



Overview

Financial services: Priority actions towards a nature-positive future

September 2023

Introduction

Nature underpins our societies and economies, with more than half of global GDP estimated to be 'moderately or highly dependent on nature'.¹ However, fundamentally, humanity and all sectors are entirely dependent on nature and the clean air, clean water and nutritious, healthy food it provides. Financial institutions that underestimate the value of nature and choose to continue funding activities that harm rather than protect nature are therefore likely to expose themselves to significant risks and missed opportunities. They also risk being held accountable for financing activities that undermine the future of both planet and people.

Investing in and lending to business practices that negatively impact nature, and in turn, undermine the health and productivity of human capital, increasingly threatens the growth and reputation of the financial services sector. Financial institutions that operate on long-term horizons, such as pension funds, bear a particular responsibility to finance a world where people and nature can both thrive.

Embedding nature in financing decisions, reducing the financial flows that are having a negative impact on nature and increasing those with a positive impact on nature is therefore critical to

secure a sustainable future. It is also essential in meeting the finance sector's climate and sustainable development goals – given the interconnection between nature and climate clearly set out in [IPCC's Sixth Assessment Report](#).

To complement ongoing sustainability initiatives, financial institutions need to **Assess, Commit, Transform and Disclose (ACT-D high-level business actions on nature)**. They should acknowledge the value of nature; assess and measure their impacts and dependencies on nature in their financed activities; set transparent, time-bound, science-based targets; take actions to address their key impacts and dependencies; and publicly disclose performance and other relevant nature-related information.

This overview provides a summary of key impacts and dependencies on nature. Importantly, it also sets out the priority **transformative** actions that leaders of financial institutions need to take now to ensure the sector plays its role in aligning public and private financial flows with biodiversity goals and targets and halting and reversing nature loss by 2030 - the mission at the heart of the [Kunming-Montreal Global Biodiversity Framework](#).

Scope of this overview

Financial services ([SICS code: FN](#)) include asset owners, asset management and custody activities, commercial banks, consumer finance, insurance, investment banking and brokerage, mortgage financing and security and commodity exchanges.

Nature-related impacts

In order to protect and enhance the ecosystems on which they depend and support the shift to a nature-positive economy, financial institutions need to assess and mitigate their own direct impacts on nature, but more importantly the negative impacts that they enable through their investment in other business activities, which is where their most material impacts on nature are. Specific impacts vary by company type and sector, but typically include:

- **Land and sea use change** – Many business operations across sector value chains result in the thinning, fragmentation or destruction of plant, animal, soil, freshwater and/or nutrient resources as a result of changing use of sea or land – for example through deforestation, construction or transportation.
- **Over-exploitation of natural resources** – A significant proportion of activities by companies across sectors result in the over-exploitation of renewable natural resources – affecting their ability to regenerate/replenish stocks. For example, excessive logging for timber can disrupt local habitats and ecosystems, hinder the natural regeneration of forests and contribute to biodiversity loss.

- **Pollution** – Most economic activities result in the release of substances into the environment at rates and quantities that are harmful to nature and people. This includes pollutants such as carbon dioxide from burning fossil fuels, toxic chemicals from industrial processes, and excess nutrients like nitrogen and phosphorus from agricultural runoff.
- **Climate change** – The combustion of fossil fuels, deforestation, degradation of wetlands and peatlands or the generation of waste are accelerating the modification of the earth's climate through the release of greenhouse gases. This leads to warming and extreme weather events which affect all realms of nature and threaten an unprecedented number of species.
- **Invasive alien species** – Globalized operations frequently lead to the introduction of non-native species that significantly modify or disrupt the ecosystems they colonize – for example through the accidental introduction of 'stowaways' in produce, natural materials, imported soil or ballast water from ships.

These impacts can expose portfolio companies to a range of risks, including those arising from emerging regulations, legal action, loss of reputation leading to loss of market share or even consumer-led boycotts, amongst others.

Nature-related dependencies

The extent to which a financial institution's portfolio is dependent upon nature is determined by the mix of businesses that it funds.ⁱ However, there are a number of common features of the ecosystem services that many portfolio companies will depend on to function and grow, either directly or through their supply chains.²

- **Provisioning** – The business is dependent on natural resources such as agricultural products, wild-caught fish, wild-harvested products, freshwater, fossil fuels, materials or minerals.
- **Regulating and maintenance** – The business relies on nature to mitigate risks by regulating potential threats such as floods, erosion, pollution, pests or extreme heat. It also benefits from nature's ability to support the provision of other services, such as soil formation or waste breakdown.

- **Social or cultural** – The business benefits from services such as natural beauty or well-being qualities (for example, for tourism or healthcare).

These dependencies strengthen the business case for financial services to invest in the protection and restoration of nature. The level of risk associated with these dependencies will depend upon the extent to which a particular business is reliant upon the ecosystem services in question and the resilience of the environment providing those services.ⁱⁱ



ⁱ For example, a recent World Bank report noted that 'banks in emerging markets allocate around half of their credit portfolios to firms [that] are highly or very highly dependent on one or more ecosystem services' highlighting the extent to which those banks are significantly exposed to any deterioration in those ecosystem services (Biodiversity and Finance: A Preliminary Assessment of Physical Risks for the Banking Sector in Emerging Markets, Calice et al, World Bank Policy Research Working Paper 10432, 2023).

ⁱⁱ For example, a textile producer will be heavily dependent on the availability of clean water, while an agricultural producer will be heavily dependent on soil health. The resilience of the environment providing the service is also a key variable – for example frequency by which the provision of water to the textile company is interrupted by landslides, or the extent to which the land used by suppliers to the food producer is over-exploited.

Priority actions and opportunities

The financial services sector has a dual responsibility in shaping a nature-positive future – by limiting its own negative impacts on nature, as well as those of the companies it funds. As a leader in the sector, you can reduce the negative impacts that you make directly or indirectly through finance, mitigate nature-related risks and unlock commercial opportunities by prioritizing five key **transformative actions**:

Prepareⁱⁱⁱ

- 1. Build internal capacity to act on nature** – Invest in your team’s skills in understanding, assessing and addressing nature-related risks, and develop their proficiency in using the growing number of external tools and guidance available. Use pilot projects to test the internal policies and systems required to move towards a nature-positive future. Focus initially on ‘quick wins’ – i.e., the areas where nature-related risks and opportunities are the greatest and where the time and costs involved in addressing them are the smallest.
- 2. Develop financing policies, strategies and transition plans that favor nature** – Develop a time-bound and comprehensive transition plan that sets out how you will contribute to a nature-positive future, integrated with existing climate-related plans where possible. This includes introducing ambitious strategies that tackle specific drivers of nature loss such as deforestation or pollution, including sector-specific, location-specific or asset class-specific policies where appropriate. Consider exclusion policies to reduce the financial flows that are having a negative impact on nature, while scaling investment in business models which are having a positive impact on nature. This includes Nature-based Solutions, as well as promoting innovative financial solutions such as blended finance and labelled bonds to promote nature restoration. In parallel, establish monitoring and management reporting mechanisms to ensure these policies are adhered to, and assign clear responsibility at executive and Board level for meeting goals.

Implement

- 3. Embed nature in risk management systems** – Create mechanisms for assessing the nature-related impacts and dependencies of businesses that your institution finances or provides services to. Build processes for screening new financial relationships and regularly assessing the nature footprint of those relationships in aggregate. Integrate this information into existing risk management processes and management reporting systems, to develop an integrated approach to nature and climate change. Support investee companies and borrowers in disclosing their nature-related information in line with the Taskforce on Nature-related Financial Disclosures (TNFD) to enable it to be used for strategic planning, risk management and asset allocation decisions.
- 4. Develop robust nature-related reporting systems** – Use frameworks such as that developed by TNFD to design and build reporting systems that cover all impacts, dependencies, risks and opportunities to support current and expected internal and external (regulatory and customer-related) requirements, building on existing climate-related systems where possible.

Support

- 5. Engage with high nature-impact and high nature-risk businesses** – Engage with companies in your investment and lending portfolios (or where other financial services are being provided), starting with those that are assessed as having high nature impacts and risks. Set expectations for them to develop targets and strategies to address their nature-related risks, reduce and reverse their impacts on biodiversity throughout their value chains, and increase activities that have a positive impact on nature. Calibrate and mitigate company-specific risks and explore potential nature-related investment opportunities. Where possible, leverage your influence through voting and shareholder resolutions to spur action.

Importantly, efforts to deliver these priority actions and transform the sector must be delivered in alignment with a just and equitable transition, including meaningful dialogue with affected groups, such as employees, local communities, Indigenous Peoples and marginalized communities.

Adopting the priority actions can help businesses contribute to societal and environmental objectives, including the Global Biodiversity Framework (GBF) and the Sustainable Development Goals (SDGs). [Read the GBF-SDG mapping to see how the priority actions can contribute to these objectives.](#)

ⁱⁱⁱ The three key recommendation areas ‘Prepare’, ‘Implement’ and ‘Support’ are based on the following roadmap: [Aligning financial flows with the Kunming-Montreal Global Biodiversity Framework - high-level roadmap](#) (UNEP FI, The Secretariat of the CBD, UNDP, the World Bank, FfBF and Finance Montréal, 2023)

Resources

The following **sector-specific guidance and tools** are currently available to companies in the financial services sector:

- [Aligning financial flows with the Kunming-Montreal Global Biodiversity Framework - high-level roadmap](#) (UNEP FI, The Secretariat of the CBD, UNDP, the World Bank, FfBF and Finance Montréal, 2023)
- [Stepping up on Biodiversity](#) (UNEP FI, PRI, and FfB, 2023)
- [Investing in a biodiversity-integrated manner](#) (WEF, 2022)
- [Integrating Nature: The case for action on nature-related financial risks](#) (CISL, 2022)
- [Roadmap: Identification and integration of nature-related risks and impacts in underwriting and insurance brokerage](#) (CISL, 2023)
- [Capitals Coalition: Finance sector supplement](#) (Capitals Coalition, 2016)
- [Banking on Nature](#) (UNEP FI and PRB, 2023)
- [Biodiversity finance reference guide](#) (IFC, 2022)
- [Sustainable Blue Economy Finance Principles](#) (UNEP FI)
- [Guide on engagement with companies](#) (FfBF, 2022)
- [Nature Risk Profile](#) (UNEP, 2023)
- [Indebted to nature. Exploring biodiversity risks for the Dutch financial sector](#) (DNB, 2020)
- [Towards a Robust Measurement of Business Dependencies on Nature](#) (UNEP-WCMC, 2023)
- [Nature in Transition Plans: Why and How?](#) (WWF-UK, 2023)

Tools for assessing nature-related impacts, dependencies, risks and opportunities

There is a growing list of tools available to financial institutions to enable them to assess the nature-related impacts, dependencies, risks and opportunities associated with a particular portfolio, including the following resources:

- [Assessing portfolio impacts: Tools to measure biodiversity and SDG footprints of financial portfolios](#) (WWF, 2021)
- [Guide On Biodiversity Measurement Approaches \(2nd Edition\)](#) (Finance for Biodiversity Foundation, 2022)
- [ENCORE tool](#) – Natural Capital and Biodiversity Modules (Global Canopy, UNEP FI and UNEP-WCMC)
- [TNFD searchable tools database](#)

The economic case for protecting, and investing in, nature

- [Financing Nature: Closing the Global Biodiversity Financing Gap](#) (Paulson Institute, TNC, Cornell Atkinson Center for Sustainability, 2020)
- [The Economics of Biodiversity: The Dasgupta Review](#) (HM Treasury, 2021)
- [Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services](#) (IPBES, 2019)

Organizations and coalitions

The following organizations and coalitions also provide useful information for the sector:

- [Nature Action 100](#)
- [Finance for Biodiversity](#)
- [TNFD Forum](#)

For additional **sector-agnostic resources**, please refer to Business for Nature's [High-level Business Actions on Nature](#).



Contributors and credits

Written by (in alphabetical order):

John Willis, Director of Research, Planet Tracker

Peter Elwin, Director of Fixed Income and Head of Food and Land Use, Planet Tracker

Acknowledgements:

Thanks also go to the many leading academic, industry, NGO and government experts who provided invaluable perspectives, listed in alphabetical order: Accounting for Sustainability, Business for Nature, Cambridge Institute for Sustainability Leadership, Capitals Coalition, CDP, Climate Catalyst, EOS at Federated Hermes, Finance for Biodiversity Foundation, Forum for the Future, Global Canopy, Legal & General Investment Management, Little Blue Research, Sustainable Finance Geneva, The Nature Conservancy, the UN Environment Programme Finance Initiative, UN Environment Programme World Conservation Monitoring Centre and the World Benchmarking Alliance.

References

¹ [The Future of Nature and Business](#)
(World Economic Forum, 2020)

² [Definitions of Nature](#)
(Taskforce on Nature-related Financial Disclosures, 2023)

