the G7 in 2023, which has led to further discussions at the G20 as well as at international organizations, including the OECD.

There are two main factors that widen this protection gap. One is the low insurance penetration rate due to underdeveloped insurance markets and/or insufficient financial literacy. The other is the increasing frequency and severity of natural disasters, which increases the losses for insurance to cover.

Filling this gap requires coordinated efforts between the public and private sectors.

- First, the role of the insurance sector is crucial. The industry could be instrumental in raising policyholders' risk awareness, incentivizing risk reduction, and developing new innovative products. This would contribute to the take-up of insurance coverage and the development of insurance markets, thereby providing business opportunities for industry. The role of insurance supervisors would include assessing the gap, improving supervision, and incentivizing risk reduction through regulation. The *"Call for Action"* paper by the International Association of Insurance Supervisors (IAIS) in 2023 highlights that the insurance industry and supervisors have critical roles to play in addressing this issue. My predecessor currently chairs the IAIS Executive Committee.

- Second, financial instruments other than insurance should also be utilized, because insurance-based solutions cannot address all NatCat risks on their own. In this connection, the World Bank has issued Cat bonds to raise funds from capital markets. Those bonds can be used to support governments in the event of a disaster.
- Third, broader risk reduction efforts are essential. For example, resilient infrastructure reduces societal damage when hit by disasters. Given the scale of investment needed, public funds are increasingly expected to catalyze private capital. Blended finance is one such approach.

Conclusion

Let me conclude.

Despite recent disputes, the increasing frequency and severity of extreme weather events suggest that the risk from climate change is growing. At the same time, we should recognize that progress towards a low-carbon economy would inevitably be incremental. We do need a whole-of-economy approach that is practical, and compatible with economic growth and people's wellbeing. This requires all stakeholders to work together—across borders, between the public and private sectors, and between financial institutions and their clients. I hope that this Forum will serve as a catalyst for such collaboration.

Thank you for your attention.