Factsheet – An introduction to Sustainable Finance

In 2020, there were 13,450 people employed in the financial and legal services sector in Jersey. This is 22% of the total labour force. It is estimated Jersey's finance sector has over £365 billion in assets under management.

Jersey's finance sector has high industry standards and compliance with international obligations. In the last published Global Green Finance Index[1] Jersey was ranked 50th out of 74 international finance centres.

The finance sector in Jersey contributes to the economy through direct and indirect employment and the associated tax revenues, including the corporate tax revenues levied on the profits of the finance sector. The sector is largely managing the assets and money of their customers who do not live in Jersey, and the underlying assets being managed are also largely not located in Jersey.

Understanding the relationship of the finance sector with climate change is complex. The Government of Jersey has adopted a sustainable finance investment strategy. This covers the selection and monitoring of its investment managers for the public funds it manages.

In addition, the Government tasked Jersey Finance with developing a new 'Sustainable Finance' vision which was published in March 2021. Links to this document are provided at the end of the factsheet.

Carbon emissions from, and related to, the finance sector

The finance sector has direct and indirect impacts on greenhouse gas emissions.

Direct emissions come from the offices and buildings, from heating, power and transport. For the employees and offices located in Jersey these greenhouse gas emissions are captured in the Scope 1 and 2 emissions totals for Jersey.

The indirect impacts depend on the types of activities the business in Jersey engages in. In particular, the types of assets that the Jersey financial sector is managing.

The emissions resulting from the operations of these assets (e.g. a widget factory in Germany) will be captured in the Scope 1 and 2 emissions of the country within which they are located (Germany). In most cases none of the emissions resulting from the operation of the factory would be relevant to Jersey. However, there are economic links between Jersey and these emissions and Jersey does benefit, through the finance sector, from the activity that generated the emissions.

[1] Global Green Finance Index report Oct 2020 https://www.longfinance.net/publications/long-finance-reports/global-green-finance-index-6/

A fund company or bank's offices in St Helier may only have a small amount of direct greenhouse gas emissions. But they may have a connection to a large impact through the type of activities and services that they provide.

There are many other links between carbon emissions and the finance sector:
- Through Islanders' individual banking choices and financial investments
- Through the activities, assets and investments of Jersey-based businesses which take place outside Jersey
- Through the activities of businesses globally that use other services of the financial and legal companies based in Jersey

The risk of climate change on financial investments

As well as generating carbon emissions both directly and indirectly the finance sector will be impacted by climate change.

In 2019, the then Bank of England Governor Mark Carney warned of the impact that climate change could have on the global financial sector[2]. He said that firms need to do more to disclose their vulnerabilities. He also said they need to develop plans to address the negative impacts of climate change.

Climate change poses serious risks to some of the investments of the finance sector, or the investments they manage. It also presents opportunities through new investments and assets in climate action.

The risks include physical risks that might impact the value or viability of particular investments, for example, a coastal property prone to coastal erosion due to sea level rise. There is also the risk of stranded assets (i.e. assets like coal mines and other fossil fuel infrastructure that may be phased out before the end of their economic lives).

Other risks are the indirect effects of health and climate disasters, including wars over dwindling resources (like water and arable land), on the value of assets (held directly by the financial institutions or managed by them on behalf of their clients). Crop failures, droughts, wildfires, flooding, and superstorms could all cause climate migration, which again could impact on the value of these assets.

What is Sustainable Finance?

Sustainable finance is a term used to mean a lot of different things.

Jersey Finance defines it as: 'Finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects.[3]'

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[2] Speech by Mark Carney at the United Nations Climate Actions Summit 2019, Monday 23 September 2019, New York (www.bankofengland.co.uk)

[3] Jersey for Good - A Sustainable Future (www-jerseyfinance.je)

It brings together the decisions we make on how we invest our money with the impacts those investments have on the world. These financial global impacts are assessed against a set of internationally agreed environmental and social non-financial goals, agreed by nation states under international treaties, such as the Paris Agreement.

There is no single standard measure of how an investment meets an environmental or social objective. The UK is looking to develop its own standard as part of its Green Finance strategy. Presently, disclosure against these standards is voluntary but it is expected to become mandatory soon.

Sustainable finance, can be broken down into evaluating the activities of financial intermediaries that include:

- The provision of (new) finance to create good new things. e.g. wind turbines. It can also include non-directly related carbon issues – for example, educating women.
- The asset allocation policies pursued by asset managers. This can be in relation to both carbon and non-carbon related activities of the firms being invested in.
- The lending policies of banks (and similar economic activity) i.e. who they lend to and for what purpose.
- The direct behaviour of financial intermediaries in relation to their own carbon related and non-carbon related activities. e.g. use of non-fossil fuel electricity to power their computers etc, employment policies relating to women/minorities etc.
- The economic sustainability (meaning, in this case, the longevity of an institution) of financial intermediaries.

Industries can source finance from anywhere in the world, and those owners of wealth using international finance have a large number of jurisdictions to choose from. This means that if they cannot get their investments managed from Jersey they will go elsewhere. To make a difference to what activities actually get financed across the globe through targeting financial intermediaries there would need to be a high level of international cooperation.

Jersey for good – a sustainable future

In March 2021 Jersey Finance published its long-term strategy to build Jersey's reputation as a jurisdiction of choice for sustainable finance.

The report can be read at www.jerseyfinance.je/our-work/sustainable-strategy/.