

FS in Focus: COP28 - What financial institutions need to know and do

Alex Gurr: Hi, everyone, and welcome back to the latest edition of FS In Focus. We're rapidly approaching COP28 and the climate negotiations that are going to be happening in Dubai, which have consequences for governments, organisations and the financial institutions that support them.

To understand more, I'm delighted to be joined by Emily and Simon, part of the Baringa Climate and Sustainability team and also part of the delegation that are going to be out in Dubai meeting with clients.

Simon, Emily, it's great to have you here.

Emily, COP28 is clearly really important in terms of the first global stocktake against the Paris commitments and our progress towards that, which we know has been slower than hoped for. What do the delays in achieving net zero mean for financial institutions?

Emily Farrimond: So Baringa's base case analysis tells us that we're on track for 2.2 degrees of global warming versus the 1.5 degrees Paris aligned goal. So for our financial services clients, that presents a large problem given they're a reflection of the real economy.

So we're seeing them start to do a number of new things, which is really focus on how they can actively drive real world decarbonisation. They're also facing into the realities of that gap and thinking about adaptation and what they need to do there, and also the justness of the transition, given the implications created by that gap. Equally, they're continuing with the things they were previously doing around continuing to set targets, working hard to gather greater levels of transparent data, and then meeting any requirements that they have around regulatory reporting.

Alex Gurr: So Emily we are now seeing clients acknowledge that they are not aligned to the 1.5 degrees Paris scenario.

Emily Farrimond: Yes, in financial services we are seeing clients acknowledge that and start to focus on how they can influence moving towards that 1.5 degrees scenario.

Alex Gurr: Simon, what are the key priorities that we're seeing clients take to COP28?

Simon Connell: Thank you Alex, it's a great question. So firstly, they need action and ambition from governments to put us back on track for a net zero world. Within their own control, they've then got three things.

The first is, as Emily said, they need to understand which of the clients in their portfolio are transitioning and things like the work of the Transition Plan Taskforce, which we advised are critical in enabling that access to information that financial institutions need for decision making.

The second is in light of greenwashing and concerns there, the definition of transition itself remains very ambiguous and governments in the form of things like the UK's Green Taxonomy Advisory Group are kicking the can down the road. It's going to be a while before we see official sector guidance and definition. So things like the Glasgow Financial Alliance for Net Zero are stepping in there. So defining what transition finance is so that we can mobilise capital to that.

And then the third is getting into the detail of things like nature based solutions, carbon markets. We've seen some credibility concerns there. so need to reform that to help fix the compliance carbon markets and set the blueprint for the voluntary carbon markets so that they can play their role in channelling capital towards net zero.

Alex Gurr: Emily, Simon mentioned disclosures there. To what extent is regulation driving financial institutions action on climate?

Emily Farrimond: So to a lesser extent than you might expect. So we in the UK have mandatory requirements around TCFD reporting and in the US we've seen the Treasury mandate net zero principles.

However, largely most of the regulation is around the requirement to disclose. So if we think about TCFD building out through ISSB standards, We have CSRD across Europe and those requirements coming into force in 2024. Back to the UK, TPT, Simon mentioned that earlier and we're delighted to have been involved with that as well.

But I think the most important thing around all of these disclosures is credibility. So we did a recent survey around sustainability linked lending in the market, and we found that only 50% of those loans had credible transition plans underpinning them.

Alex Gurr: Only 50%?

Emily Farrimond: Yes only 50%

Alex Gurr: Incredible. Simon, with so many competing priorities, the C-suites of our clients are having to deal with, does climate still deserve a place at the very top of that agenda?

Simon Connell: Thank you, Alex, very much so. So if we look at things like the World Economic Forum and their risks report, in the shorter term, we see the focus on the social risks, societal fragmentation, cost of living crisis. But as we move to the longer term ten year view, it's very clearly dominated by climate, nature and weather risks. And so our clients need to be taking action now to position themselves for that and to protect their organisations. If we think about this, many of the C-suite will have been involved in system replatformings. It's a little bit like that. The longer you put it off, the more painful it will be, the more effort it will take. So I think early action at this point.

The other point I'd make is that I see it very much as an "and" rather than an "or" in incorporating climate in plans. We're seeing some of our most advanced clients use artificial intelligence to help manage climate risks and identify opportunities in their portfolios. So it's about thinking about how climate comes into everything else you're doing within the organisation, rather than putting it to one side as a separate programme of work.

Alex Gurr: I love that analogy of replatforming the economy with climate in mind. That's really stuck with me, thank you.

It's clearly a really fast moving landscape at the moment and I'd be intrigued, what advice would you both give to business leaders as they head into 2024?

Emily Farrimond: So there is three key areas of focus really driving real world decarbonisation. Secondly, starting to think about adaptation and how your business needs to adapt to a changing environment. And then finally, really building those just transition considerations into decision making.

Simon Connell: I'd agree with Emily, and I think it's about bringing those all into a multi-year programme of work, budget and change initiative within your organisation. It's quite easy with the changing thematics around climate to bolt one thing on top of another. But if you have a clear view of where you want to get to and the resources necessary, which again brings us back to the work of the Transition Plan Taskforce, you'll be in a much better position because you won't be constantly changing direction.

Alex Gurr: That's brilliant. Thank you both Simon and Emily. It's clearly a very complex issue with lots of moving parts. My key takeaways from this conversation being that government clearly has a role to play in driving the regulatory landscape for financial institutions. But financial institutions have a huge amount of work to do themselves to set that long term sustainable roadmap for change. And the action needs to start here and now. And that business leaders, our C-suite clients, have a role to play in setting that agenda today. Well, that's all we have time for today.

Thank you very much indeed for watching, and keep an eye out for next month's FS in Focus.