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Tackling biodiversity loss in the financial services industry

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Ogier hosted a webinar discussing 'What would a world without bees look like?' with the *International School of ESG*.

We cannot reach net zero without halting and reversing nature loss, and we cannot tackle biodiversity loss without tackling climate change. The financial community has a role to play in this complex ecosystem - and increasingly, the financial sector is stepping up to the biodiversity challenge. Institutional investors have not fully integrated biodiversity into investment decision-making processes or assessments of sustainability performance. However, investors need to recognise that biodiversity loss is a systemic risk for portfolios and beneficiaries, and we need to see a move from pledges to action.

What is biodiversity?

Nature provides ecosystem services, which benefit businesses and society. The assets that underpin these services are called natural capital and biodiversity is the variety of living components that make up natural capital. In a nutshell, it is the diversity of life on earth. It can occur at the species, ecosystem and genetic level, as defined in Article 2 of the Convention on Biological Diversity.

Biodiversity has a vital role in ensuring the resilience of natural capital assets and securing them for the future. Its loss reduces the quantity, quality and resilience of ecosystem services and creates risks for society and business that can result in significant negative economic and social outcomes.

Biodiversity loss and financial risk

Nature-related risk is a risk encompassing biodiversity loss and ecosystem degradation, and climate-related risk. These are viewed as essential components for the assessment of environmental risk.

The Taskforce on Nature-related Financial Disclosures (**TNFD**), set up in 2023, has a mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. Financial services firms will need to take steps to embed these risk considerations into their strategies, operations and risk management processes. The final recommendations are expected to be published by September 2023.

Has there been progress on biodiversity management since COP15?

2022 UN Biodiversity Conference – Conference of Parties (**COP15**) concluded the negotiations for a post-2020 Global Biodiversity Framework, which commits the world to take action by 2030 to halt and reverse biodiversity loss, with a vision of living in harmony with nature by 2050.

The Kunming-Montreal Global Biodiversity Framework (**GBF**), adopted in December 2022, aims to guide global action on biodiversity and nature.

Investors who wish to show leadership in responsible investment are encouraged to take positive and immediate action to protect nature, in line with the GBF.

The long-term vision of the GBF is that by 2050, "biodiversity is valued, conserved, restored and widely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people" (source, Principles for Responsible Investment).

How can investors and asset managers factor nature into financial and business decisions?

Biodiversity loss creates risks for society and business that can result in significant negative economic and social outcomes. Conversely, taking action against biodiversity loss offers opportunities.

Risk exposure to biodiversity loss varies and depends on the following factors, among others:

- sector
- geography
- regulatory frameworks
- market-capitalisation

- operational arrangements
- value chain position (upstream versus downstream)
- extent of dependence and impact on biodiversity
- ability to substitute raw materials

Investors can act on biodiversity in a number of ways. These include, for example:

- awareness, commitments and initiatives (for example, the Principles for Responsible Investment (**PRI**) nature reference group)
- investment allocation: through a variety of strategies including ESG integration, negative screening or specific thematic investing focused on biodiversity outcomes
- stewardship (for example, there are a small number of investor engagements with a specific focus on avoiding and minimising biodiversity impacts)
    - biodiversity management and oversight – having board and senior management expertise and oversight, company-wide assessment of impact and dependence
    - biodiversity operational impact management – policies addressing biodiversity, direct and indirect supply chain biodiversity impact management programmes, external assurance
    - biodiversity transparency – reporting of KPIs and setting targets
    - engagement response – willingness to discuss biodiversity, responding to engagement over time, participating in external stakeholder initiatives
- policy and collection of meaningful biodiversity focused data

How to get started?

For investors looking to integrate biodiversity into investment decision-making processes or assessments of sustainability performance, the best place to start is by establishing a policy and strategy:

- assess impacts and dependencies and act to reduce them, while reflecting emerging global policies
- allocate finance by adapting investment strategies and engaging with investees on their biodiversity impact and dependencies
- finance to support the transition to a nature positive economy (including linking climate finance and nature) and set targets in line with global goals and the CBD post-2020 Global Biodiversity Framework

- measure and disclose nature-relating financial risks and biodiversity and continue to collaborate, engage and influence

How can Ogier help?

Ogier's Sustainable Investing and ESG team works with asset owners, asset managers and alternatives, institutional investors to design, integrate and manage sustainability goals. Get in contact to find out more.

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