The Financial System We Need

Aligning the financial system with sustainable development

Nick Robins, GLOBE EU, Paris, December 2015
GREENING THE FINANCIAL SYSTEM

**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.
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”
THE INQUIRY: mandate and approach

MANDATE

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

FOCUS

Financial system rulemakers – ministries, central banks, regulators, standard setters

Dynamic between market and policy approaches

ANALYSIS FRAMEWORK

Understanding the rationale for action

FRAMEWORK FOR ACTION

Packages of policy proposals

NEXT STEPS

Recommendations for national action and international collaboration

FINDINGS

Focusing on country experience and sector priorities

TOOLKIT

38 approaches in four clusters

Upgraded governance
### ALIGNING THE SYSTEM

#### FINANCIAL ASSETS & ACTORS

<table>
<thead>
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<th>Value</th>
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<tr>
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#### 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]
### FINDINGS: ‘a quiet revolution’ - 180+ measures globally

#### 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

[Source Inquiry, 2015]
BRAZIL: A first mover in sustainability

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
**CHINA: Greening the financial system**

**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.”

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

Muliaman D. Hadad, Chairman, Indonesia Financial Services Authority (OJK) Board
OPPORTUNITIES FOR 2016

- **Reallocating capital**, for example, through a focus on debt capital market development and green bonds

- **Improving market efficiency**, for example, through the FSB task force on climate-related disclosure

- **Deepening resilience**, for example, through a global forum of insurance regulators on sustainability

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

- **Tracking performance**, for example, through the development of shared performance metrics
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