

TEEB WEBINAR MINUTES - July 19th 2010

Presentation slides and an audio recording of the webinar will be available for signatories on both the UN PRI and UNEP FI websites.

On the 19th of July we heard firsthand from the study leader of this major initiative, **Pavan Sukhdev**, about the findings of the report and its implications for financial institutions. **Sagarika Chatterjee** (F&C Management) and UNEP FI Co-Chair **Richard Burrett** (Earth Capital Partners) provided both an investor and banker perspective on TEEB, explaining how the report's findings could be used to engage with both policy makers and companies. **Josh Bishop**, TEEB Coordinator, provided the concluding remarks.

Pavan Sukhdev – TEEB Study Leader

Pavan Sukhdev stressed that the aim of TEEB is to make the value of nature more visible. The public goods and services that ecosystems provide appear to be free; however, there is an underlying cost to human well being and business. There is a cost associated with biodiversity and ecosystem service loss to both the business and the financial sectors. In addition to a real cost, businesses and financial institutions are also becoming more and more aware of reputational risks.

There are a number of different forms of risk that are considered in banking:

- Market – volatility not really affected by loss of natural capital;
- Credit – major issue due to exposure to companies through equity holding, risk coverage and reputational risk for banks due to financing projects exposed to reputational risk (mention of Equator Principles);
- Liquidity – not an issue;
- Operational risk – significant however Pavan notes the financial opportunity that presents itself by helping businesses cover their risks;
- Actuarial

There are large investment and business opportunities related to Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD+). REDD+ still faces some disclosure, monitoring and reporting issues yet already many REDD+ countries are moving into the implementation phase.

TEEB for Business emphasizes:

- the need for improved disclosure on human and environmental externalities;
- the creation of virtuous competition as companies seek to differentiate themselves;
- a clear trend: growing demand for “green” products, services and investment.

We must not forget that nature provides for business.

Sagarika Chatterjee – F&C Management

Investor Perspective

Sagarika Chatterjee began by stating four key challenges for investors:

- Short-term interests repeatedly outweigh long-term sustainability concerns;
- Language used is difficult/hard to integrate and is very context specific. Often issues are very site-specific;
- Solutions require government action and are often beyond the scope of a businesses control/responsibility. Businesses are un-willing to undermine their competitive position by being the first mover;
- Lack of legal basis for claiming damages, hard to value nature accurately, lack of consensus on indicators as many are still under development.

TEEB for Business provides a compelling case for government and business action. The need for flexible and SMART policy was acknowledged. There is an expectation for more stringent policy in the future (e.g. trade ban on illegal timber imports to the EU, moratorium on forest conversion by India).

Sagarika provided a few key examples of companies who have incorporated BES and ESG into their operations as well as key initiatives and publications (please refer to Sagarika Chaterjee’s PPT presentation for further details).

The 7 steps for business from the TEEB for Business executive summary were referred to.

Box 1: Key action points for business

1. Identify the impacts and dependencies of your business on biodiversity and ecosystem services (BES)
2. Assess the business risks and opportunities associated with these impacts and dependencies
3. Develop BES information systems, set SMART targets, measure and value performance, and report your results
4. Take action to avoid, minimize and mitigate BES risks, including in-kind compensation (‘offsets’) where appropriate
5. Grasp emerging BES business opportunities, such as cost-efficiencies, new products and new markets
6. Integrate business strategy and actions on BES with wider corporate social responsibility initiatives
7. Engage with business peers and stakeholders in government, NGOs and civil society to improve BES guidance and policy

Richard Burrett – UNEP FI Co-Chair, Earth Capital Partners Bankers Perspective

Richard Burrett stated that natural value gets bypassed in current markets which he referred to as a blind spot for systemic risk. It is important to understand both the emergent risks and opportunities in this field. What we currently see is small boutique investments in these emerging new markets and what we need is a more mainstream approach. We need a fundamental shift in the way we think in order to operationalize TEEB. We need a more holistic and integrated approach including integrated financial and sustainability reporting. The key questions we should be asking are:

- How to operationalize TEEB?
- What investment frameworks are needed to get mainstream capital flowing?
- What are the immediate priorities? REDD+? Water? Agriculture?
- Who needs to be involved?
- What will risk and return look like?

We must all think about how to answer these questions and be highly involved in the transition.

Q&A

? **Hazel Henderson:** How to prevent speculation towards TEEB related investments? How to direct investment? (referred to Paul Woolley's study (LSE) 10 points to redirect portfolios (referred to the LSE Report/Book **The Future of Finance** at <http://www.futureoffinance.org.uk/> as well as the principal-agent problem between investors and portfolio managers).

Answer: Pavan Sukhdev: Had not heard of the report but will definitely look into it. TEEB adopts a holistic approach to valuation which does not always call for monetary/market based input. Referred to Kampala wetlands case and similar in India. Markets tend to be good at some things and bad at others. We cannot force markets onto the environment but we can create mechanisms based on good economics. TEEB is not a reductionist approach, not a free-market fanaticism.

Answer: Richard Burrett: Solutions will be found in various ways/places but need to ensure that markets "price in" natural capital and that they are regulated effectively. Can introduce safeguards for environmental markets, building on experience in other markets.

? **Franz Knecht:** Biodiversity is a system risk. The finance sector is not ready to discuss this however we must tackle it from a risk perspective.

Answer: Richard Burrett: The history of financial services understanding systemic risk is not good. BES risks are real and material and will eventually translate beyond reputation.

? **Pavan Sukhdev:** How to get long-term performance reflected in incentives for investment managers?

Answer: Sagarika Chatterjee: Challenge is to change expectations/requirements of asset owners.

? **Alexis:** How to get a better handle on actuarial risk?

Answer: Pavan Sukhdev: We need more scientific research, by academia and also by insurance companies themselves. Note: potential new products (warranties, bonds, insurance products).

Some other interesting questions were discussed.
Please refer to audio recording for more detailed information.

Conclusions

This webinar served as an overview of TEEB for Business. UNEP FI and UN PRI plan to publish a report tailored TEEB for Business for the financial sector. This report aims to be a concise data rich publication with tangible tools and guidance for the finance sector.

Thank you for your participation and input.
Any additional comments or information can be sent to jessica.boucher@unep.org.