

# Sustainable Finance: The rise and rise of ESG

Update prepared by Helen Wyatt (Guernsey)

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In this update we consider the importance to financial services businesses of ESG as part of Guernsey Green Finance's Sustainable Finance Week 2021.

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## The rapid advancement of ESG

ESG (the business consideration of environmental, social and governance issues) as a sector of its own, has grown exponentially in recent years. Most financial services businesses are putting ESG at the forefront of their board agendas, as consumers, investors and regulators all focus on it as a priority (and not financial performance alone). Failure to address these three concerns will not just impact the future of society and the planet, but for our purposes will threaten the global economy as well as the prospective prosperity of established businesses.

The Covid pandemic further magnified the focus on ESG, with many people and businesses reassessing priorities in light of its acute and immediate human impact. Covid has influenced an emotional shift and driven an increased desire to change behaviours. 'Building back better' isn't just about financial stability, but it carries the more important message of carving an environmentally and socially sustainable path for the future. This, combined with the digital revolution marching on a pace, and factors like an increase in remote working, means that the business landscape is undergoing seismic change.

Growth resulting from sustainable investing is encouraging the charge with more investors looking at ethical options, and with an acknowledgement that businesses could fail if they don't adopt ESG policies now, there is a palpable sense of urgency to harness the momentum for good.

## The E, the S & the G

ESG dialogue predominantly focused on **Environmental** initiatives initially, with green products and services being badged as such to tempt investors. In 2018 the Guernsey Financial Services Commission (the **Commission**) introduced the world's first regulated green investment fund product, the Guernsey Green Fund, to increase investors' access to green products. In December 2020 it became the world's first regulator to introduce a green insurance capital regime.

**Governance** then rapidly gained popularity within the financial services sector. Its focus sits rightly on those who make the decisions including the board of directors and the shareholders. Here executive compensation, board diversity, independence, ownership and shareholder transparency are ever more under the microscope. The better regulated the industry, the stronger its governance credentials and the rosier its future.

There is now a real move towards adopting progressive **Social** initiatives as well. Factors like human and workers' rights, health and safety, community engagement and equal inclusion sit high on the financial services business agenda, not just for organisations themselves but for their investors and investments, clients and suppliers. This could lead to a fairly major change in direction of ESG policies, as the sector continues its rapid evolution.

## ESG in Guernsey

The Commission and Guernsey Finance have both put the green approach at the core of their plans, with Sustainable Finance Week (**SFW**) showcasing the island's commitment to ESG, confirming Guernsey as a leading force for good among International Finance Centres.

SFW, which is run in association with the UN Finance Centres for Sustainability, has quickly become a fixture in the private wealth and sustainable finance space, bringing together over one thousand global policy makers, opinion formers and professionals to discuss private capital financing sustainability against the backdrop of COP26 and positioning Guernsey front and centre of the sustainability agenda.

And rightly so; not only is an island like Guernsey at the sharp end of climate change and its impact on rising sea levels, but as an independent offshore jurisdiction, Guernsey is well-placed to provide targeted ESG products and services. Strong regulation and an established offshore finance reputation combined with such a profound awareness of the all-encompassing importance of our natural environment puts Guernsey financial services businesses in a strong position to give expert advice on sustainable finance structuring.

'Green' product offerings are afforded their own targeted approach by the Commission "to demonstrate its commitment to develop climate finance through regulatory tools and support the finance sector throughout the transition towards a low carbon economy". To further confirm this commitment the regulator has positioned itself as an active participant in the UN backed Sustainable Insurance Forum and has been accepted into the Network for Greening the Financial System, a green forum for regulators. It has also taken steps to practice what it preaches: The Commission's staff pension scheme has been allocated to an investment manager with a green approach, while some of its carbon emissions will be offset investment in a parcel of land which will be re-planted with saplings.

The Commission is in good company in its 'Green Approach', with central banks of large European nations among those participating in and committed to the same ESG forums as the island. New European regulation sets ambitious objectives to drive behavioural change and seeks to re-orientate capital towards more sustainable investments. Lending rates linked to ESG credentials are beginning to appear, with discounts applied based on the ESG credentials of investments.

Most recently Guernsey's International Insurance Association has announced the creation of an ESG framework for member insurers operating on the island. The framework is described as "a handrail for existing (re)insurers taking their first steps into ESG and a standard that sophisticated ESG practitioners can certify compliance with to demonstrate their credentials".

## The future

The last few years have seen a notable shift in consumer values, leading to sustainable investment opportunities growing in popularity at an advancing rate. At the same time, meeting environmental, social and governance standards is often and increasingly a regulatory requirement and not simply 'the right thing to do'. With regulators acting on the knowledge that climate change is a risk to investors, to the economy and to the relationships between investors and the communities in which they operate, ESG is changing the regulatory landscape. Demand is growing for evidence-based ESG compliant investment opportunities and the regulatory spotlight will shine ever brighter on this sector.

Guernsey's financial services industry is keen to be a leader in this space, with demonstrable ESG accredited products and services and a commitment to sustainable finance. The steps taken so far are very much the start, and long may the conversation continue.

## Contacts

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