Leading Financial Institutions Support the Launch and Implementation of the Natural Capital Declaration’s Programme to Advance Environmental Risk Management in the Financial Sector

Banorte, National Australia Bank, Pax World, UniCredit and the World Bank Group (other Financial Institutions to join) and SECO are supporting NCD in its program to develop approaches to monitor natural capital risks in portfolios

News Release: 24 November 2015 Bern, Edinburgh, Geneva, Oxford: The Natural Capital Declaration (NCD), the global finance-led initiative convened by the Global Canopy Programme (GCP) and the UN Environment Programme Finance Initiative (UNEP FI) announces today at the World Forum on Natural Capital the launch of its environmental risk management work programme to develop methodologies and tools to map natural capital risks across lending and investment portfolios and to help embed them in credit risk assessments.

The NCD’s ‘Advancing Environmental Risk Management’ project will commence from November 2015 and be completed over 2.5 years. The project aims to help catalyse sustainable investments and lending globally by reducing risks from environmental and natural resource pressures. The project will support the development of global methodologies to quantify risk and a have a focus on emerging markets such as South Africa, Indonesia, Colombia and Peru. In order to achieve these goals the project has received significant support from the Swiss State Secretariat for Economic Affairs (SECO) with a commitment of CHF 4.2 million (US$ 4.3 million). SECO is already supporting the Natural Capital Agenda at government level through WAVES and at the company level through the Natural Capital Accounting Project.

Eric Usher, Acting Head of UNEP FI and NCD Co-Director, states “As a result of this project, Financial Institutions will be able to quantify and incorporate natural capital risks into lending and investment decisions signalling a significant breakthrough in risk management practices. This work will also be critical in helping to underpin the
international momentum seen with the launch of the Sustainable Development Goals and the upcoming UNFCCC Climate Change negotiations (COP 21) taking place in Paris next week.”

The Advancing Environmental Risk Management project will utilise the collective expertise of the NCD’s 40+ financial signatories, as well as supporting organisations to develop evidence-based approaches, customised for different asset classes e.g. equities, fixed income, corporate finance etc. to more systematically evaluate risks from impacts and dependencies on natural capital. Stronger environmental risk management in the financial sector aims to increase resilience of the sector as a whole and support the transition to a greener economy.

Several leading financial institutions including; Banorte, National Australia Bank, Pax World, UniCredit and the World Bank Group have agreed to actively participate in or act as advisors to this project. NCD welcomes the participation of further banks, fund managers, asset owners and insurance companies who would like to participate in this ground breaking initiative.

“Quantifying natural resource and environmental risk factors can provide the financial sector with an opportunity to make a significant breakthrough in risk management practices. We are excited to be part of this project to develop the much-needed approaches, tools and knowledge for the financial sector to integrate natural capital risks into financial products and services as part of accelerating the transition towards a greener economy.” Julie Gorte, Senior Vice President Sustainable Investing, Pax World.

As a first step in this project the NCD has launched a report that charts the pathway towards mapping and integrating natural capital risk factors in the financial sector. This report entitled ‘Towards Integrating Natural Resource Risks in Cost of Capital, State of play and the way forward’ analyses responses from 36 financial institutions on their current approaches to natural capital risk management sheds light on the business case for the financial sector to integrate natural capital issues in investment and credit risk assessment, and evaluates the current capabilities of 26 research entities to provide relevant natural capital data and modelling capabilities suited for the financial sector.

The main findings from the report include:
Almost half of the financial institutions see natural capital as very or extremely relevant to their core business strategy and/or portfolio risk management (a further one-third say it is moderately relevant).

Over 75% of the financial institutions surveyed said they monitor natural capital risks at a transaction level. The next most popular approach was with regards to natural capital considerations in the due diligence/lending/investment processes at a portfolio level.

Although 42% said they take natural capital factors into account in credit risk assessments, there are no standardised methodologies available and/or in use to enable systematic quantification of these risks. Hence the important role of the NCD in addressing this gap.

More than 80% of respondents think that a project to advance environmental risk management is an important step towards further integrating environmental risk considerations within credit risk assessment and investment processes.

Of the 26 research providers1 assessed, only eight have quantitative capabilities with respect to natural capital risk.

To download a copy of the full report visit http://www.naturalcapitaldeclaration.org/scoping-study-on-risk/

Andrew Mitchell, NCD Co-Director says, “This project aims to catalyse the transition towards a more sustainable financial system. It will link the science surrounding natural resource use and environmental impacts to financial metrics that inform the allocation of vast pools of capital that directly and indirectly support business activities. We hope this will contribute to financial institutions fulfilling their potential to help create a more economic and climate-resilient future for all.”

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For further information or to arrange interviews, please contact:

Natural Capital Declaration

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1 Research providers and consultancies that provide services to the financial sector, which are listed in the study.
Notes to editors

About the Advancing Environmental Risk Management Project
This project will consist of two phases:
1) The development and testing of methodologies for mapping risks associated with natural capital impacts and dependencies across lending and investment portfolios.
2) The development of methodologies and guidance to embed natural capital considerations into credit risk assessments.
Outcomes from the project will include financial institutions having:
1) Greater awareness of the materiality of natural capital risks that they are exposed to in their loans and investments.
2) A deeper understanding of how natural capital performance indicators translate into credit risk.
3) Access to approaches and methodologies to embed natural capital parameters into credit risk, as well as creating risk adjusted premiums and valuations.

About the Natural Capital Declaration (NCD)
The NCD is a global finance-led initiative signed by 43 financial institutions that have committed to integrate natural capital considerations into financial products and services, and to work towards their inclusion in financial accounting, disclosure and reporting. A steering committee of signatories and supporters are overseeing a work programme of pilot projects, supported by a secretariat formed of the UNEP Finance Initiative and the Global Canopy Programme (GCP). The NCD is developing a range of tools and methodologies to strengthen management and monitoring of natural resource and environment-related risks and opportunities. For more information visit www.naturalcapitaldeclaration.org

About the United Nations Environment Programme Finance Initiative (UNEP FI)
UNEP FI is a unique partnership between UNEP and a global network of over 200 banks, insurers and investors from 51 countries. UNEP FI aims at creating an enabling environment for financial institutions to embed sustainable development policies into their operations, and its mission is to mainstream the integration of sustainability across the finance sector. It provides a neutral space to convene stakeholders and acts as a platform at the intersection between finance, science and policy. Visit www.unepfi.org
About the Global Canopy Programme
The Global Canopy Programme (GCP) is a tropical forest think-tank and international NGO, working to demonstrate the scientific, political and business case for safeguarding forests as natural capital that underpins water, food, energy, health and climate security for all. www.globalcanopy.org

About the Swiss State Secretariat for Economic Affairs (SECO)
SECO is the federal government’s centre for all core issues relating to economic and labour market policy. As part of this role, SECO’s Economic Cooperation and Development Division aims to support the integration of developing countries and Eastern European transition countries into the world economy. SECO also coordinates the relationships between Switzerland and the Work Bank Group, the economic development banks and the economic organisations of the United Nations. http://www.seco-cooperation.admin.ch/