

Financial sector leadership on natural capital

The Natural Capital Declaration

A commitment by financial institutions
to mainstream natural capital in
financial products and in accounting,
disclosure and reporting frameworks

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Natural
Capital
Declaration

Secretariat:



UNEP **Finance Initiative**
Innovative financing for sustainability



GCP
GLOBAL CANOPY PROGRAMME

The Natural Capital Declaration (NCD) is a finance-led initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.

To achieve this the NCD will develop new metrics and tools, and support the development of accounting, disclosure and reporting frameworks that incorporate natural capital factors.

Signed by CEOs, it is the cumulative result of in-depth consultations with the finance community and other stakeholders to understand the materiality of natural capital for banks, investors and insurance firms.

About the Natural Capital Declaration

During the first Rio Earth Summit in 1992, governments set a ground-breaking agenda for tackling environmental problems, setting up new conventions on biodiversity (CBD), climate change (UNFCCC) and desertification (UNCCD).

But at the recent Rio+20 Summit two decades later, it was private sector leaders that came to the fore, responding to the material impacts that widespread ecosystem degradation creates for their businesses and the economy as a whole.

Among them were a growing number of financial institutions who recognised that the increasing pressures of population growth and climate change on our limited natural resource base and rising commodity prices and require a radically new approach.

Their response is the *Natural Capital Declaration* (NCD), a commitment from banks, investors and insurance firms to change their business models to reflect the materiality of natural capital for the financial sector.

Phase I of the NCD focused on building momentum around this topic, and was successfully concluded with the official launch of the Declaration at 'Rio+20'. Now, in Phase II (called the 'NCD Roadmap'), signatory financial institutions are setting about implementing its commitments.

To help achieve this, a secretariat has been formed by UNEP FI and the Global Canopy Programme, a Steering Committee of signatories and supporters is being convened, and four working groups have been established. Each working group will tackle one of the critical challenges to incorporating natural capital considerations in the finance industry.

The NCD Roadmap, which lays out an approach for developing natural capital methodologies for the sector, can be downloaded from our website.

More than 40 CEOs of banks, investors and insurers worldwide have signed the Declaration.

We invite other financial institutions to endorse the NCD and help lead on developing the roadmap to a green economy.

To sign the Declaration, see a full list of signatories or learn more, please visit: www.naturalcapitaldeclaration.org or contact us at: info@naturalcapitaldeclaration.org

The Natural Capital Declaration

The Roadmap to a Green Economy

We the undersigned financial institutions wish to acknowledge and re-affirm the importance of natural capital in maintaining a sustainable global economy. This declaration calls upon the private and public sectors to work together to create the conditions necessary to maintain and enhance natural capital as a critical economic, ecological and social asset. We present this declaration to the world community at Rio+20*, as a private sector finance response to the conference theme of working towards a green economy. This declaration has been developed based on an extensive consultation process with the financial community over the course of 2010 and 2011, including meetings in London, Nagoya, Hong Kong, Munich, Washington D.C. and São Paulo.

The Importance of Natural Capital

Natural capital comprises Earth's natural assets (soil, air, water, flora and fauna), and the ecosystem services resulting from them, which make human life possible. Ecosystem goods and services from natural capital underpin productivity and the global economy. They provide services worth trillions of US dollars per year in equivalent terms and constitute food, fibre, water, health, energy, climate security and other essential services for everyone. Neither these services, nor the stock of natural capital that provides them, are adequately valued in terms comparable to manufactured and financial capital. Despite being fundamental to our wellbeing, their daily use remains almost undetected within our economic system. Using natural capital this way is not sustainable. The private sector, governments, all of us, must understand and account for our use of natural capital and recognise its true value in maintaining economic growth and sustaining human wellbeing today and into the future.

Leadership from the Financial Sector

Financial institutions are an integral part of the economy and society. As the engine of global economic growth, the financial sector can provide some of the tools required to support a transition to sustainable development and eradicating poverty by providing loans, equity, insurance and other financial products and services needed by companies, governments, organizations and individuals that consider social and environmental externalities. Since virtually every economic activity can have an impact on natural capital either directly or indirectly, through a supply chain, financial institutions have considerable indirect ecological footprints through their customers and directly through their purchasing decisions. These impacts can lead to material financial risks, but also to relevant business opportunities.

At present many financial institutions do not sufficiently understand, account for and therefore value, the risks and opportunities related to natural capital in their financial products and services (loans, investments and insurance products) and in their supply chains. Building this knowledge, as well as appropriate valuation and risk management tools, to take natural capital into account within financial decision-making, are important early steps to be undertaken by the financial sector.

As members of the financial sector, we consider ourselves key stakeholders in future discussions about valuing and protecting natural capital and we recognise that we have a key role to play in the reforms needed to create a financial system that reports on and ultimately accounts for the use, maintenance, and restoration of natural capital in the global economy. However, we must do this in consultation with government and supported by appropriate legislation and regulation.

Why Government Action is Essential Now

Because natural capital is a part of the 'global commons' and is treated largely as a free 'good', governments must act to create a framework regulating and incentivizing the private sector – including the financial sector – to operate responsibly regarding its sustainable use. We therefore call upon governments to develop clear, credible, and long-term policy frameworks that support and incentivise organizations – including financial institutions – to value and report on their use of natural capital and thereby work towards internalizing environmental costs. This can be done by:

1. Requiring companies to disclose the nature of their dependence and impact on natural capital through transparent qualitative and quantitative reporting;
2. Using enforceable fiscal measures to discourage business from eroding natural capital, while at the same time offering incentives to companies that integrate, value and account for natural capital in their business model;
3. Endorsing and implementing international agreements, including but not limited to, those agreed through the Convention on Biological Diversity;
4. Setting an example through requiring public spending and procurement to report and eventually account for its use of natural capital;

We welcome the World Bank's Wealth Accounting and Valuation of Ecosystem Services (WAVES) initiative and encourage governments to participate.

Our Commitment at the Rio+20 Earth Summit*

Anticipating that such a framework will emerge, and noting that no methodology yet exists to adequately report or account for natural capital in the global financial system, we the endorsing financial institutions wish to demonstrate leadership by undertaking to collaborate globally through working groups and engagement with our customers, investee companies, suppliers, civil society, and other stakeholders as appropriate to:

1. Build an understanding of the impacts and dependencies of natural capital relevant to our operations, risk profiles, customer portfolios, supply chains and business opportunities;
2. Support the development of methodologies that can integrate natural capital considerations into the decision making process of all financial products and services - including in loans, investments and insurance policies. We recognise that given the diversity of the financial sector, embedding natural capital considerations will differ across asset classes and types of financial institutions. We therefore aim to build on work undertaken through other initiatives, such as the UN-backed Principles for Responsible Investment, the Equator Principles, the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance, and The Economics of Ecosystems and Biodiversity (TEEB), so that we can develop methodologies to:
 - a. Apply a holistic approach to evaluating bonds and equities through the integration of natural capital considerations in environmental, social and governance (ESG) risk analysis in short, medium and long-term growth forecasts of investee companies;

- b. Systematically consider and value natural capital in the credit policies of specific sectors, including commodities, that may have a major impact on natural capital either directly or through the supply chain;
 - c. Systematically consider and value natural capital in core insurance business strategies and operations including risk management, risk underwriting, product and service development, claims management, sales and marketing, and investment management;
3. Work towards building a global consensus for the integration of natural capital into private sector accounting and decision-making; supporting, when appropriate, the related work of the TEEB for Business Coalition, and other stakeholders.
 4. Collaborate, when appropriate, with the International Integrated Reporting Committee and other stakeholders to build a global consensus around the development of Integrated Reporting, which includes natural capital as part of the wider definition of resources and relationships key to an organization's success.

By endorsement of this declaration, we wish to demonstrate our commitment to the eventual integration of natural capital considerations into private sector reporting, accounting and decision-making, with standardization of measurement and disclosure of natural capital use by the private sector.

* The Natural Capital Declaration was launched at the United Nations 'Rio+20' Earth Summit in 2012. Financial institutions continue to endorse it, and can also now engage in the Phase II process of implementing the Declaration's commitments through the "NCD Roadmap".

Benefits for Signatory Financial Institutions

Strengthen credit risk management

Increasing pressure on natural resources over the past decade alone has reversed a 100 year downward trend in resource prices. Declining water quantity and quality, loss of species, and degradation of ecosystems are not only material to project finance, but also to other asset classes such as fixed income, equities, different types of insurance and corporate finance. The Natural Capital Declaration builds understanding of natural capital risks inherent in all relevant asset classes, enabling financial institutions to inform and strengthen their credit risk models.

Lead in this strategic area

Signatories of the Natural Capital Declaration are demonstrating their strategic leadership by working to understand and manage this major emergent form of risk. The work of understanding and defining natural capital challenges for the finance sector will also present first movers in this space with new business insights and opportunities.

Help shape the future of natural capital accounting

Although a number of financial institutions have started to embed environmental, social and governance (ESG) considerations in lending, investment and insurance products, there is still significant progress to be made in order to understand and systematically integrate natural capital considerations into risk management, underwriting and other core business aspects. By engaging with the Natural Capital Declaration, you can quickly engage with the wider communities working in this space and help shape the outcome.

Receive support and guidance

Support and guidance on implementing the NCD commitments is available to signatory institutions. This includes access to UNEP FI and UN system expertise and resources on ESG, policymaking and science.

A business plan for the NCD, highlighting how the project will embark on a three year programme, is available exclusively to NCD signatories.

No new disclosure required

The Natural Capital Declaration complements existing initiatives such as the Principles for Responsible Investment and the Principles for Sustainable Insurance by contextualising how ESG factors can be systematically embedded in business principles, strategies and operations in the context of the growing natural capital agenda worldwide. The Natural Capital Declaration does not require signatories to report or disclose additional information.

Caisse des Dépôts, France

“We won’t achieve a sustainable development nor a stable global economy without biodiversity preservation and promotion. Caisse des Dépôts, a first rank financial investor, has placed biodiversity as one of her criteria for investment strategies.”

Antoine Gosset-Grainville
CEO, Caisse des Dépôts

Rabobank

“The Earth’s resources are the basis for our economy, our food supply and our wellbeing. We therefore have to guard nature and act according to its rules. We are stewards: for ourselves, for our economy, for food security, for nature itself and for the generations to come. This thinking should be the core of business: working in full cooperation with nature!”

Piet W. Moerland,
CEO, Rabobank Netherlands

Infraprev, Brazil

“We live in a world where information has a key role in the decision making process of investors, government and society. By joining this important UN initiative, Infraprev reaffirms its commitment to the environment and to people, striving to encourage other Brazilian institutions to engage in the reporting of their current use of natural resources. The issue of sustainability is increasingly important for Infraprev and it is part of our corporate strategy. Infraprev is already a signatory of the Principles for Responsible

Investment (UN-PRI) and coordinates the engagement group of new PRI signatories in Brazil. We are also part of the CDP (Carbon Disclosure Project) technical committee for Latin America: we have been offsetting our greenhouse gas emissions since 2008, thus being the first Brazilian pension fund to become carbon neutral. The key is to effectively carry out actions that contribute to improving life on Earth.”

Carlos Frederico Aires Duque
CEO, Infraprev

Sovereign, New Zealand

“As an insurer we routinely sell policies that we expect to be on our books for 50 years – in fact the longest paying policy on our book is 92 years old. Delivering on our promise that we will be around and in good shape to meet our obligations in 50 years time is essentially how we define our sustainability challenge. It is clear to us that economic and social wealth is inextricably linked to the natural resource base and that to ensure a sustainable future our shared natural resource base must remain healthy and viable. Sovereign is committed to understanding the impact that our investments have on natural capital and to make this visible to all of our stakeholders. We are therefore, very proud to support the Natural Capital Declaration as a global initiative to measure, disclose and take action to value natural resources as an extension of capital and look forward to working with others to realise this ambition.”

Charles Anderson
CEO, Sovereign



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