Natural capital takes the lead in the sustainability stakes

Television viewers round the world have been wowed by the BBC's latest nature epic, "*Wild Isles*," from veteran documentary maker Sir David Attenborough. It celebrates the beauty and vigour of Britain's natural capital, as the financial world would label it – the land, the seas and lakes and rivers, and everything on and in them. But Sir David, a still-robust 97 years old, laces every programme with a warning that Britain (and much of the rest of the world) is losing that natural capital – the biodiversity on which so much depends – at an all-time record rate.

That focus on the world of nature, going beyond the climate challenge on which so much attention is focused, has become the leading-edge issue in the first half of 2023, eclipsing "ESG" – the world of environmental, social and governance factors, which has become muddied in concerns about measurement, reporting, and political dilemmas.

Finance has begun to tackle the climate crisis but until very recently had completely overlooked the crisis in nature. The United Nation's COP15 in Montreal in December 2022, part of the United Nations series on biodiversity and long the poor cousin of the much glitzier climate COPs series – of which the latest, COP 28, will be held in dazzling Dubai late this year – finally moved natural capital to its rightful place high up the financial agenda.

The Task Force on Nature-related Financial Disclosures (TNFD) has made much progress on this front. The project, science-based and market-led, will enable companies and financial institutions to integrate nature into decision-making, on the fundamental premise that while nature poses a major risk to businesses, nature-positive investments offer great opportunity. It is led by David Craig, formerly a senior officer with London Stock Exchange Group (and the founder and CEO of Refinitiv, bought by the exchange four years ago in a $27 billion deal), and Elizabeth Maruma Mrema, Assistant Secretary-General at the United Nations.

Its framework provides a model that businesses and financial institutions can use to manage risks and to disclose information about those nature-related risks and opportunities. Having critical information on risks paves the way for institutions to set science-based targets to reduce their impacts on nature. TNFD is finessing its plans based on ongoing feedback from market participants and insights from pilot testing, until the first version of its framework launches in September 2023.

A short film from the producers of the BBC series – "*Banking on a wilder tomorrow,*" available on our CISI website - has helped open the financial sector's eyes, in Britain and beyond, to the twin crises of climate change and the threats to nature. It demonstrates clearly how these crises are intricately connected and pose significant threats – and great opportunities – for finance and for the world more generally.

Science-based targets for nature matter because unless there are credible and ambitious targets that business and finance can be judged against, there may not be fast enough progress. Dame Sharon White, Chairman of John Lewis Partnership, a major British shop chain, points out in the film that "science-based targets for nature matter, because unless we set credible, ambitious targets that we can be judged against, we think that we won't make fast enough progress, and so we've set some incredibly ambitious targets for how we as a retailer, both encourage greater biodiversity but also be really thoughtful about how we protect nature in our supply chains."

Dr Steve Waygood, Chief Responsible Investment Officer at Aviva Investors, one of Europe's biggest, says that "roughly 400 trillion of capital is out there in the global financial system. We know that is many times what is needed to solve the climate crisis, the nature crisis, simultaneously. We need to invest at least 11 trillion dollars in nature, between now and 2050, to have any hope of limiting warming to 1.5 degrees."

Emily McKenzie, Technical Director of TNFD, offers peatlands as "an example of nature as a form of capital. They are one of the biggest sinks of carbon on the land and yet once they deteriorate, they can become emitters of carbon rather than sequestering it."

Building capacity and capability in sustainable finance

The skills and knowledge requirements to tackle these vital issues are ever-changing, and we, with our colleagues in the Chartered Body Alliance – the Chartered Banker Institute and the Chartered Insurance Institute – commissioned research by PwC into the gaps and future needs. This was done on behalf of the Sustainable Finance Education Charter group, which comprises 14 major professional bodies, with more than a million members between us, with support from UK government. Our mantra here comes from Dr Mark Carney, former Governor of the Bank of England and United Nations special envoy for climate action and finance. As he prepared his "path to COP26," the 2021 climate summit in Glasgow when Britain was President (with Italy) of the climate COP series, and on which he was advisor to the UK Prime Minister, he declared that "in future, every professional financial decision must be made with climate in mind." To that, he would almost certainly now add nature.

The findings gave cause for concern, which all of the Charter bodies are urgently addressing. The majority of respondents to the survey did not consider their organisations to be "highly prepared" for future requirements in green and sustainable finance. Although the majority (55%) had engaged in training in this area, only 8% believed their organisation is highly prepared for future knowledge and skills requirements in this area.

This is a worry, given the UK's net zero ambitions and the sustainability commitments and strategies of many financial services employers. Firms must be able to respond quickly to the rapidly evolving sustainability landscape to help clients and customers manage sustainability risks, and take advantage of opportunities offered by the transition.

Added to that, the majority of respondents are not investing in training employees in sustainable finance to support the organisation's sustainability strategy. The survey identified that 65% of organisations allocate 0-10% of their training budget to green and sustainable finance suggesting that the focus of organisations is not to upskill employees in the topic.

There is also an indication that budgets currently allocated to green and sustainable training are mainly targeted at only a small group of individuals. The survey identified that 34% of respondents prioritise training the Board, Senior Executives and key management personnel. Findings in the UK Financial Conduct Authority's "*Finance for positive sustainable change*" discussion paper earlier this year suggest that board members are not typically experts in this area, and hence there is a need to gain an understanding of the issues by seeking guidance from others with the relevant skills and expertise.

Organisations need to review their investment in board-level training in order to assess if it is an efficient use of the budget and prioritise those groups of employees that can leverage the skills to capture opportunities in green and sustainable finance.

Our conclusions? To support the UK's net zero and international competitiveness ambitions, and maintain the UK's position as a global sustainable finance hub, employers and others (including the UK government, professional bodies and training providers) need to significantly scale-up the priority given to building capacity and capabilities, backed by increased investment in relevant education and training.

1. Organisations should increase and prioritise investment in sustainable finance skills and knowledge.
2. Training programmes should build on the current knowledge of the workforce within the financial services sectors to address the skills gap and allow application of theoretical knowledge in practice.
3. Organisations should implement a formal training plan for sustainable finance including an assessment of current knowledge and skills gaps. While specific knowledge and skills requirements will vary between professions, across roles and overtime, a common core of knowledge for all professionals has already emerged.
4. Training providers should consider the fluidity of their training programmes to address the evolving nature of sustainable finance.
5. Current public programmes such as the apprenticeship levy in the UK should be used by organisations as an opportunity to upskill their workforce in this space.

Tracy Vegro OBE is CEO of the Chartered Institute for Securities & Investment and Chair of the Chartered Body Alliance.