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UNITED NATIONS ENVIRONMENT FINANCE INITIATIVE

Sydney Conference

July 2018

Financing a more resilient and sustainable economy.

UNEP FINANCE INITIATIVE
SYDNEY CONFERENCE, JULY 2018

A major conference of the United Nations Environment Programme Finance Initiative in Australia has been told that the weight of money is driving the shift towards a more sustainable economy.

At the recent United Nations Environment Programme (UNEP) Finance Initiative conference, sponsored by NAB and insurer IAG, the finance sector joined together with government and academia to develop a pathway to achieve a sustainable economy.

While climate change still dominates many conversations about sustainability, the bankers, insurers and investors at the conference stressed that a much broader set of goals needs to be taken into account to support the transition to a resilient and sustainable Australian economy.

Held at Sydney University in July, the conference brought together representatives of the United Nations and the World Bank; Australian banks including the four majors; top insurers including IAG and QBE; government and regulators; and investors including superannuation funds.

“We’re definitely seeing momentum in responsible investment and sustainable finance building in our region,” said Eric Williamson, Executive General Manager, Corporate Finance, at NAB.

“The banking sector in general and NAB in particular have been working to meet the demand to finance green and sustainable assets, and a lot of that demand is coming from institutional investors,” Williamson said.

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UN Environment and the global financial sector that addresses environmental, social and governance concerns relevant to the finance sector and its role in the real economy.

The aim of the Australian conference was to connect the finance sector in Australia to the rapidly emerging global agenda on sustainable finance; to explore the elements of what makes up a sustainable financial system; and to connect the many disparate activities that are underway across Australia’s financial sector under one umbrella.

Participants shared the view that the private sector will be critical to helping raise the trillions of dollars needed globally each year to achieve the objectives of the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

The SDGs are a collection of 17 ambitious global goals agreed by the UN in 2015 that provide a critical framework for people, companies and organisations to think about sustainability.

For companies, commercial drivers such as innovation and reputational considerations are driving their support of these objectives.

Consumers too are demanding that the finance sector should play a greater role in delivering social outcomes. New products such as insurance policies that direct premiums to particular social investments are being launched to meet that demand.

Part of that push comes from population dynamics – millennials and Generation X have different priorities from Baby Boomers and are more likely to invest in line with their values.

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A holistic approach across sectors

Financial institutions are beginning to unveil major environmental lending and investing activities against a backdrop of warnings from regulators and central banks about the risks linked to climate change.

The conference heard policy researchers, law firms, investors and banks have all been working on climate scenario analysis and disclosure of climate-related risks, but these projects do not always cut across all levels of an organisation. Often sustainability is siloed under specialist teams.

Eric Usher, the head of UNEP FI, told the conference that for markets and financial institutions to regain a sense of purpose and meet society's expectations, action needs to happen across institutions and across sectors.

"We need to stop thinking about climate change and sustainability in reactive, ad-hoc ways, but rather in systemic -- and systematic – ways," Usher said.

Banks and insurers should shift from a focus on deals and transactions to a more holistic approach to support a healthy and resilient society.

"What is needed is an evolution in the core structures of finance sector – an alignment of the system of financial intermediation with the requirements of global decarbonisation and the Sustainable Development Goals," Usher said.

Putting the SDGs into practice

For financial institutions, the SDGs are providing a way to integrate sustainability within existing investment processes. Investments and products can be developed to align with and support particular sustainable goals – for example, the world's first social bond that promotes workplace gender equality, launched by NAB in 2017.

Investors increasingly want choices and options to act on social issues.

"Climate action is one part of the picture, but among others things, the SDGs also seek to address issues such as poverty, gender equality, biodiversity loss, sustainable cities and decent work," said Rosemary Bissett, Head of Sustainability at NAB.

"So companies now need to think much more broadly about their risks. For example, banks need to think about social issues in their value chain, about the working conditions throughout their supply chain, about working conditions in their customers' businesses, and whether unacceptable practices like wage theft, and human slavery or exploitation is part of that value chain."

Financial disclosure has become an important area of focus for investors and consumers, who are calling for greater transparency about the climate risks that financial institutions and the corporate sector more broadly are facing.

Timing is critical

The conference heard that Australia still has some way to go to catch up to other countries that are more advanced in mandating disclosure of climate risks and have developed road maps for a sustainable financial sector.

"The timing has never been more incredibly important for this part of the world," Sam Mostyn, a company director and sustainability adviser, told the UNEP FI conference.

"Others are well on the journey of putting into place very sophisticated road maps that give us certainty – certainty for capital markets, for investors, for the big superannuation funds -- to make the kind of logical, practical decisions about where to put that capital," she said.

A 2016 legal opinion by senior barrister Noel Hutley that company directors who failed to properly consider climate risks could be held personally liable was a game changer and has been widely cited by regulators including the Australian Securities & Investments Commission[1].

"The directors' duty question on climate change -- and you can read that as a proxy for more general sustainability issues – has started to change the market quite dramatically. Many directors around the country today now think very clearly about what is required in a boardroom to understand the climate risk and the climate opportunities of businesses," Mostyn said.

[1] https://asic.gov.au/about-asic/media-centre/speeches/climate-change/

The way forward

The conference concluded with a strong message from key industry organisations representing financial firms in Australia and New Zealand calling for greater collaboration across business, government and regulators to progress towards the global goals.

The groups – including the Responsible Investment Association Australasia and the Investor Group on Climate Change – said a sustainable finance road map will enable the sector to do the heavy lifting required to deliver a more resilient and sustainable economy.

Investors such as superannuation funds have a long time horizon and need to think about the impact of their investments for future generations as well as current members, CBUS Chief Executive David Atkin said. CBUS is the super fund for the construction sector, with A$44 billion in funds under management.

Atkin said as large superannuation funds bring more investment decision making in-house, they will look for new opportunities to invest capital in line with their values and in support of the SDGs.

"Our time horizon is a very important part of the way we see the world," he said.

"It seems completely logical to us that when the governments of the world have come together with the SDGs and a series of targets and say they need support of the private sector to fund the activities required, that this is a natural space for a superannuation fund to think about."

"Climate action is one part of the picture, but among others things, the SDGs also seek to address issues such as poverty, gender equality, biodiversity loss, sustainable cities and decent work."

Rosemary Bissett, Head of Sustainability, National Australia Bank

Global growth of Socially Responsible Investment[2]

Region	2014	2016	Growth over period	Compound annual growth rate
Europe	$10,775	$12,040	11.7%	5.7%
United States	$6,572	$8,723	32.7%	15.2%
Canada	$729	$1,086	49.0%	22.0%
Australia/New Zealand	$148	$516	247.5%	86.4%
Asia (excl. Japan)	$45	$52	15.7%	7.6%
Japan	$7	$474	6689.6%	724.0%
Total	**$18,276**	**$22,890**	**25.2%**	**11.9%**

Note: Asset values are expressed in billions.
Asia ex Japan 2014 assets are represented in US dollars based on the exchange rates at year-end 2013
All other 2014 assets,as well as all 2016 assets, are converted to US dollars based on exchange rates at year-end 2015.

[2] Global Sustainable Investment Alliance