10 Year Reflections

Over the past decade, there has been an increasing expectation that investors contribute positively to the economy and society. This comes from the aftermath of the Financial Crisis of 2008, a wider focus on culture and diversity, and growing sustainable and responsible investment agenda (IA, 2019). Although the last 10 years have been turbulent, with the country leaving the EU and then the Covid-19 pandemic, the UK has been a leader on climate action, becoming the first major economy to legislate to achieve net zero by 2050 in 2019.

In 2013, Mark Carney joined the Bank of England and became a driving force for climate in the finance sector. In 2015, he gave his 'Tragedy of the Horizons' speech which highlighted the chronic short-termism of the business and political cycles and the risks that climate change presents to financial stability. As Head of the Financial Stability Board, he launched the TCFD with the first recommendations released in 2017, and the UK becoming a lead adopter.

In 2021, during the global Covid-19 pandemic, the UK hosted COP26. Industry activity increased in the lead up to COP, and a number of important initiatives were announced. Nigel Topping was appointed High Level Climate Action Champion for UN talks by the UK, recognising the key role business has to play in addressing the climate crisis. In January 2021, Race to Zero launched, a global campaign to rally leadership and support from business and investors for a sustainable, inclusive recovery from Covid-19. The Glasgow Financial Alliance for Net Zero was announced in April by the COP26 presidency in collaboration with the UNFCCC.

Since COP26, the UK government has taken further action to make climate targets a reality, as well as taking steps to increase transparency and disclosure around responsible and sustainable investing.

10 Year Forward Look

Since becoming one of the first adopters of TCFD, UK regulators will continue to introduce regulation around the sector's climate impacts, fund labelling and transition plans. Regulators are also planning to introduce policies for ESG ratings providers, ensuring investors have access to the best possible information for decision-making.

The Taskforce on Nature-Related Financial Disclosures is likely to be integrated into UK regulation, in recognition of the growing biodiversity crisis. Demand for nature-themed investments will likely continue to grow as the UK looks for innovative forms of finance for nature-based solutions.

Despite leading climate action and legislation in the past few years, the UK remains challenged by political headwinds. An uncertain policy environment for investors has persisted, particularly around the future of North Sea oil and gas. Although there is broad consensus on the need to address climate change, the pace of progress remains hampered by policy uncertainty. It remains to be seen if the UK can overcome these political challenges to accelerate action, while also ensuring increased disclosure produces real world change alongside transparency.

‘Over the past decade, there has been an increasing expectation that investors contribute positively to the economy and society.’
Policy & Regulatory Drivers
Following important regulatory developments in 2018-2020, this reporting period was defined by the UK’s COP26 Presidency. A range of actions were taken to convene industry, develop disclosure requirements and assist new product development.

Work continued on the UK’s Green Finance Strategy launched in 2019. The strategy outlined the government’s expectations around embedding TCFD, and all listed companies and large asset owners were expected to disclose in line with TCFD by the end of 2022. The government also convened the Green Technical Advisory Group to support the development of its green taxonomy.

COP26 Presidency
► In April 2021, the Glasgow Financial Alliance for Net Zero was launched by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, in partnership with the UNFCCC Race to Zero campaign. The Alliance aims to coordinate efforts across the financial system to enable the transition to a net zero economy.
► In October 2021, Greening Finance: A Roadmap to Sustainable Investing was published. The Roadmap highlighted the need for climate to be central to investors’ decision-making processes.
► At COP26, Rishi Sunak, then Chancellor of the Exchequer, announced that the UK would aim to become the world’s first net zero financial centre, and the establishment of the Transition Plan Taskforce, committing to making transition plans mandatory in the UK.
► Greening Finance Investing Roadmap

Financial Conduct Authority (FCA)
The FCA is the UK’s financial regulator.
► In July 2021, the FCA wrote to every fund manager to express concern about misleading labelling of ESG funds. The letter set out expectations around building trust in the market, appropriate disclosures and measuring impact. The FCA has subsequently consulted on a series of sustainable fund labels and a new anti-greenwashing rule.
► The FCA’s Business Plan for 2021/22 highlighted the regulator’s commitment to implement the roll out of TCFD to different parts of the economy, cautioned that action would be taken if investors did not make progress on stewardship, and would assess how well firms were being served by ESG ratings providers.
► The first long-term asset fund (LTAF) was authorised in 2023. The FCA enabled the creation of LTAFs with regulation that came into force in 2021.
► In 2022, the FCA launched a consultation on disclosure and investment labels, aimed at clamping down on greenwashing.

Bank of England
The Bank’s 2021 Biennial Exploratory Scenario tested the resilience of the UK’s financial system to different transition pathways. Many of the UK’s largest banks and insurers participated in the test.

Financial Reporting Council (FRC)
The FRC is an independent regulator responsible for setting the UK’s corporate governance and stewardship codes.

The FRC launched the revised Stewardship Code in September 2020. The code sets high expectation for how investors invest and manage money and how this leads to sustainable benefits for the economy and society (FRC, 2021). The Code places a greater emphasis on consistent reporting, including disclosing outcomes and improvements. The Code has principles for asset owners and managers and separate principles for service providers. The first reporting round was in Q1 2021 and more than 250 asset managers and asset owners are now signatories.

Industry Collaboration
Ahead of COP26, the UK industry ramped up activity. The 2021 AGM season was characterised by another increase in shareholder resolutions, with climate related resolutions being put to eight FTSE 100 companies (Slaughter & May, 2021). This included HSBC working with the ShareAction coalition to table a successful resolution to commit to phase out coal financing by 2040 (ibid).

Ahead of COP26, GFANZ was launched – a coalition of eight independent net zero financial alliances, whose members are committed to support the transition to net zero by 2050. Alliance members include banks, insurers, asset managers, asset owners, financial service providers and investment consultants. Following the COP26 commitment to create the world’s first net zero financial centre, UKSIF conducted a net zero inquiry, outlining the UK sustainable finance sector’s vision for how the UK can achieve this.

The Association of British Insurers published their Climate Change Roadmap in 2021, acknowledging the crucial role their sector has to play in addressing the climate crisis. The Investment Association published several reports on responsible investing, including the Role of the Long Term Asset Fund in July 2020 and Investing with Purpose in November 2020.

The Climate Financial Risk Forum was convened by the FCA and the PRA to facilitate among firms a shared approach to understand and mitigate financial risks from climate change. Their Guide was published in 2020, with a chapter written by each working group: risk management, scenario analysis, disclosures and innovation.
Customer Drivers
The Wisdom Council surveyed more than 2,000 UK consumers who had a workplace or private pension, and found that 6 in 10 retail investors don’t realise they can invest in a way that contributes to addressing issues like climate change. 52% of consumers didn’t even recognise that the financial services industry can make a difference at all. This is a worrying disconnection – UK consumers don’t associate the investment industry with sustainability (Wisdom Council, 2021).

This is not to say UK consumers don’t care about sustainability – Standard Life found that while some customers do ‘only’ care about returns, the majority want to avoid harm and make a difference where they can (Standard Life, 2022). UKSIF’s Good Money Week polling shows a steady increase in consumer interest in reflecting their values in their investments over the last decade.

Market Drivers
Demand for sustainable investment products has remained high since the last reporting period, despite Covid-19 severely disrupting the global economy. By the end of 2021 it appeared the UK investment industry had maintained its resilience, with the growth of sustainable and responsible investment becoming a stand out trend (IA, 2022). In 2021, sustainable funds gained £37.1 billion, compared to the total market net flow of £27.4 billion (Morningstar, cited in ESG Clarity, 2022).

Sustainable Investment Association in the region – UKSIF
UKSIF exists to bring together the UK’s sustainable finance and investment community and support our members to expand, enhance and promote this key sector. Our work drives growth and new opportunities for our members as global leaders in the sustainable finance industry. UKSIF represents a diverse range of financial services firms committed to these aims, and our 300+ members, managing over £19trn in assets under management (AUM), include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others. UKSIF and our members have been hugely active in, and supportive of, efforts to promote the sustainable finance agenda and work closely with policymakers and others to find new ways to overcome the barriers to the growth of sustainability and deliver progress towards decarbonisation of the economy.