



# *Embedding climate change related financial risks*

*18 November 2019*

PAUL PRITCHARD

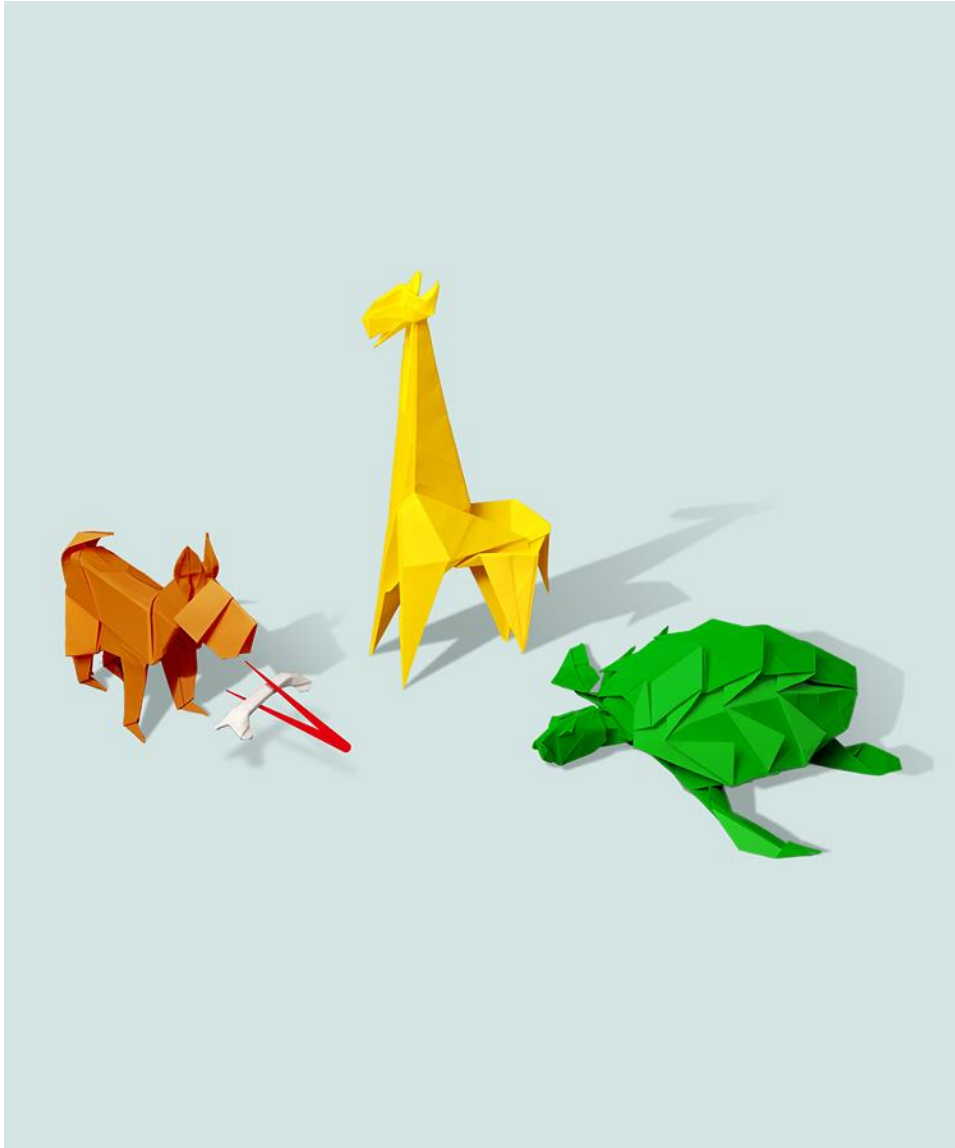
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# Presenters



**Dr Paul Pritchard**  
Technical author of BSI/BEIS  
Sustainable Finance  
Framework Guide



**Gemma Rastelli**  
Sustainable Finance  
Senior Manager  
HSBC

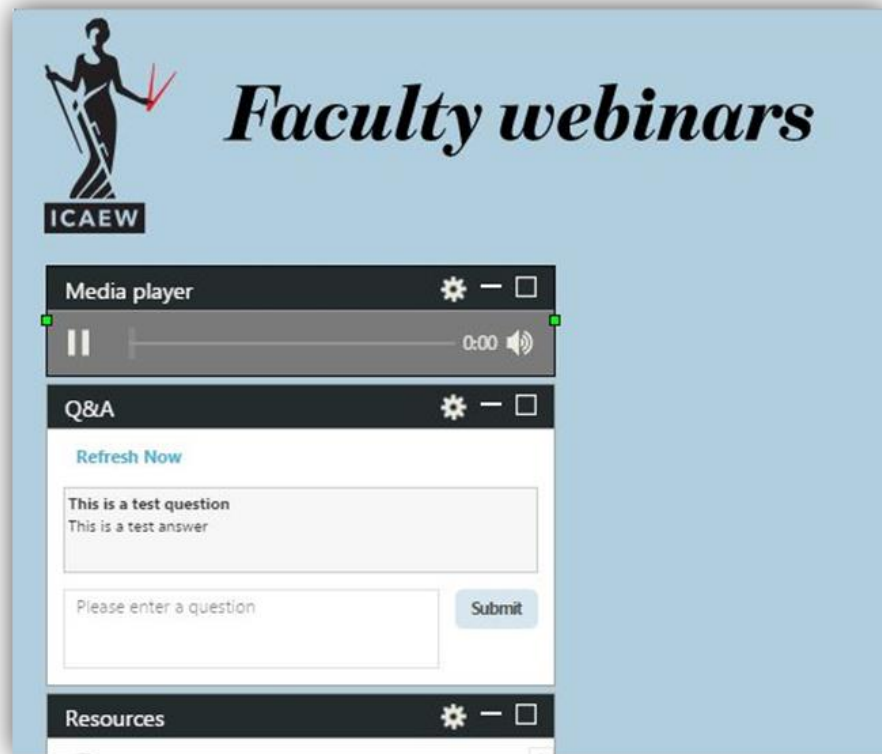



**Francesca Sharp**  
Sustainability Manager  
ICAEW



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Technical Manager  
ICAEW Financial Services  
Faculty

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# Embedding Sustainability into Strategy

November 2019



# Agenda

## Embedding Sustainability into Strategy

1

The role of ESG and sustainability

2

The impact of sustainability on business strategy

3

The response from HSBC



# 1 Increased focus on sustainability challenges faced by society, particularly climate change

## Paris Agreement



- Landmark global agreement reached in **Paris on 12 December 2015** and approved by the leaders of **195 countries**
- Aims to reduce greenhouse gas emissions and limit global temperature increase to **below 2°C (3.6F)** above pre-industrial levels by 2100

## Sustainable Development Goals



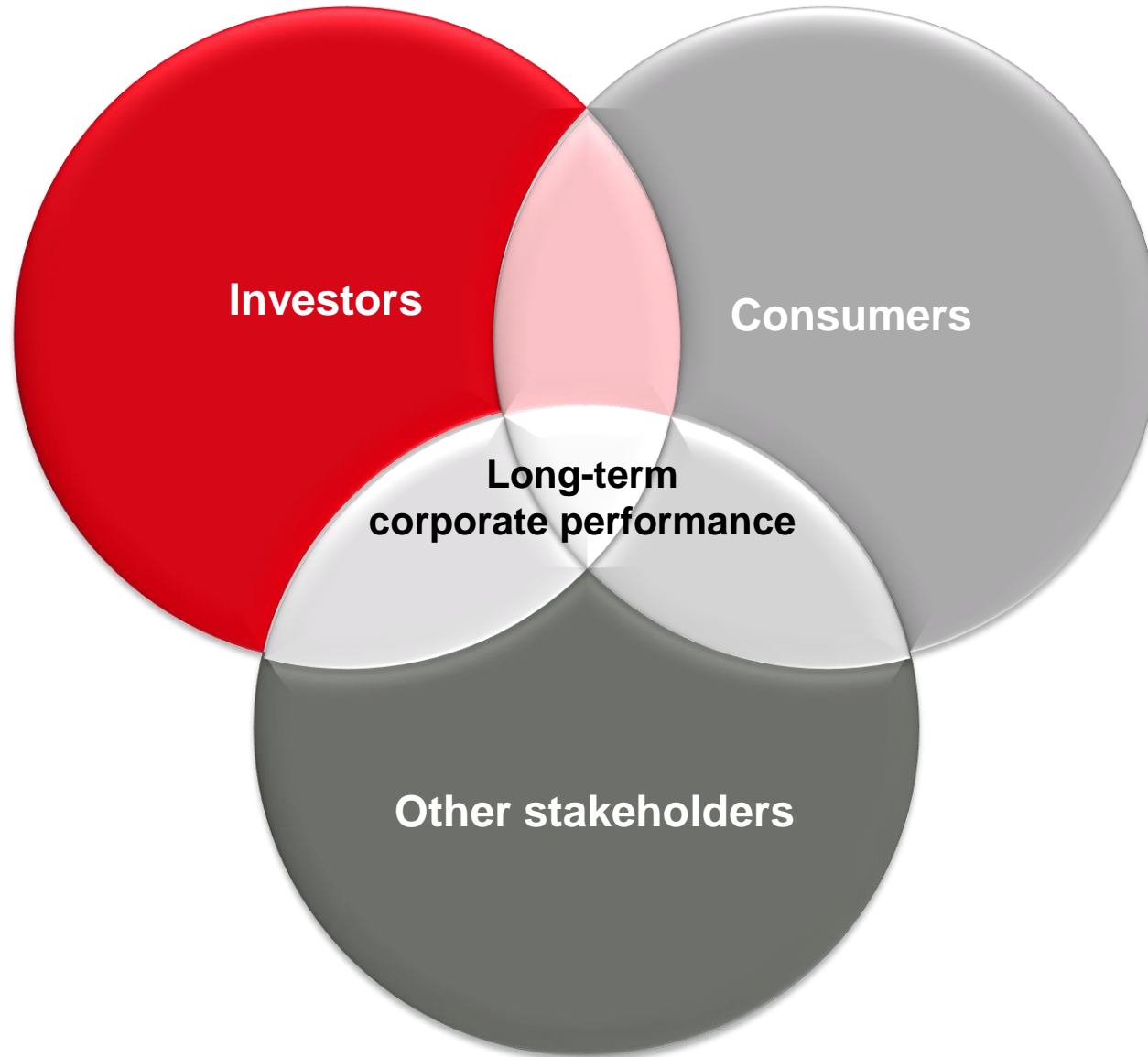
- **17 Sustainable Development Goals ('SDGs')** adopted by UN Member States and came into force **6 January 2016**, for the year 2030
- **Universal call to action** to end poverty, protect the planet and ensure that all people enjoy peace and prosperity

## ESG Framework



- **Environmental, Social and Governance (ESG)** are three central factors in measuring the sustainability of an investment in a company
- **UN Principles for Responsible Investing (PRI)** established in **April 2006** to encourage the incorporation of ESG into investment practice

# 1 Increasing expectations from across stakeholder groups

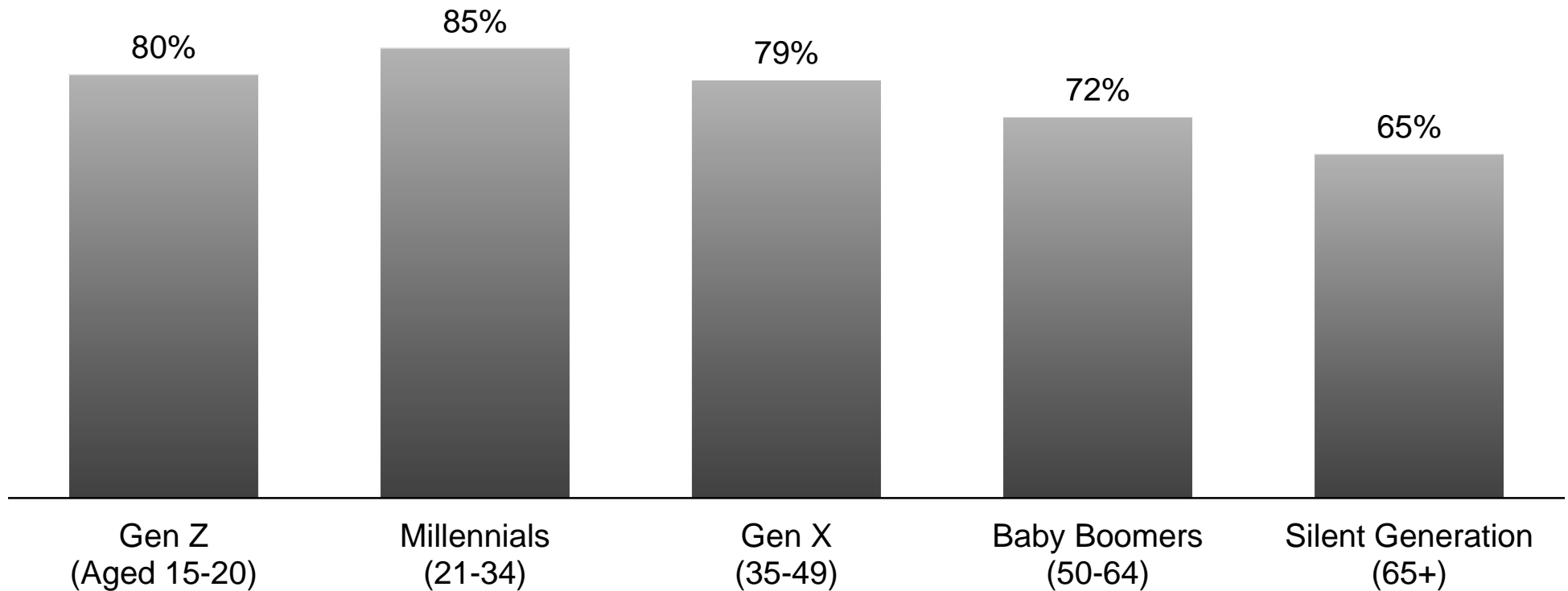




# 1 Millennials, Gen Z and Gen X are the most engaged

It is “extremely” or “very” important that companies implement programs to improve the environment

% of global respondents



# 1 Overall, 39% of investors allocate funds to sustainable investments



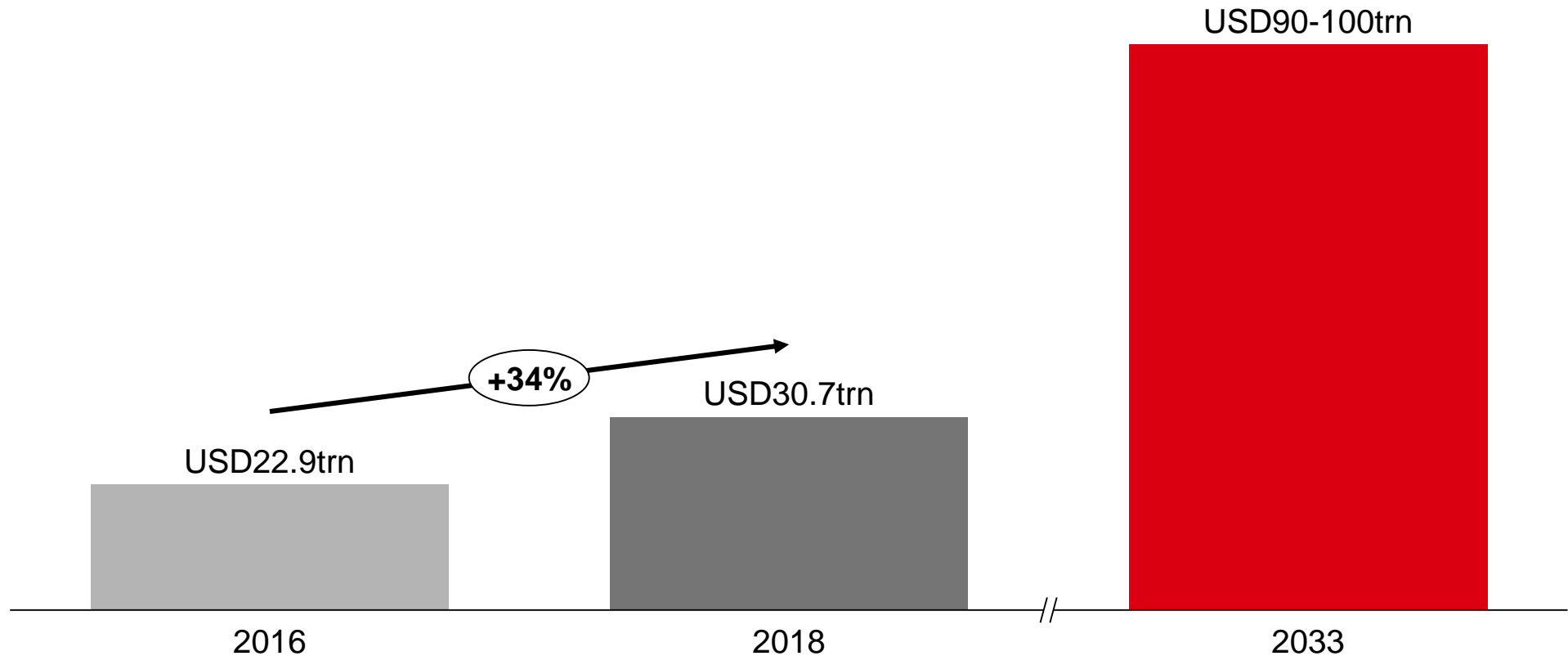
Source: UBS Investor Watch Survey (2018); Percentage of investors with at least 1% of their investable assets in sustainable investments

1. Percentage of investors with at least 1% of their investable assets in sustainable investments

## 2 ESG factors are becoming increasingly mainstream

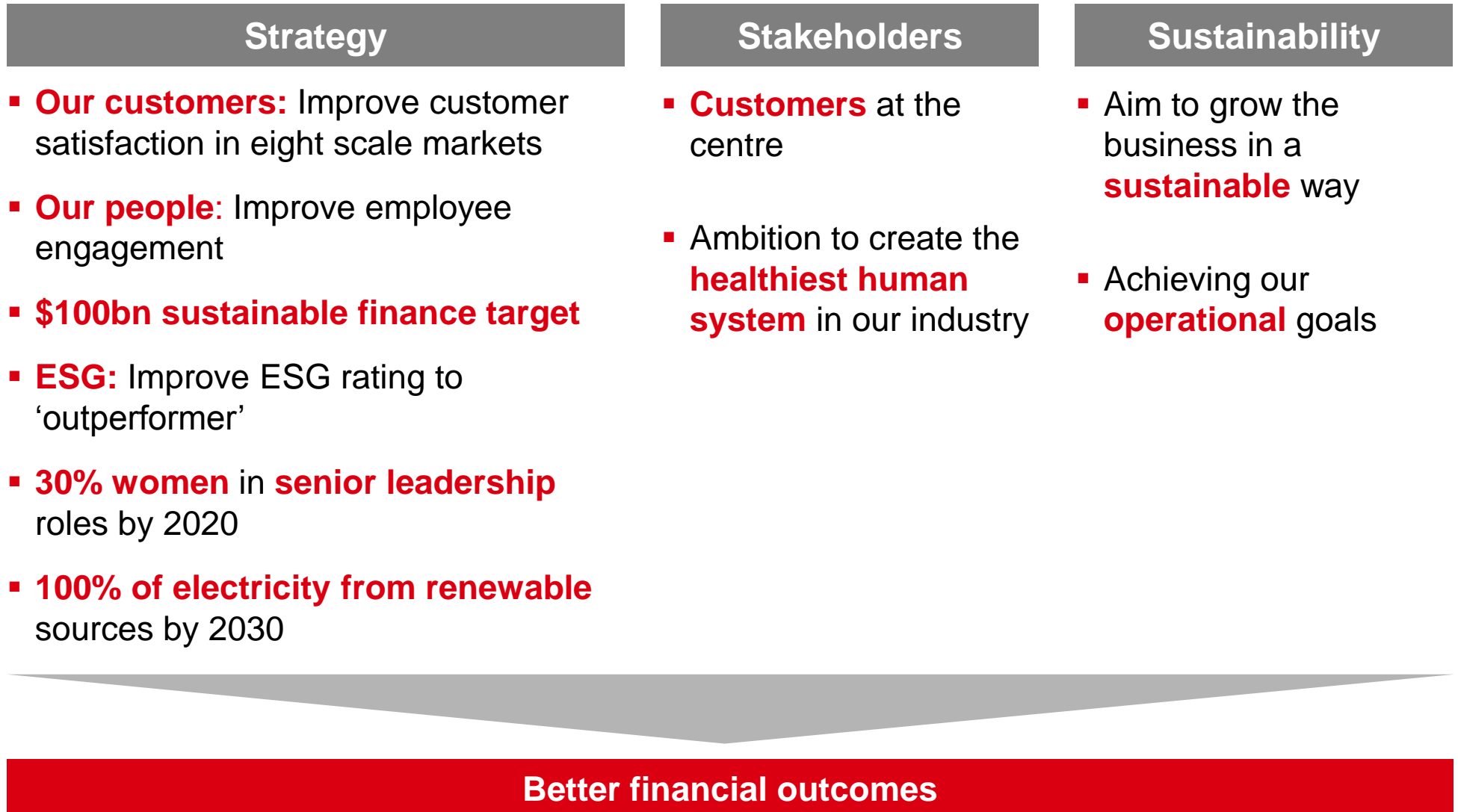
**Sustainable investment assets that take into account ESG factors in portfolio selection and management**

**Investment needed to address climate change by 2033**



1. Source: Global sustainable investment alliance (2019), Global Investment Review  
2. Source: New Climate Economy, The sustainable infrastructure imperative : financing for better growth and development  
3. Source: Global Commission on Economy and Climate

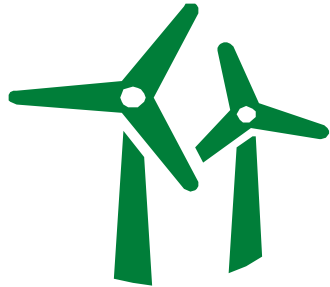
### 3 HSBC decided to systematically integrate sustainability into strategy



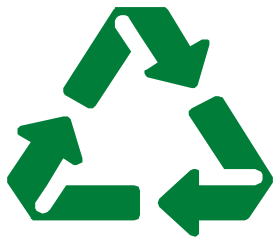
1. Source: HSBC ESG Update – published 8 April. [www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies](http://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies)

### 3 How does HSBC think about sustainability?

#### Environmental



Low carbon transition



Our operational sustainability

US\$100bn sustainable finance target

#### Social



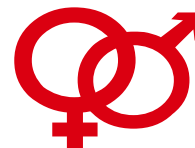
Our customers



Our people



Mental health



Gender

Improve customer satisfaction in eight scale markets  
Improved employee engagement

#### Governance



Cyber security



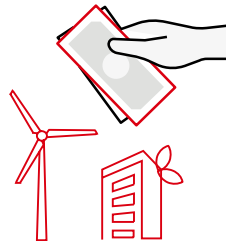
Financial Crime Compliance

ESG rating: 'Outperformer'

### 3 Environmental: Supporting the global transition to the low-carbon economy

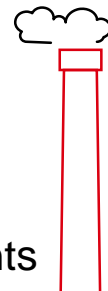
#### Sustainable Finance

- **Target: \$100 billion** of sustainable financing and investment to be provided and facilitated by 2025
- **Progress: \$28.5 billion** cumulative progress since 2017



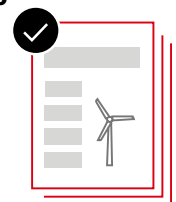
#### Sustainable Operations

- **Target: 100%** of our electricity will be from renewable sources by 2030
- **Progress: 29%** signed renewable electricity from power purchase agreements



#### Task Force on Climate-related Financial Disclosure ('TCFD')

Sector	% of total wholesale loans and advances to customers and banks in 2018
Oil & Gas	≤ 3.9%
Building & Construction	≤ 3.8%
Chemicals	≤ 3.9%
Automotive	≤ 3.4%
Power & Utilities	≤ 3.0%
Metals & Mining	≤ 2.8%
<b>Total</b>	<b>≤ 20.8%</b>



# 3 Environmental: Supporting the global transition to the low-carbon economy

## TCFD recommendations

<b>Governance</b>	<ul style="list-style-type: none"><li>Describe the board's oversight of climate-related risks and opportunities.</li><li>Describe management's role in assessing and managing climate-related risks and opportunities.</li></ul>
<b>Strategy</b>	<ul style="list-style-type: none"><li>Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.</li><li>Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.</li><li>Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, incl a 2°C or lower scenario.</li></ul>
<b>Risk Management</b>	<ul style="list-style-type: none"><li>Describe the organization's processes for identifying and assessing climate related risks.</li><li>Describe the organization's processes for managing climate-related risks.</li><li>Describe how processes for identifying, assessing and managing climate related risks are integrated into the organization's overall risk management.</li></ul>
<b>Metrics and Targets</b>	<ul style="list-style-type: none"><li>Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</li><li>Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.</li><li>Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</li></ul>

## 2017 and 2018 disclosure

- ✓ **Two years of TCFD disclosures published in the Annual Report.**
- ✓ **Qualitative disclosure on Governance, Strategy, and Risk Management topics.**
- ✓ **Approach to transition risk published in April 2018 ESG Update**
- ✓ **Quantitative data on impacted industry sectors published using a materiality based approach**

## Next steps

- ✓ **Engage with academia, industry associations and civil society networks to support robust scenario analysis to price transition and physical risk**
- ✓ **Develop transition metrics and disclosures**





*Any questions?*

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## Future webinars and events

### Webinars

- ◆ 21 January 2020, CASS Audits: what you need to know (60 minutes)
- ◆ 28 January 2020, Ethical use of big data (30 minutes)
- ◆ 13 February 2020, LIBOR transition: what banks, insurers and investment managers need to do (60 minutes)

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