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CDP Report: Financial Institutions Face Challenges in Addressing Nature-Related Risks

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In a report published in August 2023, non-profit disclosure organization **CDP concluded** that financial institutions often are not accounting for nature-related risks and opportunities in their "financial decision-making," and it urged these organizations to recognize the link between the impacts on climate and nature. In **"Nature in Green Finance: Bridging the gap in environmental reporting,"** CDP states: "While climate change is now widely considered within financial institutions' strategies, disclosure and action on forests, water, and broader nature-related issues lag significantly behind," although "several trends indicate a gradual shift in financial institutions moving beyond tackling climate change in isolation, to addressing nature in tandem."

According to CDP, nearly 95% of the 556 banks, insurers and asset owners surveyed reported that climate change influences their business strategies or financial planning. However, less than a third responded that forest issues and water security have an impact on their financial strategies. Currently, only 10% of the financial institutions surveyed measure their portfolio impact on forests and water, although an additional 30% plan to start doing so in the next two years. In the report, the CDP acknowledged that meaningful target setting, a key part of transitioning to net zero, continues to be a significant challenge for most financial institutions. Only 29% of those surveyed have set portfolio targets for climate change. Notably, while just one in 10 financial institutions have metrics in place to measure their portfolio impact on forests and water, 23% of the banks surveyed have begun including forest-related covenants in financing agreements and 21% include covenants related to water.

The CDP attributes a lack of governance mechanisms and board-level expertise for its findings. According to CDP, “26-28% of boards have business strategies or financial planning influenced by nature-related risks and opportunities,” while “board oversight and assessments of nature-related risk exposures rise to 51% and 45-47% when including those financial institutions that intend to address these issues within the next two years.” CDP further reports that “91% of FIs reporting to CDP have board-level oversight of climate-related issues, compared to 32% with oversight of forests and/or water-related issues. Even fewer FIs have at least one board member with competence on climate (68%) and/or nature-related issues (24%), underscoring the need to enhance board-level competence on environmental issues as a whole.”

Although an increasing number of financial institutions are identifying greater climate and nature-related opportunities compared to risks, less than 30% are capitalizing on these opportunities to provide green financing solutions that support businesses in mitigating deforestation and water-related impacts.

Taking the Temperature: Biodiversity and habitat preservation is a growing area of focus. In December 2022, nearly 200 countries at the United Nations Biodiversity Conference (COP15) adopted the Global Biodiversity Framework (GBF), agreeing to protect at least 30% of the planet’s lands, inland waters, coastal areas and oceans by 2030 (known as the “30x30” target). The GBF centers nature and biodiversity as a key part of the discussion around financial institutions’ climate change goals. As the CDP report points out, “with the World Economic Forum estimating that US$44 trillion of economic value generation - over half of the world’s total GDP - is moderately or highly dependent on nature and its services, nature-related risks and opportunities” can be materially significant for financial institutions. As the report also points out, there is significant guidance on nature-related reporting, with, for instance, the Task Force on Nature Related Disclosure (TFND) just recently having published its final recommendations for voluntary nature-related disclosures. The TFND recommends 14 disclosures to “promote the provision of clear, comparable and consistent information by companies to investors and other providers of capital. The Taskforce provides a set of metrics for measurement and a suite of guidance to help organizations get started on nature-related assessment and disclosure.”

CDP is hardly the first organization to focus on biodiversity strategy, financing and reporting. Regulators have urged financial institutions to assess nature-related climate change impacts as another aspect of risk to financial stability; in March this year the EU announced its carbon sinks initiative. The UK launched an inquiry into directing capital towards nature recovery and earlier this year, announced jointly with France, that the two countries had developed a roadmap to boost the biodiversity credits market. And, the United Nations announced the formation of a 35-member bank-led working group to promote nature- and biodiversity-related target setting that is aligned with the Kunming-Montreal GBF adopted at COP15 last year, as well as to implement other climate-related market standards such as the recommendations of the TFND. At the same time, significant challenges remain, including those highlighted in the CDP report as well as, for instance, continuing illegal deforestation, and questions surrounding the sources of capital to fund nature-related conservation efforts.