Global Sustainable Finance in 2018

An Aviva guide for policymakers and regulators

AVIVA

2018 is proving to be the most ambitious year on record for sustainable finance policy, but the current pace of change isn't yet swift enough for us to achieve the UN Sustainable Development Goals by 2030, or to meet the aims of the Paris Climate Agreement. In this short guide, Aviva sets out a financial market participant's perspective – in our role as a global insurer, investor and asset manager – on where we have seen progress in recent years, as well as five key recommendations for policymakers and regulators to inform coming discussions at national, regional and multilateral levels. In particular, the G20 Heads of State Buenos Aires meeting communique should include high level measures setting out sustainable finance principles its members intend to adopt, along the lines of the recommendations in this document.

The sustainable finance policy landscape – much work done, more to do

Recent years have seen a step-change in the appetite of policy-makers and regulators across the world to use financial policy and regulation to deliver sustainability outcomes.

Driven by the UN Sustainable Development Goals (SDGs), the Paris Climate Agreement and the Financing for Development (FFD) Addis Ababa Action Agenda, regional and state actors have begun to examine how the policy and regulatory levers under their control can be used to direct private financial flows towards more sustainable outcomes.

This increased interest can be measured both in terms of the quantity and quality of market reform interventions we have seen in recent years. In terms of quantity, the UN Environment Programme (UNEP) recently found[1] that:

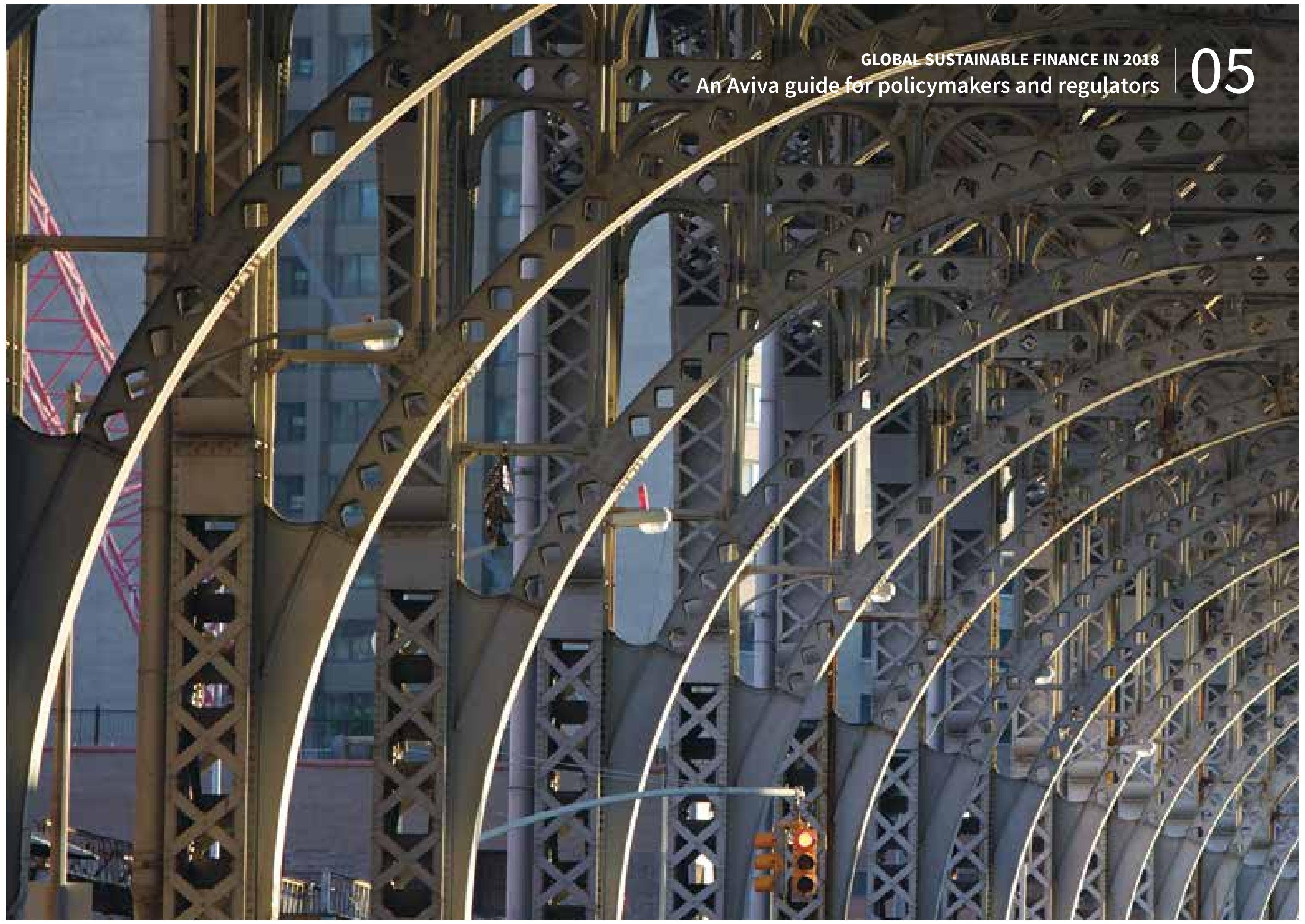
- In 2013, 139 policy and regulatory measures responding to international sustainability commitments were in place across 44 jurisdictions.
- In 2017, this number rose to 300 in 54 jurisdictions, with a substantial rise in system-level initiatives.

In terms of quality, policy interventions are also increasingly wide-ranging, drawing on the expertise of governments, industry and civil society, as the examples in Box A demonstrate.

[1]UNEP-FI, Making Waves: Aligning the Financial System with Sustainable Development; http://unepinquiry.org/making-waves/

Box A: Examples of recent Sustainable Finance policy initiatives across the world

- The International Organization of Securities Commission's (IOSCO) Growth and Emerging Markets Committee has established a Task Force on Sustainable Finance.
- Many companies across the world have supported the first full year of disclosures against the recommendations of the Financial Stability Board Task Force for Climate-related Financial Disclosures (TCFD).
- Central Banks and supervisors have established a Network of Central Banks and Supervisors for Greening the Financial System (NGFS); membership has been rapidly increasing over the course of 2018 and now includes 18 members and five observers.
- Canada has announced the formation of an Expert Panel on Sustainable Finance to investigate global trends in sustainable finance and recommend actions to the Canadian government.
- China continues to build on its 2016 "Guidelines for Establishing a Green Financial System", which set out a broad set of national measures, including reforms to insurance, banks and markets.
- Finance Norway, the country's association of financial institutions comprising banks, insurers, investment firms and pension providers, has set out recommendations for a "profitable and sustainable" Norwegian financial sector in 2030 in its Roadmap for Green Competitiveness in the Norwegian Financial Sector.
- The European Union has developed an overarching strategy on sustainable finance, establishing a High-Level Expert Group (HLEG) in 2016 to publish detailed recommendations on making the EU's financial system more sustainable. Following the HLEG's recommendations in January 2018, the European Commission has produced an Action Plan and legislative proposals including a number of system wide measures to increase demand for sustainable finance, clarify investors' duties, increase consistency and transparency of environmental, social and governance (ESG) data in the financial system and strengthen the role of financial regulators in managing sustainability risk.
- The UK Government has established a Green Finance Task Force, which has leveraged the expertise of the City of London to generate a series of systemic recommendations, including improving climate risk management, encouraging green lending and clarifying investor roles and responsibilities. The Government will respond to these recommendations later in 2018.
- The Canadian Presidency of the G7 and leading global investors launched an investor initiative in June 2018, which included measures on climate, gender and sustainable infrastructure.



However, these initiatives represent the beginning, not the end, of the legislative and regulatory changes that we need to deliver meaningful sustainable change in the financial system. Energy demand is continuing to grow[2], with significant new investment in fossil fuels[3]; while UN development indicators in many areas continue to show insufficient progress[4].

[2] http://www.iea.org/publications/freepublications/publication/GECO2017.pdf
[3] IEA, World Energy Investment 2017 https://www.iea.org/publications/wei2017/
[4] E.g. see The Sustainable Development Goals Report 2018, UN https://unstats.un.org/sdgs/files/report/2018/TheSustainableDevelopmentGoalsReport2018.pdf

Aviva and Sustainable Finance

Aviva has long recognised the risks to our business and our customers of an unsustainable future. Put simply, our business is not sustainable unless the planet is sustainable.

Issues like climate change represent an existential risk to our customers and our business. That's why we have been at the forefront of promoting market reform across the world, including as active members of some of the policy initiatives mentioned in Box A. At the opening of the UN General Assembly this year, we will be drawing particular attention to a number of key initiatives which we believe will help to scale up the contribution of finance and business to achieve the SDGs:

- The launch of the **World Benchmarking Alliance** (WBA)[5], a new, global, institution to develop, fund, house, and safeguard publicly available, free corporate sustainability benchmarks aligned with the SDGs.
- **'Financing our Future'**, an in-depth piece of research jointly produced between Aviva and The Prince of Wales's Accounting for Sustainability Project, examining action to encourage all actors in the financial sector to do more to integrate sustainability issues into their business.
- The **Global Insurance Regulators Sustainability Ranking**, by New America, which seeks to promote best practice by insurance regulators in incorporating sustainability into their work.

More widely, we continue to promote comprehensive policy action to build a more sustainable financial system. Drawing on our market experience, and the research report mentioned above, we make the following recommendations to policymakers and regulators looking to develop sustainable finance frameworks.

[5]https://www.worldbenchmarkingalliance.org/

Recommendations to policy-makers and regulators to deliver a more sustainable financial system

These recommendations will apply differently in various parts of the world and political fora, but their underpinning principles are universally relevant - we believe the forthcoming G20 leaders' meeting in particular should look to ensure its members promote and pursue the following policies.

01 Proactively capture customer demand for greater sustainability in the financial system

The movement towards sustainable finance is not only about sending greater financial flows to more sustainable projects; it is also about putting individual people and their values back at the heart of the financial system. Good policy should do both.

Some examples of policy measures that encourage this outcome are:

- Clarifying that the duty of investors includes incorporating any material sustainability issues, and requiring investment professionals to ask their clients if they have ethical preferences.
- Encouraging investors to build sustainability factors into the mandates they give to those who manage their money.
- Promoting financial literacy throughout the education system, so that people better understand how their money impacts the world.

02 Use smarter, more forward-looking financial regulation to incentivise companies to act

Since the financial crisis, much has been done by global financial regulators and standard-setters to protect against the particular set of circumstances that led to that outcome. But not enough has been done to protect the financial system against the future systemic risk we know will be generated by climate change and other sustainability issues. We would therefore recommend that:

- Over time, regulators and policy-makers look to make the recommendations of the TCFD mandatory, both at national and regional level and through standards-setting fora such as IOSCO.
- Regulators work with industry to build consistent, comparable climate stress tests that businesses can build on for their climate disclosure.
- Regulators explore how to ensure that capital requirements reflect true long-term risks such as climate change, and do not disincentivise long term sustainable investments.

03 Use fiscal measures to ensure financial prices better incorporate environmental issues

Sometimes policymakers can see sustainable finance policy measures as substitutes for more traditional policy measures such as renewables subsidies or carbon pricing. This should not be the case: fundamentally, markets still respond to long-term price signals, which are strongly affected by governments' fiscal measures.
We therefore recommend:

- Governments should continue to introduce and expand effective measures to price carbon. These should aim not only to discourage over-investment in fossil fuel extraction, but also to encourage businesses and consumers to adopt more sustainable approaches. This could be achieved, for example, by making the producers of carbon more directly responsible for the waste they produce through funding Carbon Capture and Storage, or by setting aside revenue raised from carbon taxes for funding innovative approaches in renewables, storage and energy efficiency.
- Governments should phase out wasteful and environmentally damaging fossil fuel subsidies, and use these to invest in more affordable, healthy long-term energy sources.

04 Improve the quality, relevance and use of sustainability data and research

Investors need good quality information to inform their investment decisions. Yet too often the information in the market on sustainability issues is patchy or relates to short-term issues. We therefore recommend that:

- Governments support the World Benchmarking Alliance's mission to develop, fund, house, and safeguard publicly available, free corporate sustainability benchmarks aligned with the SDGs.
- Governments encourage longer term research into the connection between sustainability and finance through:
  - Funding academic study into issues such as the widespread use of Discount Cash Flow (DCF) analysis.
  - Using regulation to drive longer term research from investment banks and other investment institutions into long-term investing.

05 Use international coordination to promote sustainable finance

As the examples above show, there is much ongoing work at national and regional level to promote sustainable finance. However international action can and should drive the agenda.
We therefore recommend:

- The G20 Heads of State Buenos Aires meeting communique should include high level measures setting out sustainable finance principles its members intend to adopt, along the lines of the recommendations in this document.
- The investor initiative of the G7 and the G20 investor summit build on the principles contained in the UN Secretary General's Finance Strategy, to set incentives compatible with long-term sustainable investment.
- The UN General Assembly sets out its desired approach to sustainable finance in a resolution, which enhances the measures contained in the Finance Strategy and provides a role for UN and member states to improve investment climates.
- The World Bank and IMF work together, and with UN agencies and national governments, to develop a set of sustainable financing principles to inform their lending and investments.

"Put simply, our business is not sustainable unless the planet is sustainable."

The pace of positive change on sustainable finance is rapid. But the risk to the planet of issues like climate change also grows relentlessly.

Conclusion

The pace of positive change on sustainable finance is rapid. But the risk to the planet of issues like climate change also grows relentlessly. We are in a race to see whether smart policymaking and regulation, in partnership with positive businesses, can reshape financial markets in time. We hope this short guide can act as a quick-start for scaling up the change that will make a positive difference. If you would like to find out more about the research underpinning them, please see our work at **www.aviva.com/social-purpose/sustainable-finance/**

AVIVA