



**ICCG Webinar Series on Climate Finance**  
**Building a Sustainable Financial System**  
*Moving from Design to Delivery*

**Nick Robins, UNEP**  
**May 11th, 2016**



# Building a Sustainable Financial System

## *Moving from Design to Delivery*



**2015 was the year when sustainability became recognised as a factor for financial system health:** Action within the system needed to mobilise capital and mainstream environmental performance.



**The Inquiry identified a 'quiet revolution' in policy practice:** A growing number of policy innovations across banking, capital markets, insurance and investment. But still new and fragmented.



**2016 looks set to be the year when the agenda moves deeper:** Implementing the Paris Agreement and the Sustainable Development Goals requires financial system reform.

# THE FINANCIAL SYSTEM WE NEED

## IMF/WORLD BANK ANNUAL MEETINGS, LIMA 8 OCTOBER 2015



Mark Carney, Governor, Bank of England *“Green finance cannot be a niche”*

Atiur Rahman, Governor, Bangladesh Bank

*“Developing economy central banks have been trying to address the risks of instabilities and imbalances at sources, by promoting sustainable financing”*

Yi Gang, Deputy Governor, People's Bank of China

*“China will advance green finance during its presidency of the G20 in 2016”*

# A SYSTEMIC CHALLENGE



## TOO MUCH OF THIS



## NOT ENOUGH OF THIS



## FINANCING CHALLENGES (ILLUSTRATIVE)

US\$16  
trillion

**Annual global investment**  
All needs to be green and resilient

US\$5-7  
trillion

**Annual investment needed for sustainable development goals**  
e.g. in infrastructure, energy, agriculture

US\$7  
trillion

**Annual environmental externalities** – need to be costed into decision making

US\$6  
trillion

**Reduction in fossil fuel and power investment need (2015-2030)**

*“Finance overwhelms the real economy. The lessons of the global financial crisis have not been assimilated, and we are learning all too slowly the lessons of environmental deterioration.”*

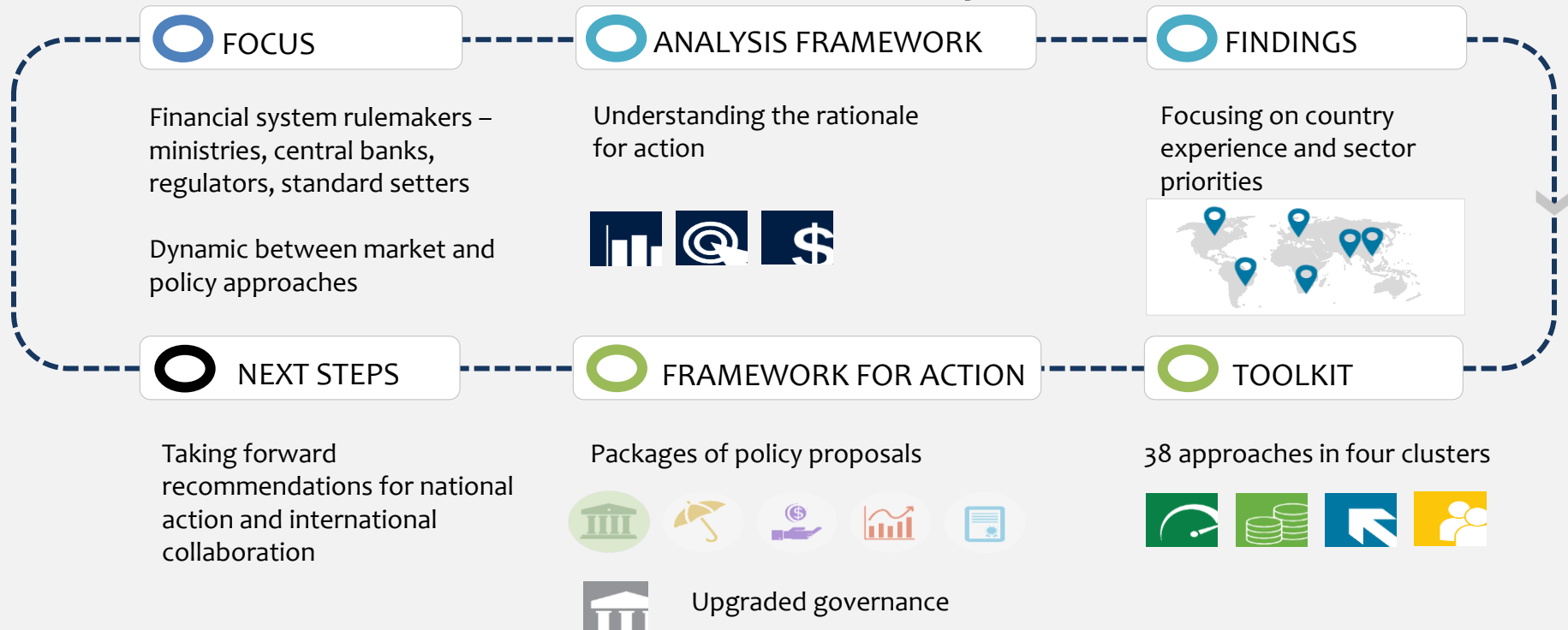
## A GROWING MOMENTUM?



-  **Responsible investment growing ten-fold since 2006**, but still misaligned incentives, short-termism, incomplete accountability.
-  **Green bond market growing four-fold since 2013**, but still less than 1% of global bond market.
-  **Stock markets committed to disclosure doubled in 2015**, but 63% of large listed companies worth US\$25trn are still not reporting GHGs.
-  **Insurance sector taking action to build resilience**, but only 3% of citizens in poorest 100 countries have access to insurance.
-  **Climate change is now recognised as a major financial risk**, but only 1.4% of asset owners reduced their carbon intensity 2014-2015.

## MANDATE

***Advance policy options to improve the financial system's alignment with sustainable development***



# FOCUS ON PRACTICE



**France**  
2 Degrees Initiative, France  
Strategie, I4CE



**Canada**  
The Cooperators,  
CIGI



**US**  
CalPERS,  
SAIS



**Colombia**  
Ministry of Finance  
IFC



**Brazil**  
Bankers Federation  
Fundação Getulio  
Vargas



**UK** Bank of England,  
CISL, Oxford University



**Switzerland**  
Federal Office of Environment,  
SwissRe



**Netherlands**  
Ministry of Environment  
Utrecht Sustainable Finance  
Lab



**China**  
People's Bank of China  
Development Research  
Centre, IISD



**Bangladesh**  
Bangladesh Bank,  
Council on Economic Policies



**Kenya**  
Bankers  
Association  
Central Bank  
IFC



**South Africa**  
Bankers Association  
Global Green Growth Institute  
Johannesburg Stock Exchange



**India**  
FICCI, NIPFP



**Indonesia**  
Financial Services Authority (OJK)  
IFC, ASRIA



## FINANCIAL ASSETS & ACTORS



**Banking**  
US\$135 tn



**Bonds**  
US\$100 tn



**Equities**  
US\$70 tn



**Investors**  
US\$100 tn



**Insurance**  
US\$29 tn

## PRIORITIES FOR ALIGNMENT

*Real economy  
regulation & pricing*

*Mobilising public  
spending*

*Action within the  
financial system?*

## REASONS FOR ACTION IN THE FINANCIAL SYSTEM

### Managing risk

Inadequate risk management in the financial system may exacerbate environmental & social externalities

### Promoting innovation

Upgrading the standards and regulations required to catalyze investment, for example, in bond markets

### Strengthening resilience

Environmental factors can pose risks to assets and system stability

### Ensuring policy coherence

Ensuring coherence between financial regulation and wider goals, such as long-term investment, access to finance, environmental security.

## Diverse starting points



Financial inclusion,  
greening industry



Air pollution



Infrastructure  
investment



Post-crisis rebuilding  
of trust in finance



Climate change

## Measures in practice



Integration in prudential  
banking regulation



New investor reporting  
requirements on climate



Coordinated roadmap led  
by regulator



Financial sector compact



Incentives for clean  
energy bonds

## Levers for action



Enhancing market  
practice



Harnessing the public  
balance sheet



Directing finance  
through policy



Transforming culture



Upgrading governance

## Self Regulation and the Financial Industry in Brazil



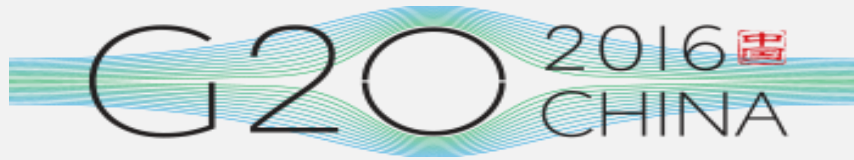
**Enhancing the market:** BM&F Bovespa stock exchange launch ISR Index in 2005

**Managing risks:** In 2014, BACEN introduced new requirements for banks to manage socio-environmental factors as part of core risk system to improve governance and strengthen soundness.

**Performance measurement:** Brazilian Bankers Association (FEBRABAN) starting to track green lending flows: c9% of corporate lending.

*“Sustainability is a positive asset for financial and monetary stability”*

**Aloisio Tupinamba, Chief of Staff, Financial Regulation, Central Bank of Brazil**



**Green investment needs:** US\$400bn p.a to finance green investment; only 15% from public sources.

**Green financial system:** The People's Bank of China co-authored a set of proposals with the Inquiry on closing the gap: green bonds, green ratings, lender liability, environmental insurance, stock market disclosure

**International cooperation:** Promoting green finance as part of its presidency of the G20 in 2016 (Green Finance Study Group)

*“Greening a country’s financial system is not an “additional” performance requirement but concerns the efficiency and effectiveness of the whole system”*

**Development Research Council of the State Council, China**



France's Financial  
(Eco)system

IMPROVING THE INTEGRATION OF  
SUSTAINABILITY FACTORS



[Source Inquiry, 2015 drawing on IMF]

**Energy Transition Law:** Most ambitious national law on climate disclosure

- **Investors** to disclose how they manage sustainability factors, carbon footprint and contribution to the energy transition, and
- **Banks** to incorporate climate factors into stress tests (end 2016)

**Tax incentives for households:** Savings in *Livret A* tax-exempt fund utilized by CDC – 50% allocated to loans for social housing and local infrastructure

**Product labelling:** SRI and Energy Transition labels for financial products to increase product visibility, expected 2016

*“It is essential that the financial system as a whole takes climate risk into account, anticipates ambitious targets and integrates this into investment decisions.”* **Laurent Fabius, Foreign Minister, France**



The United Kingdom:  
Global Hub, Local Dynamics

MAPPING THE TRANSITION TO A  
SUSTAINABLE FINANCIAL SYSTEM



**Fiduciary Duty:** Law Commission review clarified that material sustainability factors are part of prudent investing.

**Prudential Regulation:** The PRA has examined the impact of climate on insurance companies: physical, transition and litigation risks – laid the foundations for action by the Financial Stability Board.

**Greening the City:** City of London Corporation launched its Green Finance Initiative in January 2016, supported by DECC and Treasury

**“The central bank time horizon is relatively short. But the real challenges to prosperity and economic resilience from climate change will manifest well beyond this. We face a 'tragedy of horizons'.”** **Mark Carney, Governor, Bank of England**





**Capital Markets Union:** Enhancing access to finance for SMEs, and ensuring an appropriate regulatory environment for long-term sustainable investment

**Pensions (IORP II):** European Parliament voted in favour of amendments in Jan 2016, including measures to mandate consideration of environmental risks in investment

**Corporate Disclosure:** Consultation underway on guidelines for non-financial reporting

**Systemic Risk:** ESRB is assessing the impact of the transition to a low-carbon economy for financial system health

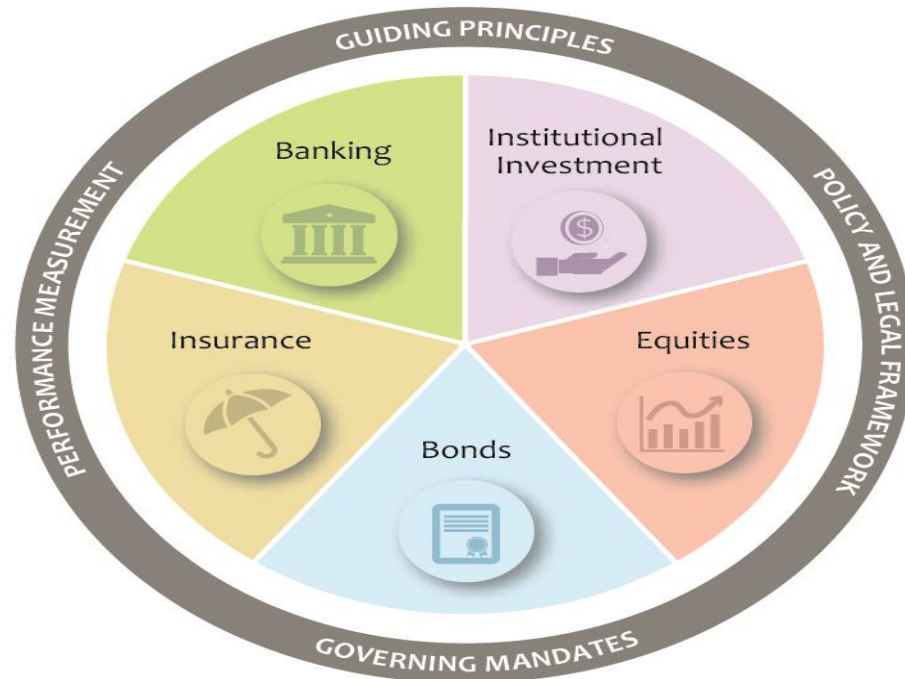
*“Europe requires significant new long term and sustainable investment to maintain and extend competitiveness and shift to a low-carbon and resource-efficient economy.”*

**Action Plan for Capital Markets Union**

# A FRAMEWORK FOR ACTION



- Enhancing market practice:**  
disclosure, analysis, risk management 
- Harnessing the public balance sheet:**  
fiscal incentives, public financial institutions and central banks 
- Directing finance through policy:**  
requirements and prohibitions, enhanced liability 
- Cultural transformation:**  
capacity building, behaviour, market structure 



*“The sustainable finance programme is not only intended to increase financing but also to improve the resilience and competitiveness of financial institutions”*

**Muliaman D. Hadad, Chairman, Indonesia Financial Services Authority (OJK) Board**



## 2016: THE YEAR OF GREEN FINANCE?



**Global policy architecture**, through the new G20 Green Finance Study Group under China's presidency



**Financing the transition**, reforms needed to implement the Sustainable Development Goals and the Paris Agreement



**Mobilising capital**, through the new Green Infrastructure Investment Coalition of investors and policymakers

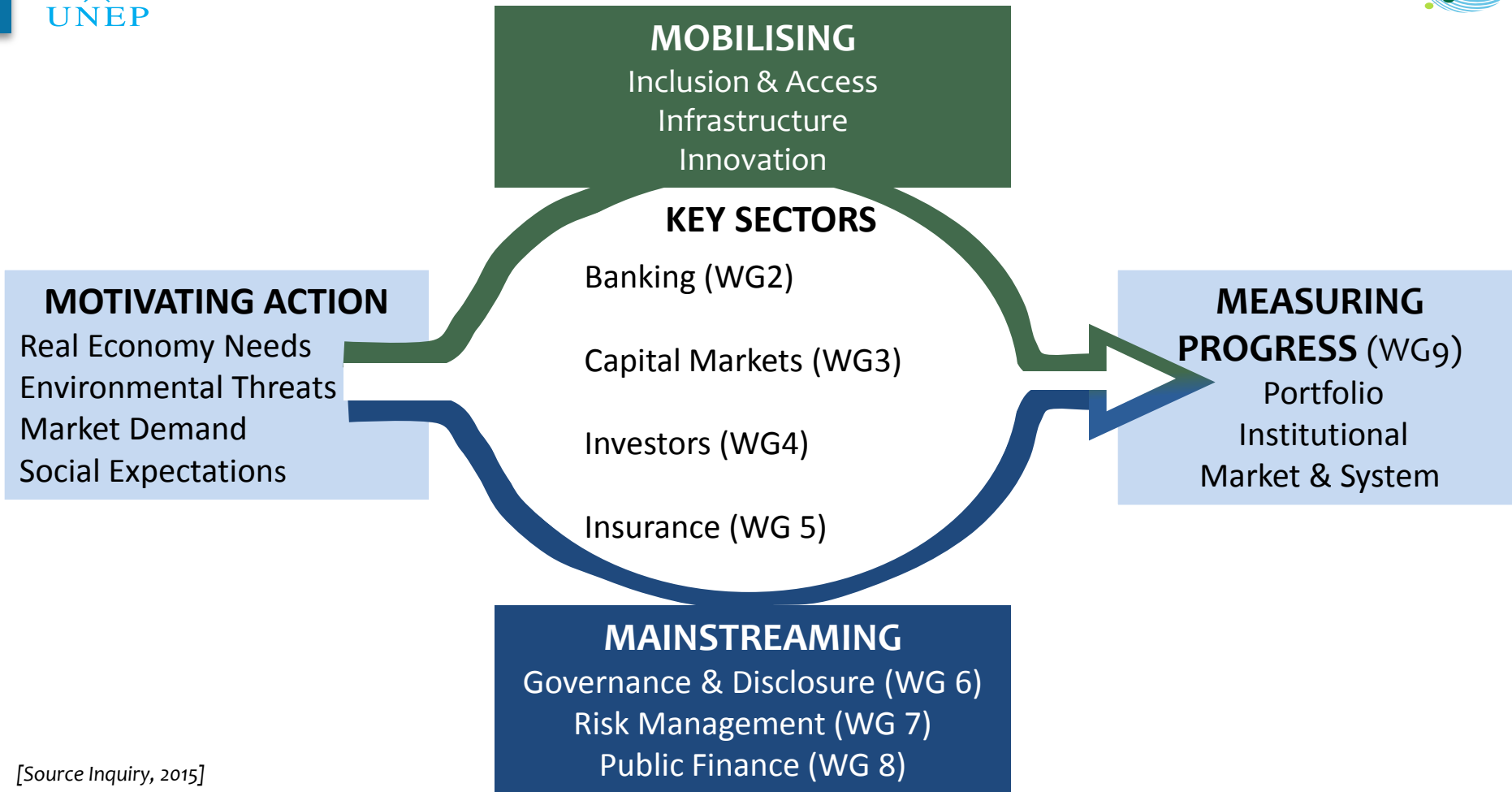


**Strengthening resilience**, by incorporating sustainability into insurance policy and regulation.



**Bringing transparency**, through the FSB's climate disclosure task force and reporting for financial institutions & products.

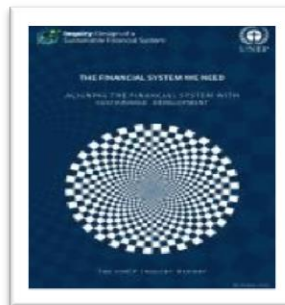
# ITALY: BUILDING A SUSTAINABLE FINANCIAL SYSTEM



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Mahenau Agha, Head of Outreach

[mahenau.gha@unep.org](mailto:mahenau.gha@unep.org)

Nick Robins, Co-Director

[nick.robins@unep.org](mailto:nick.robins@unep.org)

Simon Zadek, Co-Director

[simon.zadek@unep.org](mailto:simon.zadek@unep.org)

# Q&A

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For time management reasons, we don't assure that all questions will be answered.

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