



Towards a sustainable financial system: lessons from national case studies and global practice

11:15 - 12:45

1 December 2015

#Finquiry



NICK ROBINS

Co-Director – UNEP Inquiry



Inquiry: Design of a Sustainable Financial System

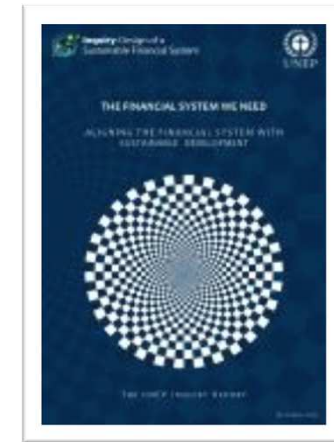
The Financial System We Need *Aligning the financial system with sustainable development*

Nick Robins, Paris, December 2015



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

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

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

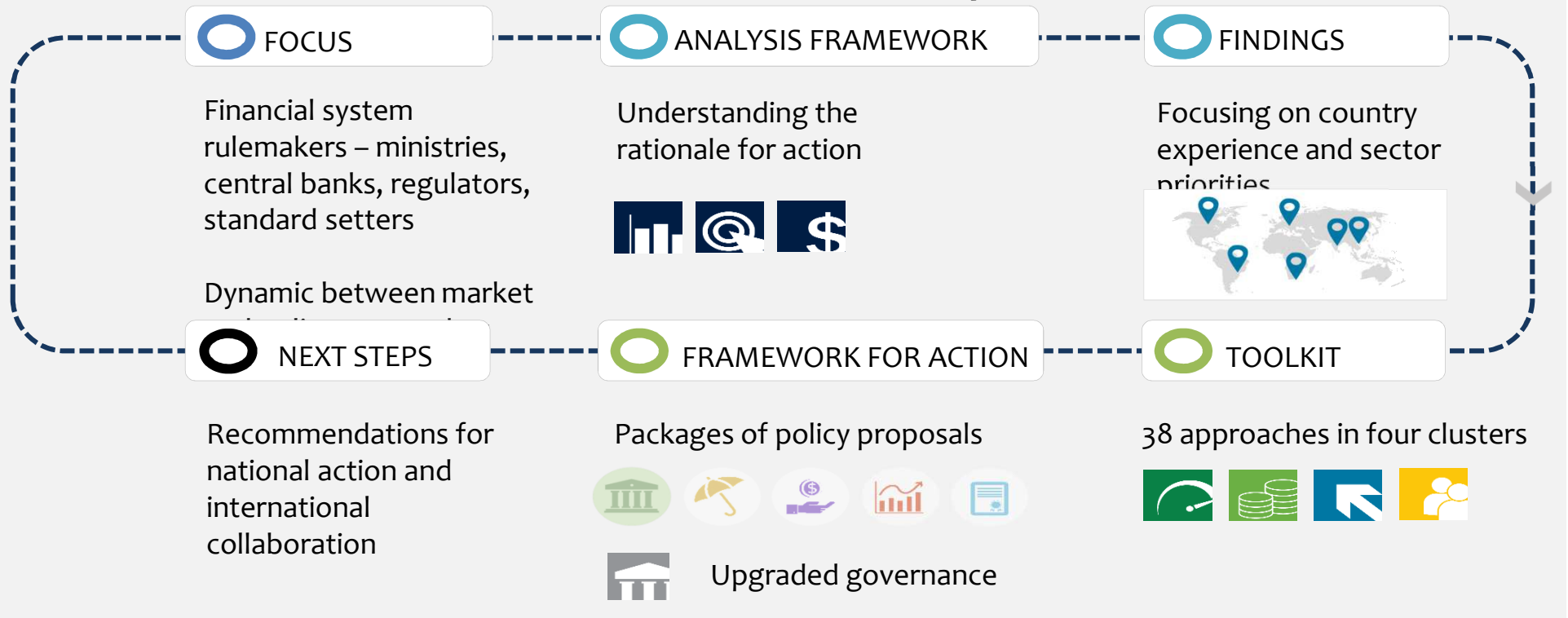
“China will advance green finance during its presidency of the G20 in 2016”

[Source Inquiry, 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

 **Kenya**
Bankers
Association
Central Bank
IFC

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

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

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

 **India**
FICCI, NIPFP

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

[Source Inquiry, 2015]

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)

ALIGNING THE SYSTEM



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

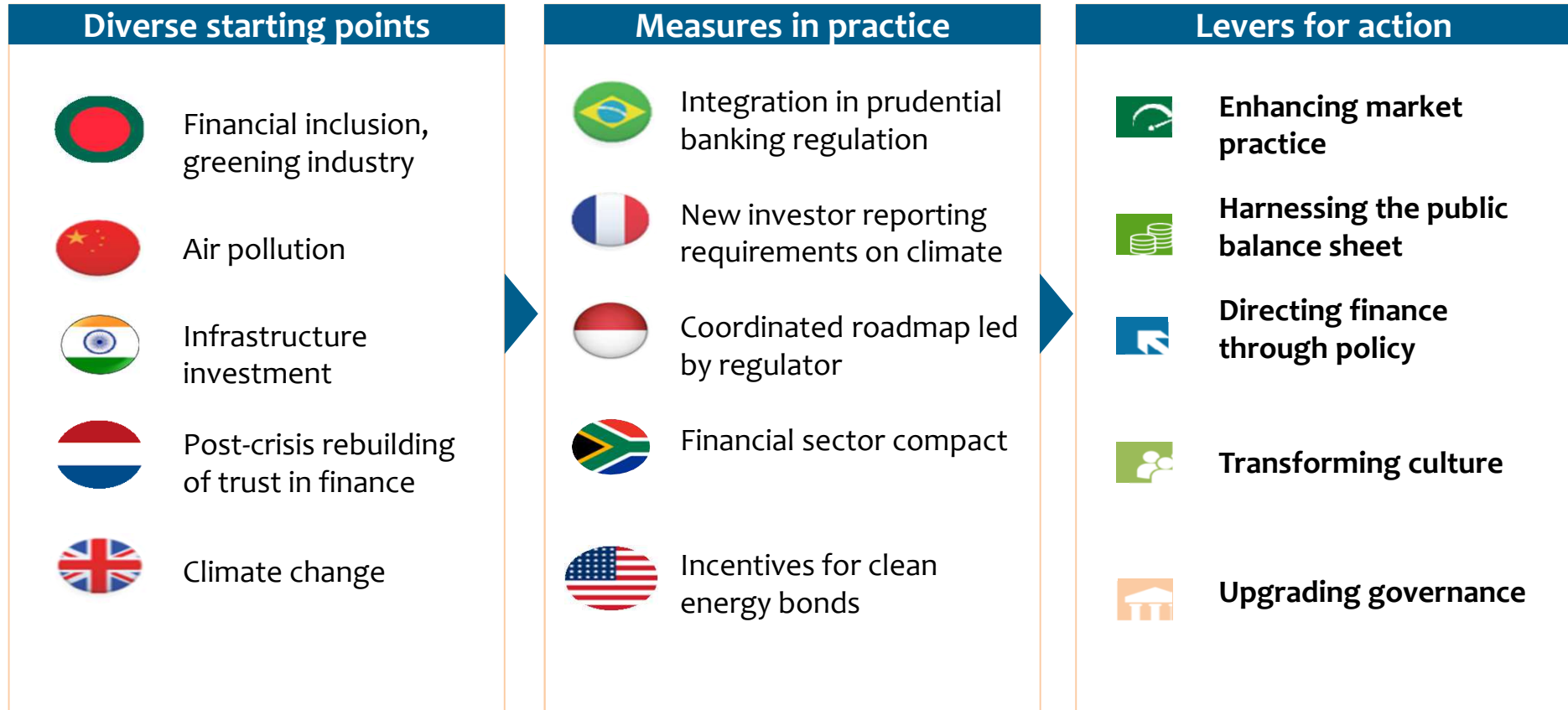
Upgrading the standards and regulations required to catalyze investment, for example, in bond markets

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.



[Source Inquiry, 2015]



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 credit criteria taking shape

Updated: 2012-05-16 17:00

By Zheng Yanpeng (chinadaily.com.cn)

CHINADAILY.com.cn

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

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



theguardian

'Carbon bubble' poses serious threat to UK economy, MPs warn

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

Prudential Regulation: The PRA has examined the impact of climate on safety and soundness of insurance companies: physical, transition and litigation risks.

Green Finance: The Green Investment Bank instrumental in creating a new class of 'renewable investment trusts'

"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**

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”

Melanie Dittmann, Chair of Sustainable Finance, German Financial Supervisory Authority (BaFin)



MOBILISING INSTITUTIONAL INVESTORS



1. System Design: Integrate adequacy, affordability & sustainability	6. Standards: provide guidance on OECD and other guidelines
2. Fiduciary Duty: Clarify that fiduciaries must take account of sustainability	7. Incentives: encourage alignment of fees along the investment chain
3. Governance: Include sustainability in skills & capabilities (fit & proper) tests	8. Fiscal: review to encourage long-term sustainable value creation
4. Prudential: Calibrate capital requirements & extend horizons	9. Disclosure: on stewardship and sustainability performance
5. Structure: Consider whether consolidation needed for delivery	10. International: international code on investor duties and sustainability

[Source CalPERS, RLA, UNEP Inquiry, 2015]



SCALING UP DEBT CAPITAL MARKETS



1. Market Integrity: common definitions, principles, standards, verification, certification	6. Improving returns: through tax credits and incentives
2. Pipeline Development: enabling issuers and investors to plan ahead and build expertise	7. Purchase by public funds: through mandates for sovereign wealth funds and pension funds
3. Strategic Issuance: from public development banks and municipalities	8. Central bank purchases: for reserve management & asset purchase policies
4. Market Development: standard contracts, aggregation, securitisation	9. Regulatory adjustment: preferential weighting for green bonds
5. Improving risk return: credit enhancement: partial guarantees, subordinated debt	10. International cooperation: underpinning market liquidity through mutual recognition

[Source Climate Bonds Initiative & UNEP Inquiry, 2015]



OPPORTUNITIES FOR INTERNATIONAL COOPERATION



Tracking performance, through a shared set of performance metrics for a sustainable financial system



Building new tools, for example, environmental stress testing of critical threats



Developing common principles, for example, for the growing green bond market



Drawing up practical guidance to enable insurance regulators to address threats of natural hazards and climate change



Strengthening the policy architecture, for example, work on green finance during China's G20 in 2016



CONCLUDING INSIGHTS



A systemic approach: Financing for sustainable development can be delivered through measures focused on the financial system, as well as the real economy.



A quiet revolution: A growing number of policy innovations have been introduced by both developing and developed countries, demonstrating how the financial system can be better aligned with sustainable development.



A moment of opportunity: Systematic national action can now be taken to shape a sustainable financial system, informed by current trends and complemented by international cooperation.



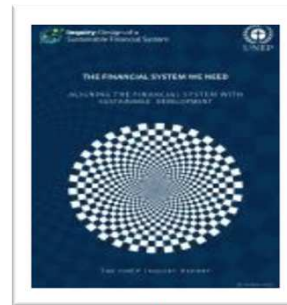
INQUIRY RESEARCH PORTAL POST LAUNCH COMMUNITY



www.unepinquiry.org

**54 publications/research
pieces published**

15 more by end of 2015



Global Report
(English + 6 languages)

Policy Summary

Country research

Other reports

Working papers





Inquiry: Design of a Sustainable Financial System

For more information

www.unepinquiry.org



www.unep.org/inquiry/



[@fininquiry](https://twitter.com/fininquiry)



Mahenau Agha, Head of Outreach

mahenau.gha@unep.org

Nick Robins, Co-Director

nick.robins@unep.org

Simon Zadek, Co-Director

simon.zadek@unep.org

General contact

inquiry@unep.org

[Source Inquiry, 2015]



Changes in practice: national case studies and evolving global trends

- **Rob Fowler**, Climate Bonds Initiative
- **Siobhan Cleary**, Head of Research and Public Policy – World Federation of Exchanges
- **Romain Morel**, I4CE- Institute of Climate Economics
- **Leon Wijnands**, Global Head of Sustainability, ING Netherlands

Moderator: Stanislas Duprè, 2° Investing Initiative



Thank you! – Merci!

www.i4ce.org
www.unepinquiry.org