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ISSUE 28 MARCH 2019

ECO:FACT QUARTERLY

The briefing for E&S risk experts

The ECOFACT Quarterly is a briefing on environmental and social risks relevant for the financial sector. This sample report includes the editorial, excerpts from three tables, and a limited selection of 13 news items from the 39 items featured in the full report. For information on subscribing to the ECOFACT Quarterly, go to the **last page.**

Editorial

Are Insurance Brokers' Exposing Themselves to Risk?

Insurers have a key role to play in tackling sustainability challenges. In an **article** written for the blog of the MIT Sloan Management Review a few years ago, we explained why this role might be even more important than that of the banks.

At the international PSI[1]-Allianz event held in Munich in late February, senior insurance managers confirmed that they were eager to address sustainability challenges across a variety of issues, ranging from excluding coal[2] and tobacco[3] companies from underwriting and investments to protecting World Heritage sites[4]. Even regulators – from both national and supranational authorities – stated that it was time for insurers to take sustainability challenges seriously[5].

However, talking to E&S risk experts working at insurers, it becomes clear that implementation is still lagging behind. Why? Insurers[6] almost always point to brokers, who are important intermediaries in the insurance market. They connect their clients to insurers, who then underwrite the clients' risks. Insurers claim that brokers make it difficult for them to discuss E&S risks with clients, and that brokers often connect clients from controversial sectors with insurers who do not assess E&S risks.

In Munich, broker industry representatives seemed to adopt a defensive stance. One representative of a major broker firm was eager to point out that brokers were concerned that they would lose clients if they addressed E&S risks. He stated that brokers simply advise clients, and compared their role to consulting companies such as McKinsey. This confirmed the assumption that brokers are hesitant, if not reluctant, to make a constructive effort to mitigate E&S risks.

Looking at the regulatory expectations raised by soft law, it is clear that brokers have the same responsibilities as any other company. They are expected to conduct due diligence to respect human rights[7] and to ensure responsible business conduct[8]. In this context, omission is usually seen as action. Such omission is sometimes interpreted as a deliberate decision to prioritize revenues over political, scientific or societal concerns, or – in other words – a failure to mitigate the "adverse impacts" to which brokers are linked via their business relationships.

As long ago as 2014, in an **article** for the blog of the MIT Sloan Management Review, we explored whether companies or their managers could become vulnerable to claims for losses attributed to climate change. Our point of departure was the assumption that "at some point, affected parties will claim damages […], especially if insurance is unavailable or unaffordable." We then asked who could be targeted by such legal action. Plaintiffs may argue that brokers have knowingly undermined the attempts of insurers and their supervisors to support climate policy objectives. In our opinion, brokers, particularly the larger ones, should assess whether they could face such claims in the future. However, regardless of their findings, they should take the existing normative expectations into account and address E&S risks with their clients.

Olivier Jaeggi and Gabriel Webber Ziero

References:

1. The UNEP FI Principles for Sustainable Insurance (PSI): https://www.unepfi.org/psi/
2. For example, see the FT article "Insurers go cold on coal industry": https://on.ft.com/2FcvPiX
3. The Tobacco-Free Finance Pledge that now has over 140 signatories and supporters. See here (https://tobaccofreeportfolios.org/) and here (https://www.unepfi.org/psi/tobacco-free-finance/)
4. The insurance industry's commitment to protect World Heritage Sites: https://www.unepfi.org/psi/world-heritage/
5. For example, see "EIOPA seeks evidence on integration of sustainability risks in Solvency": https://eiopa.europa.eu/Pages/News/eiopa-seeks-evidence-on-integration-of-sustainability-risks-in-solvency-ii.aspx
6. For other reasons, see our article mentioned above: https://sloanreview.mit.edu/article/the-insurance-industrys-renewed-commitment-to-sustainability/
7. For example, see the UN Guiding Principles for Business and Human Rights (note that the climate change discussion is strongly linked to the human rights agenda): https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf
8. For example, see the corresponding guidance from the OECD: http://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm

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Risk factor

Five African countries set fuel import standards

With support from UNEP, Nigeria, Benin, Togo, Ghana, and the Ivory Coast have moved to ban the import of fuel with sulphur content exceeding 50 parts per million (ppm). The permitted levels of sulphur in imported diesel will fall 3,000 ppm in some of the countries. Although technically legal, cheap 'dirty fuel' has been shipped from Dutch ports that would be prohibited for use in the EU – the maximum level in Europe has been 10 ppm since 2009. Diesel emission standards will assist African countries to address air pollution and the health and safety of the population and environment. The initiative also involves upgrading existing national refineries to produce fuel to these standards by 2020. December 6, 2016.

Read more (1) → Read more (2) →

Risk factor

Report ordered by US Congress finds fracking contaminates drinking water

The US Environmental Protection Agency (EPA) has released the final version of the report: "Hydraulic Fracturing for Oil and Gas: Impacts from the Hydraulic Fracturing Water Cycle on Drinking Water Resources". The EPA has found that when certain geological conditions are coupled with certain management practices, groundwater resources can become contaminated with the oil and gas extraction chemicals. This includes during the injection, discharge, storage, and clean-up of fracking fluids. Despite being able to identify factors that contribute to frequency or severity of impacts to water, the EPA cites data gaps and uncertainties in preventing the ability to "calculate or estimate the national frequency of impacts". December 13, 2016.

Read more → The study →

Risk factor

Subsidies for fossil fuel production should be removed to help reduce climate change

The working paper "Zombie Energy: Climate benefits of ending subsidies to fossil fuel production" discusses how fossil fuels deposits would no longer be profitable if the subsidies were removed. The International Institute for Sustainable Development has used new modelling to include the estimated amount of coal, oil and gas that would become uneconomical to produce with the removal of the subsidies – along with the greenhouse gas emission reductions it would lead to. February 14, 2017.

Why we think it matters: In May 2016, the G7 nations set a deadline for ending most fossil fuel subsidies, stating that support for coal, oil, and gas should end by 2025. However, investors and insurers have called on the G20 countries to phase out fossil fuel subsidies as early as 2020, with aims to reduce climate risk and accelerate investment in green alternatives.

Read more → The report →

Regulation

US making moves to weaken legislation on conflict minerals…

On January 31, 2017, Michael Piwowar – the US Securities and Exchange Commission Chair – issued a statement explaining that he has directed his department to reconsider compliance and if "additional relief" from requirements is needed for companies. This is in light of ongoing litigation concerning the Conflict Minerals Rule's violation of the First Amendment. Piwowar's suggestion that the Rule "undermines US national security interests" could lead to legal justification for a two-year halt to and/or a full repeal of the Conflict Minerals Rule – a disclosure rule set in the 2010 Dodd-Frank law. This stipulates that manufacturers must reveal to investors if minerals used in their products were sourced from the Democratic Republic of Congo. January 31, 2017.

Read more (1) → Read more (2) → Read more (3) → Read more (4) → Read more (5) →

… while the EU establishes due diligence requirements

Alongside this, the EU has agreed to legislation that by 2021 importers of tin, tungsten, tantalum, gold and their ores must conduct due diligence investigations on their supply chain – including smelters and refiners. The move is intended to prevent the mineral trade from financing armed conflict. Human rights groups have commented that by excluding the import of finished products containing the minerals – as well as providing exemptions for many companies – the agreement is "half-hearted" and neglectful of other minerals of concern (such as cobalt). February 3, 2016.

Why we think it matters: Many US-based companies have announced they will continue to apply due diligence on conflict minerals, also stating that they will consult the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Read more (1) → Read more (2) →

Risk factor

Child labor and impoverished farmers are widespread in Madagascar's vanilla industry

A recent report has shown that retailers and exporters are exploiting already poor Madagascar farmers and ignoring child labor. Danwatch, a research and media center, has found these businesses are also profiting from the USD 192 million trade in Madagascan vanilla – about 80% of the spice sold on the global market is from Madagascar. The executive director of Danwatch says the investigation highlighted that there is not sufficient traceability and transparency in supply chains. He said: "Several of the importers and retailers [we] have spoken with are not able to say which specific farms their vanilla comes from, and whether there is vanilla in their supply chain that has been produced by children". December 8, 2016.

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International standards

Updates on cross-sector environmental and social standards which might be relevant as a benchmark for risk assessments. Scope: key developments related to the most important international environmental and social standards.

→ PRI announces mandatory climate-related financial disclosure in 2020

After almost 500 investors with a total of USD 42 trillion in global investment holdings voluntarily responded to the newly introduced Climate-related Financial Disclosure indicators in 2018, the Principles for Responsible Investment (PRI) association has announced that it will be making it mandatory to report, albeit still voluntary to disclose, the strategy and governance subsection of those indicators as of 2020. Supporting the adoption of the Task Force on Climate-related Financial Disclosures (TCFD)'s recommendations is a high priority for the PRI, as they provide a global framework for translating climate-related information into financial metrics. February 18, 2019.

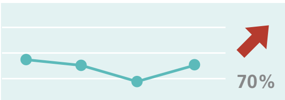
Read more →

Why we think it matters: The TCFD's recommendations have been endorsed by the G20 and financial regulators across the globe. Financial regulators see the recommendations as a key framework to support the financial sector in its contribution to achieving the goals of Paris Agreement, i.e. the transition to a low-carbon economy.

Coming soon:	Expected by:
Equator Principles (EP): Targeted review	Mid-late 2019: Finalization and launch of the EP4
Principles for Responsible Banking	Open for consultation until May 31, 2019

High-risk sectors

Developments relevant to six specific high-risk sectors, such as news on risk factors and trends, the relevant regulations, and best practices. The table below contains an update on controversies, and comments on the corresponding reputational risk for financial institutions.

		Information based on RepRisk data		Analysis based on RepRisk data, combined with insights gained in ECOFACT's consulting practice	
		RepRisk runs the most comprehensive database on environmental, social and governance (ESG) risk. RepRisk systematically collects and analyzes negative incidents, criticism, and controversies about companies and projects worldwide, and offers information on activities related to human rights violations, breaches of labor standards, corruption, environmental damage, and violations of international standards. www.reprisk.com		The grades take into consideration the degree of reputational risk to financial institutions that is associated with investments in the subsectors mentioned. **An "A" indicates that transactions related to this topic present comparably low reputational risk, while an "E" indicates high reputational risks.**	
		Level of controversies # of RepRisk risk incidents per quarter and trend of the last three months[†] MAM JJA SON DJF	**FI exposure** Share of news criticizing banks and / or insurers	**ECOFACT summary**	**ECOFACT risk rating**
Agriculture	Palm oil	 70%	8%	The palm oil sector is the subject of severe criticism owing to issues such as deforestation, threats to endangered species, and poor working conditions. NGOs, and even companies, increasingly deem the Roundtable on Sustainable Palm Oil's (RSPO) current certification scheme to be insufficient. It remains to be seen if recently adopted changes, such as zero-deforestation requirements and a ban on peat removal, will strengthen the framework and increase acceptance by NGOs. FIs involved with palm oil companies perceived as non-compliant with best practices face considerable reputational risks.	D
Oil and gas	Arctic drilling	 150%	40%	Environmentalists maintain that Arctic drilling is too risky for oil and gas development, and local communities are concerned about the impact the practice may have on their livelihoods. The Trump administration has initiated the process of opening the national Arctic wildlife refuge to oil and gas drilling. Increasing numbers of FIs are explicitly excluding involvement in Arctic drilling projects. Any institutions that do not pursue an exclusion policy or are associated with companies engaged in Arctic drilling will be exposed to high reputational risks.	D
Utilities	Coal-fired power	 60%	14%	Coal-fired power remains highly controversial due to its impact on human health and the environment, and particularly to its contribution to climate change. FIs involved in financing coal-fired power plants or associated companies are often targeted by NGOs. Increasing numbers of FIs are distancing themselves from coal-fired power projects and companies.	E

[†]The green / red arrows mean that the number of RepRisk risk incidents has fallen or risen by more than three risk incidents in the last three months, whereas the orange arrow means that the change in the number of RepRisk risk incidents in the last three months has been smaller than three.

High-risk sectors

Oil & Gas | Mining | Forestry | Agriculture | Utilities | Chemicals | Other

Best practice

ICMM aligns membership principles with UN Guiding Principles on Business and Human Rights

The International Council on Mining and Metals (ICMM) announced that the group was instituting new requirements to align its membership with the UN Guiding Principles on Business and Human Rights. It intends to advance the sustainability performance of the sector with this "far-reaching initiative," the largest in the sector's history and supported by all CEO-level company members. Developed with multiple stakeholders, the environmental and social benchmarks will affect the group's combined assets: close to 650 mines in 50 countries and half of the world's iron ore and copper production. An associated document, entitled *Mining with Principles: Performance Expectations*, has been issued to offer further information on the ten principles as they relate to the sector. November 26, 2018.

Read more → Benchmark →

Best practice

New hydropower sustainability guidelines from the IHA

The International Hydropower Association (IHA) has issued the reference document *Hydropower Sustainability Guidelines on Good International Industry Practice,* targeting the needs of consumers, lenders, and regulators. The 26 guidelines define good practice for the hydropower sector in terms of sustainability performance and relevant "environmental, social, technical and governance topics." The guidelines are overseen by the 100-member Hydropower Sustainability Assessment Council, which consists of NGOs and industry and governmental organizations from all over the world, including the IHA. The Hydropower Sustainability Assessment Protocol and ESG Gap Analysis Tool, released earlier in 2018 by the council, is compatible with the project performance assessments in the guidelines. Furthermore, standards from the World Bank, International Finance Corporation, and the Equator Principles have all been incorporated. December 14, 2018.

Read more → Guidelines →

Risk factor

Migrant "slaves" in Irish fishing industries

Migrant fishing workers in Ireland have reported exhausting and hazardous conditions that the Migrants' Rights Group has linked to a modern form of slavery. In sworn statements tabled in a High Court action, tales of widespread exploitation include working weeks of 100 hours and more, and average pay rates of EUR 2.83 an hour. According to worker statements, non-EEA fishermen endure racial and physical abuse, including threats of deportation and unpaid wages if workers complain. They are sent out to sea on sub-standard boats and forced to exceed official quotas. Following such complaints, the International Transport Workers' Federation (ITF) launched legal proceedings against the Irish state over a 2016 work permit scheme that they say allows this level of exploitation to occur. ITF claims that more than a dozen cases of human trafficking currently under investigation have arisen as a result of the scheme. November 22, 2018.

Read more →

Emerging risks

Risks that may become material in the near future or are relevant when looking into a company's business model, but are not yet considered as highly significant risks from a financial institution's reputational risk perspective, or are not related to a high-risk sector.

Climate Change

→ Companies grossly underestimate climate change's impact on business

Climate risks include storms, droughts, wildfires, sea level rises, species extinction, and crop failure, but businesses still do not appear to be taking the threats seriously. A recent study published in the journal *Nature Climate Change* by scientists working with environmental non-profit organizations Conservation Internationals and the Carbon Disclosure Project shows that the corporate world has been massively underestimating the impact of climate change on business. Companies either don't report risk, or if they do report, they grossly underestimate the risks. Assessing 1,630 company disclosures, researchers discovered that the aggregate self-reported corporate climate change risk only adds up to tens of billions of dollars. Most experts counter such claims, estimating the real cost of climate change to business is likely to climb up to USD 2.5–24.2 trillion. This anomaly indicates a major disconnect between perceived and actual risk. December 10, 2018.

Read more (1) → Read more (2) → Read more (3) → The study →

Why we think it matters: Companies' ignorance of climate change is also a risk for investors, who are warned that businesses that are ill-prepared for climate change will be stuck with stranded assets. According to a report by global investment manager Hermes, the financial case for climate action is becoming ever clearer, with growing investor awareness of ESG factors. Firms unable to implement climate change strategies may find their investment backing withdrawn.

Business case

Information that underlines the business case for environmental and social risk management in financial institutions.

➔ Two leading corporate credit rating agencies introduce stringent environmental ratings

S&P Global Ratings and Fitch have introduced systematic Environmental, Social and Governance (ESG) scores. S&P Global has already introduced ESG considerations in its oil, gas and utilities sector ratings reports, and will now re-consider ESG exposure more broadly. Fitch Agency launched its ESG frameworks by making all its scores public, and aims to continue to share the relevance and materiality of ESG issues to individual corporate ratings. These initiatives are described as a "remarkable" turnaround by Carmen Nuzzo, senior consultant with The Principles for Responsible Investment (PRI) advisory committee, which has been working with credit rating agencies since 2016 to ensure that ESG considerations are explicitly signposted in rating reports. Distinguishing between credit ratings and stand-alone ESG scores, PRI recommends that investors set up internal measurement frameworks in line with developing standards and monitor long term risks. February 5, 2019.

Read more (1) ➔ Read more (2) ➔ Read more (3) ➔ Read more (4) ➔ Read more (5) ➔

➔ EU Commission publishes draft rules to ensure that investment and insurance clients consider sustainability concerns

The European Commission (EC) has issued draft rules on how investment firms and insurance distributors should account for environmental, social and governmental (ESG) considerations and sustainability issues when advising their clients. First initiated in May 2018, this is the next step in the Commission's Sustainable Finance Action Plan. Once disclosure provisions on sustainable investments and EU-wide definitions for ESG considerations have been agreed, these rules can enter into force. The Sustainable Finance Action Plan is part of a broader Capital Markets Union (CMU) initiative to green European finance, driving efforts to implement the Paris Agreement and the EU's agenda for sustainable development. Furthermore, EU Finance ministers have endorsed three sustainability measures agreed by the EU's Economic and Financial Affairs Council. These include a report by the European Banking Authority on potential brown and green factors for banks' capital, and on the inclusion of Environmental, Social and Governance (ESG) risks in finance regulators' reports. There is also a plan to make bank disclosure on ESG risks mandatory over three years, which policymakers argue is essential for lowering default risk, protecting assets, and identifying long-term risks to EU banks. January 11, 2019.

Read more (1) ➔ Read more (2) ➔ Read more (3) ➔ Read more (4) ➔ Read more (5) ➔ Read more (6) ➔

➔ ECOFACT Policy Outlook users can find additional information here, here, and here.

Policy Outlook, a monitoring and implementation package, covers regulatory change pertaining to ESG and corporate responsibility issues. Click **here** for further information.

Peer approach

New sector and issue policies that financial institutions have recently adopted. The table below gives an overview of the number of sector and issue policies produced by financial institutions.

➔ Five big banks agree to align investments with Paris Agreement commitments

In an open letter, which they call "The Katowice Commitment," BBVA, BNP Paribas, ING, Standard Chartered, and Société Générale announced their collective intention to "measure the climate alignment of our lending portfolio, and to explore ways to progressively steer financial flows through our core lending towards the goals of the Paris Agreement." Between the five of them, their financing assets are valued at more than EUR 2.4 trillion. They identify the key characteristics of their pledge as being co-created, impact-driven, engagement-focused, sector-specific, forward-looking, and science-based. The signatories aim to design financial services that support the transition to a low-carbon economy, and will start the process with carbon-intensive investment areas (e.g. aviation, shipping, road transport). They state that their goal is climate neutrality, and aside from "de-risking," they aim to make a positive impact. December 4, 2018.

Read more ➔ Commitment ➔

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Norway's government pension fund warns that it will ask for climate disclosure information from investee companies

As annual general meeting season approaches, the world's largest sovereign wealth fund has cautioned its 9,000 investee firms that it plans to press for delivery of more comprehensive information on emissions and climate change adaptation, while also expecting reporting to be shown against targets and broken down as far as regional or asset level. The group continues to develop software called Angle, which enables it to make predictions for a company's future success based on a combination of non-financial and earnings data. In 2018, the information gathered by Angle was used to initiate divestment from 30 companies that were deemed unsustainable over the long term. February 7, 2019.

Read more →

Banco Santander updates sustainability policies, commits to ending direct financing of certain coal-related projects

Spain's largest bank, Santander, updated its sustainability policies in November 2018. It has made changes to the activities it designates as "prohibited" and "restricted" – activities for which the bank refuses to offer products or services in any circumstance, and activities subject to additional environmental and social scrutiny, respectively. Among the bank's many new commitments is the prohibition of financing new coal-fired power plants, financing new clients who have coal-fired power plants anywhere in the world, anything related to oil sands in non-designated countries, nuclear plant financing that does not meet specific conditions, any thermal coal project worldwide, and any new client with thermal coal projects anywhere. In addition, the group also updated its policies for the soft commodities and defense sectors. November 2018.

Read more → Energy → Mining / minerals → Soft commodities → Defense →

Sector and issue policies adopted by insurers

(A) indicates the number of insurers among the 9 Systematically Important Insurers which have adopted a policy, guideline, or commitment addressing the corresponding sector or issue for their investments. (B) indicates the number of insurers which have adopted a policy, guideline, or commitment addressing the corresponding sector or issue in underwriting. Only the sectors or issues covered by policies are included in the table.

Sector policies	A	B
Agriculture	2	1
Palm oil	2	1

Issue policies	A	B
Climate change		4
Agricultural commodities	2	1

This table includes the 9 global systemically important insurers (G-SIIs) according to the Financial Stability Board: Aegon N.V., Allianz SE, American International Group, Inc., Aviva plc, Axa S.A., MetLife, Inc., Ping An Insurance (Group) Company of China, Ltd., Prudential Financial, Inc., Prudential plc. Source: **fsb.org**

Sector and issue policies adopted by banks

(C) indicates the number of banks among the 30 Systematically Important Financial Institutions which have adopted a policy, guideline, or commitment addressing the corresponding sector or issue and disclose its content. (D) indicates the number of banks which disclose that they have adopted a policy, guideline, or commitment, but do not disclose the corresponding content.

Sector policies	C	D
Agriculture (general)	8	5
Biofuels	3	2

Issue policies	C	D
Biodiversity	1	3
UNESCO World Heritage Sites	17	1

This table includes the 30 Systematically Important Financial Institutions (SIFIs) according to the Financial Stability Board: Agricultural Bank of China, Bank of America, Bank of China, Bank of New York Mellon, Barclays, BNP Paribas, China Construction Bank, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Groupe Crédit Agricole, HSBC, Industrial and Commercial Bank of China Limited, ING Bank, JP Morgan Chase, Mitsubishi UFJ FG, Mizuho FG, Morgan Stanley, Nordea, Royal Bank of Canada, Royal Bank of Scotland, Santander, Société Générale, Standard Chartered, State Street, Sumitomo Mitsui FG, UBS, Unicredit Group, Wells Fargo. Source: **fsb.org**

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New tools and databases

This section presents new tools and databases that can help to identify or manage environmental and social risks.

→ CRO Forum position paper for insurance sector focuses on climate-change issues

The CRO Forum, a group of multi-national insurance companies interested in advancing risk management practices, has released a position paper targeting industry professionals and other stakeholders. It outlines the implications of climate change for the industry. In *The heat is on: Insurability and Resilience in a Changing Climate – Emerging Risk Initiative*, the group explores the physical and transition risks of a changing climate as well as the need to build resilience into insurance. They discuss the role of insurers and the scale of the challenges that lie ahead. Current efforts have yet to make a measurable difference – emissions are higher than ever. Public opinion needs to be swayed towards a "tipping point" to prompt tougher actions and triple the rate of transition to a low-carbon economy. January 2019.

Read more → Paper →

→ New initiative combines satellite monitoring, data science, and financial services

The Spatial Finance Initiative aims to integrate geospatial data into financial theory and practice. Founded by the Alan Turing Institute, Green Finance Initiative, Satellite Applications Catapult, and the University of Oxford, the group aims to advance geospatial analysis as a core competency of financial analysis. It indicates that there are "very significant implications for information markets, financial products, and risk management" as earth observation and remote sensing are combined with machine learning on an increasingly routine basis. This approach holds great potential for the finance industry to measure environmental degradation due to industrial practices, as well as the impact of climate change. February 1, 2019.

Read more → Iniative →

Why we think it matters: This new initiative is in line with the need to move from "assuming" environmental compliance based on clients' statements to "knowing" about high risk clients' environmental performance on the ground. "Hard data" collected by third parties will enable both financial institutions and regulatory agencies to assess whether statements made by companies are true and to actively monitor their performance.

→ NCFA explains how to conduct rapid natural capital risk assessment

A detailed guide published by the Natural Capital Finance Alliance (NCFA) provides instructions on how to perform quick risk assessment for natural capital. Targeting financial institutions and tested by Columbian, South African, and Peruvian banks, the guide is designed to complement and be used alongside the NCFA's online tool ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure). It also uses data-based drivers to look at sectors and assets to determine "the likelihood of disruption of relevant ecosystem services." Hoping that providing banks with better ways to understand the risks they face from environmental degradation and climate change, NCFA has included case studies on how the finance sector is using ENCORE to figure out their level of dependence on natural resources. January 16, 2019.

Read more (1) → Read more (2) → Guide → Tool →

Why we think it matters: According to a report by PricewaterhouseCoopers (PwC) in collaboration with the Natural Capital Finance Alliance (NCFA), the United Nations Environment Programme (UNEP), and NGO Global Canopy, most financial service providers still fail effectively to assess the financial risks of environmental degradation. While banks have made progress in disclosing risks connected to their businesses, many still fail to assess the sustainability of their entire portfolios. The report argues that natural capital risk analysis will enable financial institutions better to tackle new risk.

About this report

This briefing is tailored to the needs of individuals and teams in charge of assessing and controlling environmental and social risks in corporate banking, investment banking, and commercial insurance. It aims to provide an update on risks, standards, tools, and best practices that are relevant primarily from a reputational risk perspective.

The content is organized into four levels: each item of information is headed by a title which allows the reader to digest the report in less than five minutes. Subsequently, a brief abstract summarizes the key facts. Additionally, if appropriate, a short comment illustrates why this information might matter and, finally, a link to the original source allows the reader to drill down further into the subject.

Our research process consists of four steps: firstly, ECOFACT collects information from international newspapers and specialized periodicals. Secondly, the websites of the most relevant NGOs, international organizations, private and academic research centers, environmental and sustainability think-tanks, and government agencies are visited regularly. Thirdly, specialized newsletters to which we subscribe are screened, and finally, organizations in charge of international environmental and social standards are contacted.

Selection criteria for the content of the briefing: a) information on environmental and social risks that b) was published (in most cases) over the past quarter, and c) is relevant from the reputational risk perspective of a financial institution. The scope covers the ten principles of the UN Global Compact.

About ECOFACT

ECOFACT has addressed the risks and opportunities that environmental, social and governance issues present to the financial sector since 1998. We work primarily for banks, insurers, institutional investors, and international standard-setters.

We help our clients to improve their understanding of credit, reputational, compliance and liability risks in the context of sustainability, ESG and responsible business conduct.

Due Diligence

We assist our clients in designing processes and conducting due diligence:

We provide solutions for issue monitoring, policy development, portfolio screening, individual risk assessment, and engagement services.

Research Products

In addition to the *ECOFACT Quarterly,* ECOFACT also produces the *Policy Outlook.* The *Policy Outlook* covers regulatory change pertaining to ESG and corporate responsibility issues. It a monitoring and implementation package that consists of an online tool and provides access to a network of peers.

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Knowledge Sharing

ECOFACT hosts three events that facilitate knowledge sharing among peers and experts:

- The *Policy Outlook Conference* gives you the chance to join peers and experts from the fields of public policy, legal & compliance, corporate responsibility and sustainability in exploring how financial firms are addressing corporate responsibility regulations.
- The *Environmental and Social Risk (ESR) Roundtable* provides an opportunity for peers to discuss the challenges that arise as environmental and social issues are further integrated into financial institutions’ business with corporate clients.
- The *Reputational Risk Management (RRM) Roundtable* is a platform for dialog and knowledge sharing on common and best practices in reputational risk management in the financial sector.

ECOFACT is a signatory to the *United Nations Global Compact* and the *Principles for Responsible Investment,* and a member of *Swiss Sustainable Finance.*

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