INTO THE WILD
Integrating nature into investment strategies

WWF France and AXA recommendations for the members of the G7 Environment meeting in Metz, 5-6 May 2019
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It relies on the analysis of the current, relevant available literature and 23 interviews conducted from February to March 2019 and the list of which is available in the annex.

AXA and WWF France co-produced and support the recommendations that are set out from pages 8 to 10 of the document.

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Isabelle Autissier, Chairman, WWF France
Addressing eroding biodiversity is a complex but increasingly pressing challenge. Nature produces elements essential to human activity and to our very survival, from food and shelter to medicines’ active ingredients. Moreover, diverse ecosystems are key to tackling climate change, as flourishing forests and well-preserved oceans absorb carbon emissions. Conversely, climate change accelerates biodiversity loss, creating a vicious circle. Our dependence on diverse ecosystems to thrive, if not survive, is therefore not to be doubted.

The implicit contributions of each species in our economies are also far-reaching: their roles can be seen as “services” provided free of charge by nature. For example, artificial pollination would cost an estimated 153 billion euros per year, generating labour and technological costs far exceeding any economic viability. Yet species are disappearing at a fast rate, endangering these services and threatening human integrity. Whilst this situation has not yet attracted as much political and media attention as the equally challenging concerns related to climate change, more and more analyses are starting to highlight the rate of species decline and its inherent threat to human welfare.

As a company which, over the past 5 years, took important decisions in the fight against climate change, we are convinced that the preservation of biodiversity requires an equally broad collective commitment from all stakeholders: from private sector actors, including financial institutions, to governments, NGOs and civil society.

The potential loss of key ecological services endangers not only populations but also certain businesses that depend on them and can therefore become a concern for investors. Investors’ ability to understand and map these potential risks would enable them to identify opportunities and in doing so, help support solutions rather than environmentally unsustainable business practices.

This is why AXA decided in 2018, in the context of the “Act4Nature” project, to investigate this issue, by conducting an analysis of our exposure to biodiversity-related risks and opportunities in our insurance and investment activities. In 2019 we decided to support WWF’s development of this report, which is a first attempt to map existing initiatives and call for a new public-private collaboration.

Finally, the adoption by governments of international science-based biodiversity targets can help provide further clarity. General aspirations will not be sufficient to generate tangible outcomes. Only then, provided these targets are clear enough, may companies, financial institutions, and civil society organizations attempt to translate these nature conservation objectives into investment strategies.

We are happy to have, thanks to the mission we were given by the French Ministry of Environment, the opportunity to share our experience and learnings on responsible investments and insurance with WWF, a world leading NGO on the fight for preserving biodiversity. We are aware that this is only the starting point of a long journey which will require a much broader collaboration, dialogue and mobilization of governments, private sector, international organizations, regulators and civil society. It is crucial that we build collective awareness and willingness to take action.

Thomas Buberl, CEO, AXA Group
EXECUTIVE SUMMARY AND RECOMMENDATIONS

SEENING THE BIGGER PICTURE: BEYOND CLIMATE, FINANCIAL INSTITUTIONS MAY BE EXPOSED TO THE “BANKRUPTING” OF NATURE

Nature is currently being degraded at an unprecedented pace and scale. The rate of global loss of nature has been increasing drastically in the last 50 years, leading to a global environmental crisis. The degradation of our planet’s natural ecosystems, such as the oceans or land-based ecosystems is undermining its ability to provide vital goods and services that enable our economies to thrive.

Crossing the ecological limits of our planet may also put the profitability of some investments at risk. Certain financial returns are inextricably linked to nature through the dependencies and impacts of economic activities they finance. For example, a European pharmaceutical company lost almost 40% of its market capitalization in less than one year, causing shareholders billions in losses, after acquiring an agrochemical company accused of causing adverse impacts on bee populations and facing multiple health-related trials.

Concerns over environment-related threats, starting with climate-related financial risks, are growing. Since the launch of the Task Force on Climate-related Financial Disclosures (TCFD), a growing number of policymakers have been acknowledging the importance of climate change for financial institutions. The mainstreamed mobilization of companies and financial institutions on climate can inspire similar initiatives to address other nature-related issues such as biodiversity, but systematically replicating the same approach is not the answer. For instance, it might be useful to take stock of this approach and shift to a more integrated and impactful strategy: investing in and accompanying countries, companies and projects supporting the transition to a low carbon economy, a healthier and a fairer & more resilient society.

RECOMMENDATION 1

We recommend to launch a Task Force on Nature Impacts Disclosures, to create the conditions to transition towards protection, restoration and promotion of biodiversity. Financial institutions have an important leadership role to play in supporting awareness and decision taking around biodiversity loss. Achieving meaningful change, however, will require a broad-based coalition gathering the full spectrum of actors that are part of the issue and of the solution. With this Task Force, we recommend to foster an open dialogue with the private & public sector, including policymakers, with the objective to promote cross sectorial and cross border engagement.

This Task Force should identify and analyze business activities that have a material impact on biodiversity as well as activities with “transition” potential to support biodiversity protection and restoration. This analysis should be careful to avoid pitfalls that would hamper transition efforts rather than encourage them, such as: generating pro-cyclical effects by highlighting niche activities only, or creating rapid, uncontrolled exclusion mechanisms that would lead to sudden divestments from companies at a moment when they need to invest on their transition efforts.

THE ABSENCE OF NATURE, EFFECTIVE METHODOLOGIES HINDERS FINANCIAL INSTITUTIONS’ CAPACITY FROM HAVING A COMPREHENSIVE VIEW OF IMPACTS ON NATURE

In the short run, extra-financial agencies are pivotal for mainstreaming and harmonising assessment tools evaluation methodologies. In the short term, financial institutions can use the ratings and information provided by extra-financial agencies that are supposed to have larger datasets, prisms and scoring methodologies. These methodologies are largely heterogeneous and are unlikely to provide standardized and comparable information. In the long run, the development of comprehensive metrics and conventions for reporting on them should be encouraged, either by market players and financial rating agencies, or by regulators, or via new forms of collaboration.

RECOMMENDATION 2

To improve on methodologies, we urge non-financial rating agencies to ensure the inclusion of material biodiversity considerations within their ESG criteria and rating methodologies. We also advise governments to help structure the market for non-financial rating agencies by way of more rigorous accrediting processes. The Task Force should review how to best integrate biodiversity impact measurement into existing frameworks on climate change and ESG criteria and not create a new, separate framework, which would risk creating undue complexity and hampering mobilization rather than fostering it. In terms of available data, we advocate for governments to create conditions to facilitate the harmonization of biodiversity-related data, for instance through the development of open source platforms, which would contain information on the transition plan of private and public actors.

The lack of accurate, comprehensive and tailored nature-related data prevents financial institutions from developing investment strategies taking them into account and engaging effectively with companies. While tools for sectoral and geographical analyses of assets are emerging, there is a knowledge gap by non-financial companies on their value chain. This does not allow them to monitor their impact/dependency relation on nature in a comprehensive way and, in turn, to provide financial institutions with reliable and useful data. In the short term, financial institutions can use the ratings and information provided by extra-financial agencies that are supposed to have larger datasets, prisms and scoring methodologies. These methodologies are largely heterogeneous and are unlikely to provide standardized and comparable information. In the long run, the development of comprehensive metrics and conventions for reporting on them should be encouraged, either by market players and financial rating agencies, or by regulators, or via new forms of collaboration.

RECOMMENDATION 3

The Task Force should include institutional investors and develop a framework for investors to use in analyzing biodiversity risk and engaging with the businesses in which they invest, especially in the sectors that can be most damaging for biodiversity. This framework should promote a direct dialogue with businesses on transition towards protection, restoration and promotion of biodiversity and appropriate reporting.
Executive summary and recommendations

There are also promising opportunities for financial institutions in meeting the rising societal demand for nature conservation. Among them are the potential for new financial products, investments, and markets as well as early mover advantages. Private-public financing solutions can play a decisive role in bridging the ever widening gap between the need for new investments to protect nature and current capital flows.

RECOMMENDATION 4

We propose that governments create the conditions for a continuing and constructive dialogue between public authorities and the full spectrum of private sector actors concerned by these issues with a view to addressing rising societal demand for nature conservation. This should include specific initiatives to raise public awareness including, for example, such as labels for financial products with a positive impact on nature.

EXPLORING AN INTEGRATED SUSTAINABILITY APPROACH: TAKING INTO ACCOUNT ECOLOGICAL LIMITS INTO INVESTMENT STRATEGIES

The risks and opportunities for financial institutions in managing the protection of nature may not be enough to preserve its ecological limits or maintaining the resilience of our biosphere. This is because in the conventional approach to pressures, mitigation is neither systematic nor built to fit within ecosystem functioning. A new ecological approach to integrating nature into financial institutions in order to address this issue in a more systematic way is required. In the climate context, a similar approach – that is the call for alignment with the Paris Agreement in absolute terms – has attracted a considerable amount of attention among various actors of civil society as well as public and private organizations. Many financial institutions are working towards this objective, in a “test and learn” phase.

RECOMMENDATION 5

Governments should establish clear priorities in this field of biodiversity protection since it is particularly vast and holistic and they should encourage the full spectrum of actors (private and public) concerned by these issues to be part of this effort. Governments should provide visibility to economic actors on areas that are the most sensitive and where transition efforts should urgently start.

Ensuring financial activities are compatible with the viability of ecosystem functionality is a major issue, with three main considerations:
1) understanding, characterizing, quantifying and monitoring the impact on nature of the activities investors are financing,
2) defining the level of impact that can secure ecological functionalities and the resilience of the biosphere,
and 3) managing business and financial activity in order to maintain this level of impact.

There are two complementary paths for integrating these considerations into financial strategy. The first path, which is already underway, is initiated by companies. It requires them to measure their impacts, define individual ecological limits and to make this information available for financial institutions. The second path, which is only now emerging, is initiated by financial institutions. It assumes that the financial institutions measure themselves the impacts of their portfolios on nature, and define associated ecological limits.
WWF FRANCE

in few numbers

1973

year of creation of WWF’s french office

117

employees of WWF France committed to passing on a living planet to our future generations

4 000

active volunteers in metropolitan France and overseas

1 000 000

donors of WWF France

Why we are here
To stop the degradation of the planet’s natural environment and to build a future in which humans live in harmony with nature.

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