

A photograph of a man and a woman in a market setting, both wearing face masks. The woman is in the foreground, looking down and counting a stack of banknotes. The man stands behind her, looking on. The background shows a busy outdoor market with various stalls and people. The entire image is overlaid with a semi-transparent blue filter.

Financial System Transformation

Scoping Report

January 2021



**World
Benchmarking
Alliance**

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- **The proposed financial system transformation benchmark aims to accelerate the contribution of the financial system to sustainable development, in line with progress against internationally defined planetary goals and social norms.** Namely, the United Nations Sustainable Development Goals (SDGs), the Paris Agreement, and the UN Guiding Principles on Business and Human Rights (collectively, the global goals).
- Living within the means of our planet and leaving no one behind requires economic activity to respect natural resource limitations and social norms. **This means transforming how the financial system operates.** Today, economic activity – driven and shaped by the financial system – is contributing to breaches of global environmental and societal conventions. We are far from a world in which no-one is left behind. These breaches affect us all, but not equally; the most vulnerable – overwhelmingly those in the global south – are disproportionately more affected.
- Such a transformation requires many changes. **Financial institutions need to acknowledge and act on their impact on people and the planet – direct and indirect, positive and negative, intended and unintended – with that impact defined relative to the global goals.** This calls for a significant shift in the quality and comparability of evidence of financial institutions' commitments, activities and performance, so that:
 - financial institutions acting as intermediaries in the system can better measure and manage their environmental and social performance
 - users of the system can make better informed financial choices – whether as owners of capital (individual savers, pension fund holders and citizens on whose money the system is leveraged) or as individuals, households, corporates and governments seeking financial products and services
 - policymakers, regulators and supervisory bodies can better address the negative externalities that are costing us heavily, incentivising and penalising system participants through fiscal policy and other mechanisms.
- **This is a high bar, and one that the system is far from reaching today.** The net effect of this is increasingly obvious in terms of climate change, biodiversity loss and rising inequality, and although the financial system is a fundamental driver of the existing economy and the transformation we need, in reality “we have no idea how much financing is contributing to good and how much to greater inequalities and unsustainable ends”¹. Despite increasing interest in and talk about responsible investment practices across the industry, the majority of capital flows do not self-identify as responsible or sustainable. Moreover, those that are considered responsible or sustainable lack a common denominator against which progress can be assessed (namely, the planetary and societal needs defined in the global goals) and which remain urgent and stark. Enormous amounts of capital remain committed to economic activities that have been known for years to be destructive. The estimated capital gap needed to meet the SDGs keeps growing.

- **Financial institutions are beginning to acknowledge the systemic risks posed by their collective failure to meet the global goals. Their public commitment to achieving the goals has accelerated, notably in the field of climate mitigation. But action is harder to measure, and commitments to other global goals are rare.** Although some have complained about a proliferation of corporate sustainability disclosure initiatives², many financial institutions fail to hold themselves to uniform standards of disclosure. There are fewer frameworks for assessing the progress of financial institutions specifically, and hardly any for measuring progress that use the denominator of the global goals. There is no publicly available global accountability mechanism to shed light on the progress of keystone financial institutions against these cross-industry, international standards.
- **A handful of frameworks, existing or in development, standardise the approach asset owners, asset managers, banks and insurance companies can use to evidence their sustainability commitments and activities. But the financial system still lacks methods for measuring how financial institutions are performing against the global goals.**
- **The benchmark aims to encourage the acceleration in development and uptake of frameworks that can help close the gap in measuring performance against the global goals.** This scoping report highlights the systemic influence of keystone actors in three broad areas of impact: organisational practices; market signalling; and capital allocation and financial products and services. It explores the

potential of a global benchmark to incentivise financial institutions' use of and disclosure against standardised frameworks based on global goals, some of which still need to be built.

- **We invite feedback on the scoping report and have included questions throughout to that effect (see the Next steps section for the full list of questions).** Readers can use the form available [here](#) to provide feedback that we can use to inform the development of the benchmark methodology throughout 2021. We are seeking feedback from the proposed users of the benchmark, which are:
 - financial institutions, including industry associations, both within and outside the [scope of the benchmark](#)
 - organisations responsible for developing disclosure frameworks and standards, as well as other accountability initiatives
 - policymakers, regulators and supervisory bodies
 - representatives of civil society, including academics working on related topics.

We are particularly interested in the views of those in the global south, where local action can help disrupt the unsustainable operating practices of the global financial system, which is dominated by actors in the global north. Although all would benefit from a transformed financial system as articulated here, those in the global south stand to gain the most.

We face a convergence of crises. As the COVID-19 pandemic continues to rage, the world is simultaneously grappling with deep schisms on the issues of inequality and racial injustice, a worsening climate emergency, an alarming loss of biodiversity, and a growing trust deficit between citizens and the institutions with which they engage. Underlying all of this is a fundamental sense of urgency regarding the United Nations Sustainable Development Goals (SDGs), as our nine-year runway to 2030 – the deadline for achieving these goals – continues to shorten. Finance is a crucial factor in achieving the SDGs and other urgent global goals, and yet the financial system's operating norms are driving fundamentally unsustainable decisions and behaviours throughout the economic value chain.

Even before COVID-19, estimates put the cost of financing the SDGs at between US\$5 trillion and US\$7 trillion annually, with half of that amount – or approximately 3% of global gross domestic product (GDP)³ – needing to come from private capital. The pandemic has exacerbated the SDG financing gap: more recent estimates suggest that just recovering from the pandemic and its impacts could cost at least 10% of global GDP. This challenge goes beyond an SDG funding gap. It has also made real the threat to financial institutions – and by extension the economy, people and planet – of economic volatility, persistent short-termism in markets and misalignment with societal expectations.

Given the current state of affairs, we must urgently prioritise the transformation of our global financial system into one that is more focused on and aligned with long-term outcomes, and that prioritises inclusive and sustainable development. It is for this reason that the World Benchmarking Alliance (WBA) has been exploring the development of a financial system benchmark.

The private sector has a crucial role to play in meeting the SDGs and contributing to a more sustainable future. Core to this is avoiding and addressing the negative impacts associated with its activities, which requires systematically incorporating basic due diligence processes. Achieving all this requires a real change in the way the impact of business is measured, managed and disclosed.

Together with a global, multi-stakeholder community of Allies, WBA is developing free, publicly available benchmarks that will assess and rank the world's 2,000 most influential companies by 2023 on their performance and contributions to achieving the SDGs. Our benchmarks are informed by best available science; based on extensive research and multi-stakeholder consultations; and aligned with existing norms, standards and frameworks. They are also grounded in seven systems transformations (see Box 1) – social; decarbonisation and energy; food and agriculture; digital; circular; urban; and financial – that are necessary to put society, the economy and the planet on a more sustainable path.

Background and context

The dual role of the financial system puts it in a unique position: it must undergo its own transformation while also operating as a vital enabler of the other six systems transformations. If we are to live equitably and sustainably on this planet, the financial system must urgently move beyond short-termism and an incremental risk mitigation approach, deploying an ‘impact lens’ aimed at minimising harm and maximising benefits. This transformed system will also have a greater appreciation of its global impacts, as decisions taken in Tokyo, London and New York have far-reaching and far-flung implications, arguably more than in any other system.

We have explored the transformation needed within the financial system itself, and the potential to accelerate this by focusing on the contribution to that transformation of the world’s 400 most influential financial institutions⁴. We have been scoping the use case for a benchmark that could reveal – to financial institutions and relevant stakeholders – where each institution stands compared to its peers, and where urgent action is needed. Our scoping takes into account the fact that ranking and measuring institutions will be a multi-year process, intended to provide the guidance needed to drive change and create accountability for those that do not change. The benchmark would aim to empower all stakeholders – consumers, policymakers, employees, business leaders and impacted communities – with key data and insights that encourage sustainable business practices across the value chain.

BOX 1: SEVEN SYSTEMS TRANSFORMATIONS

The 2030 SDG agenda requires us to challenge our current thinking and actions. Business as usual or incremental progress will not deliver the change needed to achieve the SDGs. WBA has learned over the course of global stakeholder consultations involving more than 10,000 people that since all areas are interrelated, we cannot assess progress issue by issue, or SDG by SDG. Similarly, we cannot afford to focus solely on individual companies or even individual industries; with less than a decade left to realise the SDGs, the clock is ticking. WBA has identified seven systems transformations we believe are vital to setting our society, economy and planet on a more sustainable and resilient path.

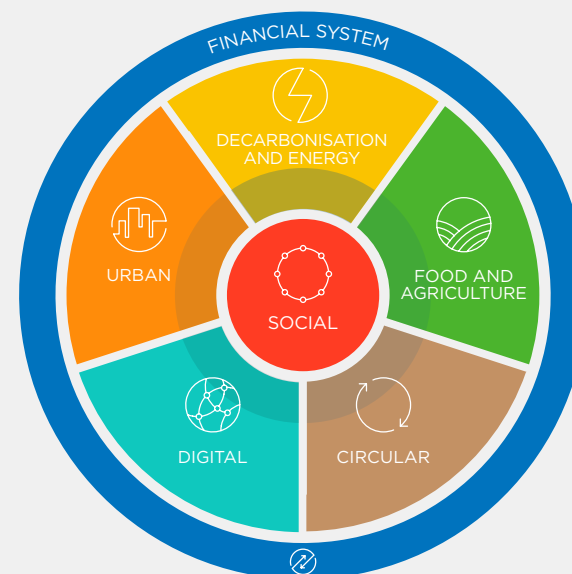
The following explains six of these systems, and how the seventh, the financial system, can support their transformation by reorienting the flow of resources in a way that accelerates the economy’s transition towards long-term sustainable development (see Figure 1).

1. **Social:** The social system transformation aims to achieve universal human development by respecting human rights, promoting equality, and empowering people to pursue the opportunities and choices they face. It also underpins and enables the other six transformations. The financial system can support this transformation by incentivising companies and others in the investment chain to respect human rights, provide decent work and act ethically, to address inequalities and ensure no-one is left behind⁵.

2. **Decarbonisation and energy:** A transformed decarbonisation and energy system would provide universal access to modern energy services while significantly reducing the world's dependency on carbon-based energy. A major transformation is needed to align this system with global efforts to limit global warming, and to prevent the worst impacts of climate change. The financial system can support this transformation by reorienting the flow of capital towards companies and industries that facilitate the transition to a low-carbon economy, in line with the 1.5-degree pathway outlined in the Paris Agreement.
3. **Food and agriculture:** Once transformed, the food and agriculture system would produce healthy and nutritious food to feed a growing world population while staying within planetary boundaries, and also offering farmers, fishers and their families a decent standard of living. The financial system can support this transformation by reorienting the flow of capital towards companies and industries that promote biodiversity and the protection of ecosystems, and those that fairly compensate individuals throughout the value and supply chain.
4. **Digital:** Transforming the digital system would harness the potential benefits of digital technologies for all, while managing the associated risks – including safeguarding against undesirable effects. The financial system has contributed to the consolidation of power among a few digital companies. To address this, it can support system transformation by prioritising digital inclusion as a fundamental driver for sustainable and equitable economic growth.

5. **Circular:** The circular system would be transformed to decouple consumption and production from natural resource use, and to avoid waste and pollution by design. The financial system can support this transformation by investing in circular models that promote growth and regeneration while curbing unsustainable extraction practices.
6. **Urban:** Transforming the urban system would involve creating sustainable, inclusive and connected cities that are safe, resilient and clean. The financial system can support this by investing in clean and resilient infrastructure and real estate that can support burgeoning populations while protecting the environment.

FIGURE 1: SEVEN SYSTEMS TRANSFORMATIONS



Background and context

The benchmark development process

This report is the result of several months of scoping. It is based on a combination of dialogue and research that took place throughout 2020, including a literature review; 75 interviews with experts; and seven regional consultative dialogues with more than 200 participants, representing different stakeholder groups across the financial system (see 'Acknowledgements').

The report sets out WBA's thinking regarding the direction for the benchmark, and this will inform the development of the draft methodology throughout 2021. It includes fundamental questions for consideration, including the potential for wider collaboration in meeting some of the gaps identified, and how we might work together to create sector strategies that align more consistently on relevant financial industry frameworks and tools. It is only the first step, and as such we welcome your [feedback](#) on the ideas laid out (see 'Next steps').

Most importantly, the report lays out our thoughts on the core question of how a benchmark might drive keystone financial institutions to take the right actions, influencing systemic change towards the achievement of globally agreed sustainability goals.



Key elements of a financial system

A financial system is the foundation of any functioning economy. It enables the quick and safe transfer of money – in exchange for goods or services, or to enable financial flows. The system helps keep our money safe, by mitigating and managing risk on our behalf – and by protecting us, through insurance, from loss of money and other assets. It enables us to grow our money over time, by providing returns on excess capital (savings) that can, for example, provide the stable, steady income required in retirement. And it facilitates growth in the overall economy, driving investment in the entrepreneurs and businesses that need funding to deliver goods and services around the world. The financial industry makes up a large part of most developed economies, employing millions of people worldwide.

Given the increasingly globalised nature of the economy, the financial system has evolved into a highly complex web of transactions, in which financial institutions act as intermediaries. Everyone has a stake in the financial system, and the majority have some level of day-to-day interaction with it – as individuals, households, businesses and governments. At the same time, financial institutions are increasingly assessed as having lost sight of the individuals and entities they are intended to serve.

A multi-year inquiry led by the United Nations Environment Programme Finance Initiative (UNEP FI) concluded that the purpose of the financial system “is to serve the needs of society by facilitating payments, aggregating, protecting and allocating savings to the most productive uses, and managing risk in ways which support an inclusive and sustainable real economy”⁶. But today’s system – its culture, organisations, education, regulation and networks – seems geared more towards maximising financial value, confusing the means (financial activity) with the ends (society’s needs)⁷.

The further citizens are from having an active stake in the financial system, the less their voice is heard. Worse still, those who have the least voice are disproportionately more affected by the aggregate actions of the system. At present, there is enormous inequity in global capital flows and access to financial products and services. Close to 1.7 billion people lack access to a bank account or similar financial services. Despite the proliferation of ‘responsible’ and ‘sustainable’ investment products, environmental, social and governance (ESG) integration is not commonplace globally. Additionally, in their current form, it is impossible to measure the contribution (positive or negative) that these products make to actual sustainable economic activity or efforts to close the gap between current reality and the global goals.

Setting the scene

What we do know is that this gap is growing. The SDGs are the most comprehensive set of global sustainability goals we have, aligning public, private and civil society regarding the scale and urgency of the issues we all face. “Achieving the 2030 Agenda is not only an ethical and political imperative, it is a risk mitigation strategy”⁸, but there is not one country on track to meet all SDGs by 2030. At the 2019 rate of progress, it would be 2082 before all SDGs are realised – and that was before COVID-19, which is likely to set back progress by at least another ten years⁹.

The importance of sustainability in the financial system

Economic activity has placed the world on an unsustainable and increasingly fragile path. This unsustainable trajectory is certainly concerning for people and the planet, but it is also highly relevant to financial institutions, threatening their future viability. Climate change is the most obvious and widely accepted systematic risk to the financial system, posing potentially devastating shocks to the economy. Initial estimates suggest that physical damage from climate change could reach one-tenth – or as much as one-fifth – of global GDP by the end of this century, valued at between US\$8 trillion and US\$17 trillion¹⁰. As noted by the CEOs of influential insurers and reinsurers, their business model might be viable in a world with 2-degree warming, but not if the planet warms by 4 degrees¹¹.

More than half of global GDP depends on high-functioning biodiversity and ecosystem services. The enormous impact of the Anthropocene is evident in the fact that 2020 may be the year human-made mass surpassed the planet’s total biomass for the first time, estimated to be roughly 1.1 trillion tonnes¹². The failure to adapt to and mitigate climate change, a related increase in extreme weather events, loss of biodiversity and ecosystem collapse, and food and water crises will cause irreversible catastrophic damage to people and the planet¹³.

In addition to these climate and biodiversity risks, persistent and rising inequality also poses a systemic risk. The financial system has enabled the accumulation of wealth among a few, who do not spend proportionate to their relative income. In other words, this accumulating wealth does not circulate through the economy, and does not necessarily lead to productive economic growth via further investment. Over recent decades, investment has increasingly flowed to consumer-oriented industries “rather than more productive industries that are required as the backbone of economies. Significant investment has flowed to consumer conveniences such as iPhone apps versus affordable housing, sustainable infrastructure, and sustainable agriculture”¹⁴. In the banking sector, global banks direct less than half of their total assets to lending in the real economy¹⁵.

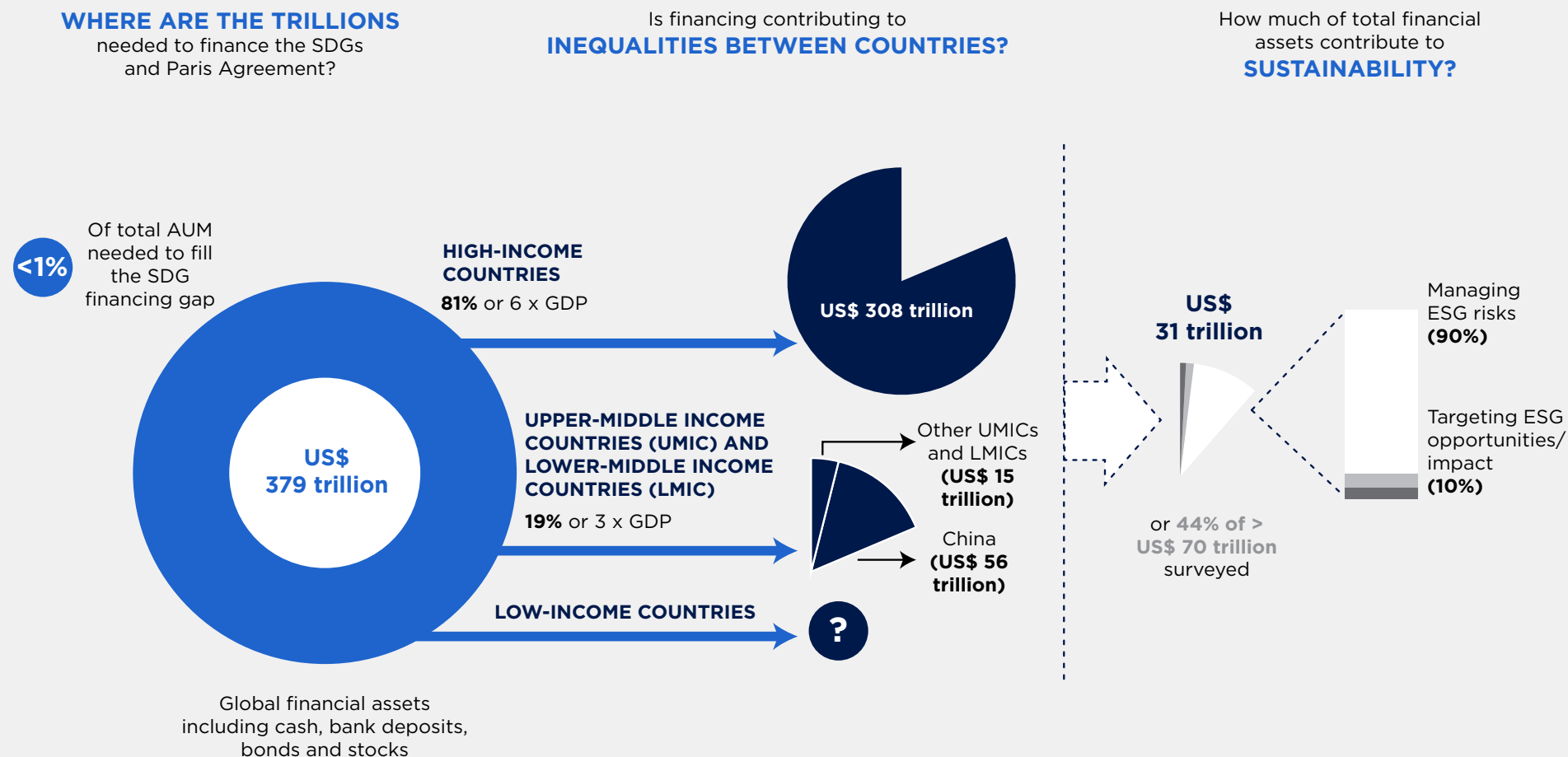
Setting the scene

This inequity is evident not just within countries but between countries, with enormous inequity in global capital flows (see Figure 2). Less than 4% of global wealth flows to lower- and upper-middle-income countries (excluding China), which comprise 50% of the world's countries – where the effects of not achieving the SDGs are likely to be most acutely felt. This is in stark contrast to the more than 80% of financial flows servicing high-income countries. Worse still, private inflows to developing country markets have collapsed during the pandemic, with growth prospects in developing countries at their lowest level since World War II¹⁶.

Although the effects of climate change, biodiversity loss and rising economic inequality have a disproportionately negative impact on the world's more vulnerable populations, they are not limited to specific regions. As the 2008 financial crisis demonstrated, issues that may seem specific to products or regions (like sub-prime mortgages in the United States) can quickly ripple through a globalised real economy and the entire financial system.

So far the industry's response to these systemic challenges – including the transition risk posed by the policy changes underway to address these aggregate risks – has been insufficient, and mainly couched in the language of responsible investment. This response is inadequate considering the system's responsibility for and influence on the unsustainable trajectory of the global economy. Despite the significant move towards responsible investment in recent years, the minority of capital flows indicated in Figure 2 self-identify as 'sustainable'. The US\$30.7 trillion of assets under management (AUM) targeting socially responsible investments represents a snapshot as at 2018, the most recent global figure available, and one that will have increased since then¹⁷. Applying a narrower framework, the impact investment market is estimated at US\$715 billion¹⁸. Yet despite efforts from within the responsible and impact investing communities, these self-applied definitions fail to enable comparability and accountability regarding the actual impact of these capital flows, especially how they align with global goals¹⁹. Meanwhile, enormous amounts of capital remain committed to financing harmful economic activity – such as carbon-intensive industries and continued fossil fuel extraction – supported by recent emergency economic stimulation programmes from central banks²⁰.

FIGURE 2: HOW MUCH OF THE TRILLIONS IN THE SYSTEM ARE CONTRIBUTING TO EQUITY AND SUSTAINABILITY?²¹



Setting the scene

Financial institutions – particularly the ‘keystone actors’ with the opportunity to influence, as explained in the next section – are beginning to acknowledge these systemic risks. This acknowledgement is just a first step; financial institutions also have a sizeable role to play in tackling them. As financial decision makers, they have an enormous opportunity to contribute to the necessary transformations of the entire industry in a way that can begin to address the systemic risks, and improve outcomes for people and the planet. A significant element of this transformation could come from systemically acting to minimise the harm caused by economic activity, instead of striving to achieve a positive impact via a small fraction of this activity. “Frankly, if more companies avoided harm through their operations, we would likely need fewer [investments that contribute to solutions that address identifiable social and environmental challenges]”²².

Industry operating norms as systemic barriers

Financial institutions have the opportunity to act as leaders in addressing the unsustainable operating norms of the financial system that most clearly illustrate the system’s disconnect with the needs of people and the planet. Given the significant influence and reach of the financial system, this disconnect is an issue for all people and for financial institutions themselves, affecting their social licence to operate. There is currently a “fracture between the financial world and the rest of society”²³. Financial services are among the least trusted of any sector²⁴.

This section highlights key interconnected systemic barriers: the failure to price in negative externalities; a focus on single materiality; self-definitions of sustainability; and short-term decision making concentrated in few hands. These are well-known issues that require a range of solutions. The purpose of summarising them here is to identify the cross-cutting challenges that are pertinent to all financial institutions within the scope of the potential benchmark (covered in the next section) and their relevance to the necessary transformation. These challenges will inform the design of the benchmark (in the final section of this report), which aims to identify, assess and rank what individual financial institutions can do to show leadership in these areas.

“[The] pattern of persistent unsustainable development is linked to the global financial system: a complex regime of institutions, organisations, regulations, practices and cultures that has become focused on transforming ecological and human capital into financial capital as efficiently as possible. It produces economic benefits and financial growth for relatively small groups of people and institutions, while externalising significant costs and risks that are borne by society and nature [...] This creates economic and financial system risks. The system cannot continue to develop along these lines indefinitely; tensions and pressures to transform will mount”²⁵.

Setting the scene

Failure to price in negative externalities

Many have argued that until financial institutions are required to price in sustainability impacts in investment decision-making processes, the negative externalities – carbon emissions, failing to pay a living wage and overfishing oceans, for example – will continue unabated, placing an unsustainable burden on society and the environment.

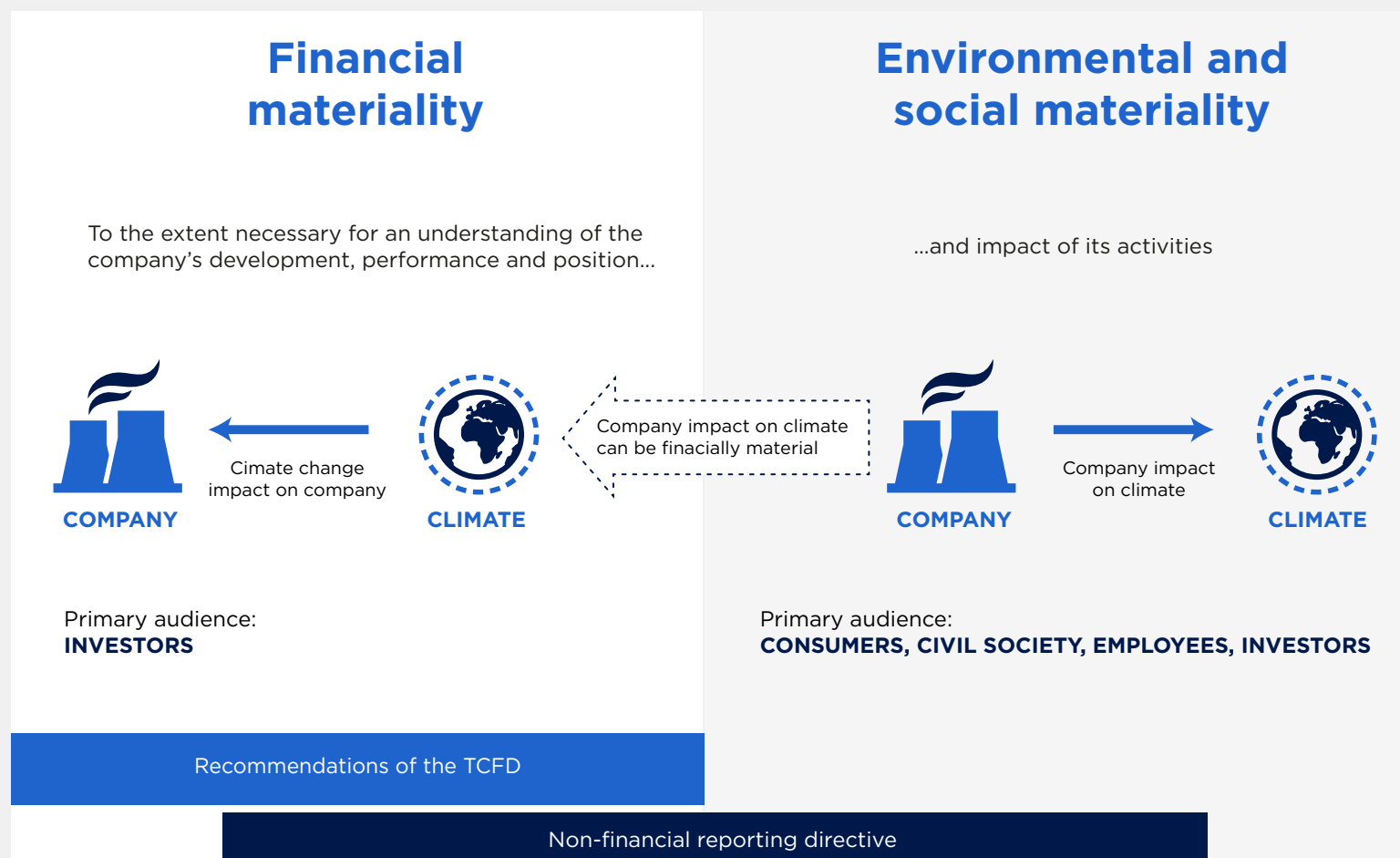
Carbon is one of the few areas where global pricing schemes – such as fiscal policies and emissions trading systems – have been introduced in a bid to curb such externalities. A few financial institutions have attempted to factor in, manage and report their positive and negative externalities in a more holistic way²⁶, alongside initiatives testing how to include environmental and social impacts in their financial accounts and company analysis²⁷.

An emphasis on single rather than double materiality

Companies and financial institutions increasingly undertake materiality assessments to identify non financial issues, including sustainability issues, that affect an organisation's financial value. Producing a sustainability report may now be the norm, but integrated reporting is not common practice among the majority²⁸. Not one country can say it is the norm for its financial organisations to present integrated reporting on the impacts on people and the planet.



FIGURE 3: THE DOUBLE MATERIALITY PERSPECTIVE OF THE NON-FINANCIAL REPORTING DIRECTIVE, IN THE CONTEXT OF REPORTING CLIMATE-RELATED INFORMATION



* Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements

Setting the scene

The European Commission's Non-Financial Reporting Directive (NFRD) (see Figure 3) draws on public interest and calls for change from the private sector, namely in how companies and financial institutions have an impact on people and the planet. It marks a significant regulatory shift, asking large companies and financial institutions to identify environmental and social issues materially impacted by their activities. The NFRD is intended to strengthen the link between impact and value creation (see 'The role of policy'), the absence of which leads to the constant demotion of impact-related information, undermining its quality and power to influence decision making. It also enables the cherry-picking and blind spots too often seen in sustainability reporting, to which we now turn.

Self-definitions of sustainability

Even when organisations do report their impact on people and the planet, the vast majority of corporate disclosure (and on which financial institutions base investment decision making, and can in turn report performance) is based on comparisons with past performance or the nearest suitable comparator. This reflects a self-defined concept of sustainability within the industry and by individual institutions within it, instead of a definition in line with what is actually sustainable according to the global goals. Nearly three-quarters of financial services firms sampled worldwide are reporting connections to SDGs, although the overwhelming majority only do so when reporting on positive effects²⁹. Reporting positive connections to the SDGs is not the same as using the goals as a common denominator for measuring, managing and

disclosing progress, making it impossible to assess sustainability and track progress. The Global Investors for Sustainable Development (GISD) Alliance recognised this shortfall in its definition of sustainable development investing, which “refers to deploying capital in ways that make a positive contribution to sustainable development, using the SDGs as a basis for measurement”³⁰.

As r3.0 references in its *Blueprint 6: Sustainable Finance*, “so-called sustainable finance as currently defined lacks a specific link between portfolio-level impacts on ecological, social, and economic resources, and the overall stocks of those resources at the macro-systems level. Accordingly, ‘sustainable’ finance as currently practiced has no mechanism for determining actual sustainability. To address this, sustainable finance will need to mature into a more robust definition of sustainability grounded in thresholds”³¹.

Externally defined sustainability thresholds first require global international agreements or goals that are widely accepted. The next step is country-, sector- and industry-level allocations that enable governments and industries to identify appropriate private sector activities. This enables companies and financial institutions to assess and manage performance in line with collectively defined, evidence-based boundaries.

Setting the scene

This approach is most evident in the field of climate mitigation. International scientific consensus established through the Intergovernmental Panel on Climate Change (IPCC) goal-setting report was the basis for the seminal 2015 Paris Agreement, in which countries submitted their nationally determined contributions. This has enabled significant developments, as multiple stakeholders have translated country-level allocations into sectoral pathways against which companies can assess their progress and be held accountable³². Although progress may seem slow considering the scale and urgency of the challenge, the Paris Agreement seems so far unique in its ability to seed such frameworks and tools. Indeed, it may prove to be a gateway to ‘threshold thinking’ in other areas of global need³³.

When it comes to social issues, people’s fundamental rights (to work, education, health, equal treatment and non-discrimination, for example) were recognised long before there was global consensus on environmental needs. Yet disclosure of private sector action in this area is lagging, and often relies on self-defined concepts of progress. Applying a threshold-based approach to such issues reveals the binary nature of progress. The right to be free from slavery, for example, is absolute: the target is zero incidents, and there is no acceptable situation other than a complete absence of slavery. The UN Guiding Principles (UNGPs) impose a global expectation that companies will articulate their responsibilities to respect human rights and provide a framework for achieving this. However, there are few global baselines for monitoring private sector progress in implementing the UNGPs, notwithstanding efforts by the

Corporate Human Rights Benchmark, the Business & Human Rights Resource Centre, BankTrack and others to drive high-risk assessments. Beyond the UNGPs, the UN and its partners are working to develop a threshold-based approach for core societal indicators that could be applied across regions and industries³⁴.

“To meet the challenge posed by the emergence of thresholds or performance standards that companies and investors are increasingly having to respond to, clear and common measurement metrics are required at the asset, economic activity, company, sector, or country level”³⁵.



Setting the scene

Short-term decision making

A short-term focus is commonplace in the financial industry. In public markets in mid-2020, the average holding period for United States-based shares was 5.5 months – a record low. European public markets display a similar trend, with holding periods down to less than five months³⁶. In addition to short holding periods, stock turnover is high: a typical actively managed domestic equity mutual fund in the United States changes its entire portfolio in just over a year. This short-termism is reflected in company decision making, and not just in the United States. For example, in the last 30 years there has been a trend among listed companies within the European Union to focus on short-term benefits for shareholders rather than the long-term interests of the company. “Data indicates an upward trend in shareholder pay-outs, which increased from 20% to 60% of net income while the ratio of investment (capital expenditure) and R&D spending to net income has declined by 45% and 38% respectively”³⁷.

This short-termism is also apparent in the banking sector. Making riskier decisions for short-term gain may lead to higher profits and attract short-term investors, but ultimately, taking on more risk can be highly damaging – as shown by the 2008 financial crisis. Time horizons for risk assessments are typically three to five years across the financial industry³⁸.

This can also be the case for certain types of non-life insurance, particularly annually renewed ‘short-tail’ business (such as motor or property), where only looking at the short-term horizon may make the longer-term impact of climate change (for example) seem small or hard to distinguish from natural variability. A longer-term assessment horizon would illustrate these more holistic trends, and the need for more immediate action to address them. This longer-term approach is necessitated in non-life ‘long-tail’ business (such as liability and marine) and life insurance. Altogether, there is a major responsibility and opportunity for the insurance sector in particular, as the risk manager and risk carrier for the global economy and financial system. Failure to act also represents a missed business opportunity: “while some insurers have established climate risk advisory services for clients, this is far from mainstream”³⁹.

Short-termism is also common in incentive structures. Financial decision makers are judged on relatively short-term results, often defined exclusively in financial terms. This exacerbates the bias against longer-term horizons and projects that are essential to sustainable development, amplifying wider systemic issues. For example, there is extensive research in developed markets – particularly in the United States – that short-termism in public markets fuels inequality, prioritising shareholders who increasingly represent the wealthiest members of society⁴⁰.

Setting the scene

Concentration of decision making in the hands of the few

Decision-making power is highly concentrated within the financial industry: 165 of the world's leading asset managers hold more than 65% of the total AUM⁴¹. In some ways, this consolidation benefits the ultimate owners of capital, producing economies of scale and reducing costs. It also presents an opportunity: if these relatively few actors change their behaviour, it could have a ripple effect on the market overall. (This is the theory of change behind WBA's keystone actor approach; see Keystone financial institutions section.) However, this consolidation of enormous influence is overwhelmingly in the hands of white, male actors who are based in developed countries (see Box 2), which leads to important questions about the extent to which these powerful decision makers represent the economic actors they exist to serve.

Reviewing some recent statistics from globally dominant financial decision-making centres indicates a cross-industry problem (see Box 2). Year-on-year analysis indicates change is afoot, but at a glacial pace.

"Many of these [financial services, products, policies and practices] are a legacy of a different era reflecting very different customer demographics and circumstances to those facing future generations"⁴².

BOX 2: A LACK OF REPRESENTATION

Multiple research reports from the United States and Europe point to the lack of diversity among financial industry decision makers in those regions.

- **Asset management:** A 2020 analysis of more than 700 investment groups found that only 11% of fund managers are female⁴³. Representation of people of colour in these regions is worse. For example, the United Kingdom trade body for asset managers found that fewer than 1% of investment managers were Black⁴⁴.
- **Banking:** In 2019, the United States House Committee on Financial Services requested data on diversity and inclusion from 2015 onwards from the largest American banks. It found that women and ethnic minorities were significantly under-represented, particularly in senior leadership, with the majority of boards remaining white and male⁴⁵. Another American survey found that only 15% of wealth advisers are female, which fails to reflect the seismic shift underway in the transfer of wealth from men to women (and between generations)⁴⁶.
- **Insurance:** Women hold nearly two-thirds of entry-level positions in insurance, but only 23% are present in the C-suite⁴⁷.
- **Pension funds:** In its recently published guide for pension schemes to improve diversity on their trustee boards, investment consultancy firm Aon revealed that only 20% of pension fund trustees are female and 2.5% are under the age of 30⁴⁸. The report also highlights the scarcity of data on Black, Asian and minority ethnic trustees.

Setting the scene

Why does this matter? Diversity in representation is linked to diversity of thought and better decision making, which can enhance risk-adjusted returns. Research into 2,400 investment teams by Willis Towers Watson found that globally diverse groups outperformed those with no gender or ethnic minority employees by an average of 20 basis points per year⁴⁹. More widely in the industry, financial interactions remain rooted in relationships and trust. Left unchecked, a lack of representation can lead to biases in capital allocations and the design and availability of products and services, both within countries and across borders. This in turn can result in a system that – often unconsciously – excludes rather than includes⁵⁰.

A connected but separate issue is that although the financial system is based on – and highly leverages – depositors' and savers' assets, many of those depositors and savers (individuals, households and companies) are unaware of how assets are stewarded on their behalf. Only the most engaged and persistent investors know how to navigate where their capital flows and to whom. The industry is not known for its transparency or simplicity. Even if investors are aware, they can often feel disconnected from and disempowered to participate in active decision making.

As intermediaries, financial institutions have a fiduciary duty on behalf of the party whose funds they steward, and their obligations towards clients are enshrined in various mandatory and voluntary codes. But this duty can be interpreted very differently by different parties, and many feel these codes do not go far enough. Organisations like ShareAction and Make My Money Matter are working to democratise finance, encouraging and supporting individuals and companies (through company pension funds, for example) to make clear how they want their assets handled and to hold financial institutions to account. This of course assumes that individuals have access to the system for their assets to be leveraged in the first place; as noted earlier, 1.7 billion adults remain unbanked.

“In a context where share ownership is concentrated in the richest households (such as in the US), achieving higher share prices and larger dividend pay-outs – the main objective of corporate executives focused on the short term – is beneficial to just a small fraction of a country's population (the share owners) and contributes to deepen the existing socioeconomic cleavages [...] The concentrated distribution of share ownership means that the shareholder primacy is in reality the primacy of a wealthy minority on a global scale”⁵¹.

The industry's systemic barriers cannot be addressed by market participants alone, but these participants do contribute significantly to enabling and sustaining them. Asset owners, asset managers, insurance companies and banks have the ability to enable, accelerate or hamper the transformation of the system, which is why they are the focus of this proposed benchmark.

All of these financial institutions provide individuals, households, companies and governments with a range of financial products and services that greatly facilitate their day-to-day lives or operations, enabling them to manage and mitigate risk, and to easily, swiftly and cheaply move money or exchange it for goods and services. Many also channel individuals' financial resources (those of pensioners, savers, the insured, taxpayers and investors) towards a productive use, fuelling economic activity⁵². In return, the increase in value of the assets invested in – and the profits or dividends associated with those assets – ought to reward the ultimate asset owner by increasing the value of their assets, while also financing the intermediaries' operations and profits. This flow of capital is set out in Figure 4 which underlines the interconnectivity of the core categories within the scope of the benchmark, as described briefly in Box 3.

Asset owners, asset managers, insurance companies and banks are all crucial to the system functioning sustainably. All have assets and liabilities to be managed, with obligations towards both sides of the ledger. They have responsibilities to the ultimate asset owners and beneficiaries (including policyholders) of the products and services they provide and – in the case of banks, insurers and some pension funds – they have some discretion in how they select and serve those clients. On the assets side, they also have responsibilities to allocate and steward that capital in a way that minimises harm to society and the environment, to avoid reducing the value of diversified portfolios for shareholders. This is particularly relevant if their responsibilities are long term – a life insurance policy or retirement plan can span decades, for example.

Although these elements of the financial system represent distinct industries, they are often heavily interconnected. Asset owners entrust asset managers with the management of assets. Often, asset owners are advised by investment consultants, who they pay to help them make investment decisions. Asset owners also invest in banks and insurance companies, which – as well as receiving deposits and insurance premiums (respectively) to help manage and mitigate risk – aggregate these resources and finance the economy. Furthermore, insurance companies insure assets and companies that investors invest in and that banks lend to.

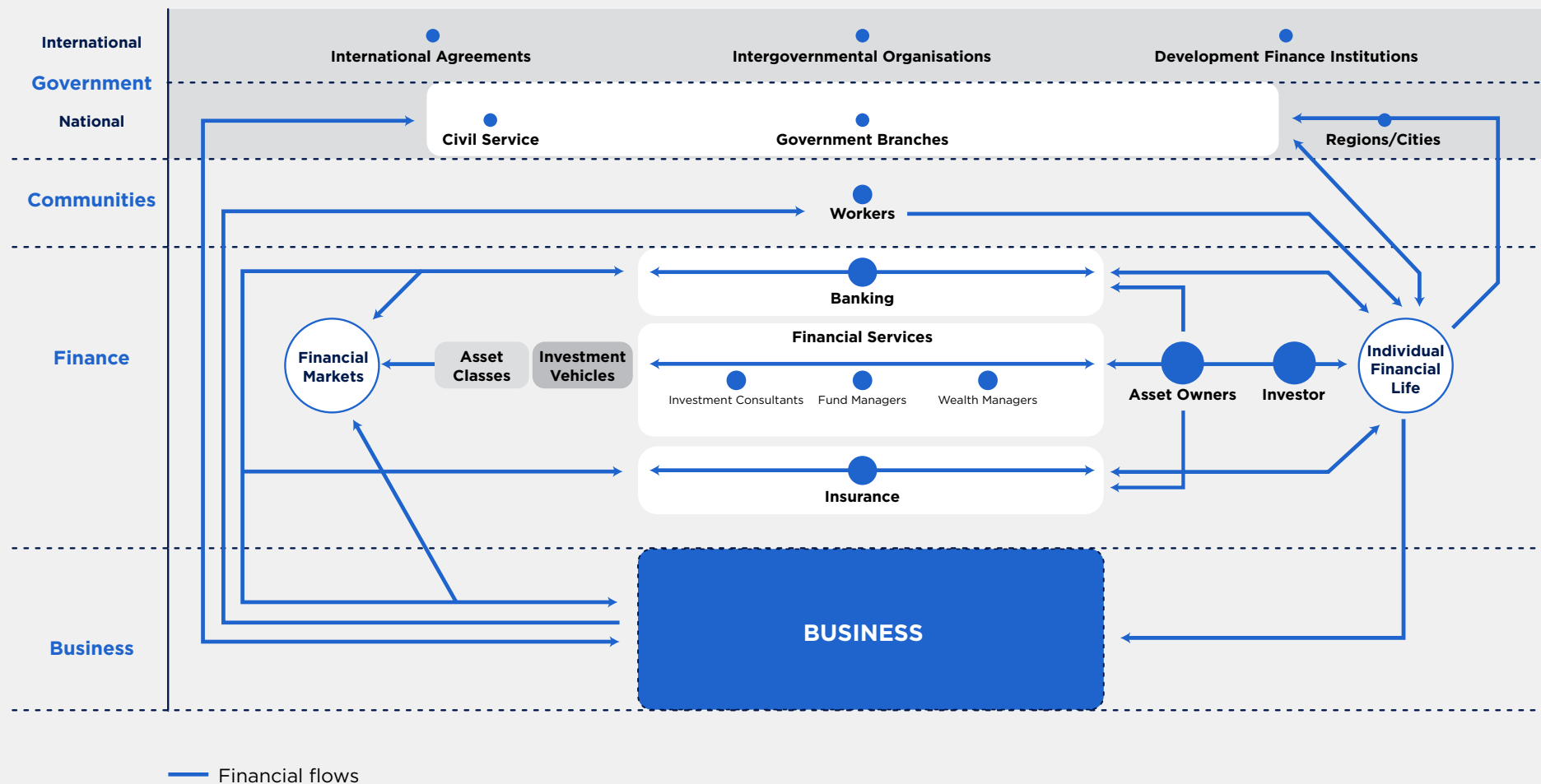
Keystone financial institutions

This interconnectivity means that risks and impacts also flow throughout the system. In outsourcing fund management to an asset manager, the asset owner retains the financial risks and (the majority of) the returns. An investment consultant receiving a fee for its investment advice can be credited for the impact of an asset owner's investments, but it does not carry the financial risk.

The distinct influences on asset owners, asset managers, insurance companies and banks differ, depending on how narrow or wide the diversity of their shareholders or clients. The majority of the asset managers, banks and insurance companies in the scope of the benchmark are either listed or private companies, and they raise and borrow money in capital markets for themselves. (Some banks and asset managers also perform this function for other companies.) As such, they have duties and obligations towards their shareholders and creditors – asset owners, other asset managers and/or other banks – in addition to and distinct from the duties and obligations they owe to their clients.

This interconnectedness creates a responsibility for financial institutions to hold each other to account, either because of the fiduciary duty to their beneficiaries or to avoid potential loss of trust and credibility among their clients (and the ensuing outflow of capital). This responsibility arguably goes beyond their direct clients, given their need for a collective social licence to operate. As noted previously, the financial industry is one of the least trusted of all industries, and is subject to the greatest regulation by governments given its significant impact on the economy, people and the planet. Only the financial system has institutions deemed 'too big to fail' to the extent that they are subject to additional supervisory requirements⁵³.

FIGURE 4: CAPITAL FLOWS IN THE FINANCIAL SYSTEM⁵⁴



BOX 3: CATEGORIES OF FINANCIAL INSTITUTIONS WITHIN THE SCOPE OF THE BENCHMARK

Asset owners steward assets on behalf of their beneficiaries, and invest them – directly, or indirectly through asset managers. It is their fiduciary duty to manage assets in their beneficiaries' long-term interest. These responsibilities translate into asset allocation activities (such as selecting investments in various asset classes, geographies and industries) and ownership strategies (such as voting or engagement).

Development finance institutions are financed by governments (bilaterally or multilaterally) to support economic development in developing countries. They do this by providing various financial supports and investments to public and private sector participants, including financial institutions.

Investment consultants support asset owners throughout the investment decision-making process. All of the investment consultants in our group of 400 keystone actors perform an 'outsourced Chief Investment Officer' function, through which they have the discretion to manage assets on behalf of their clients. This binds them to the same fiduciary duty as the asset owners whose assets they manage.

Asset managers invest assets that asset owners entrust to them. The majority of asset managers in the scope of the benchmark manage far more in assets than most asset owners in scope own because they pool assets from different asset owners into products (investment funds or vehicles). There are many different types of asset managers, determined by the type of client, asset class, term and geography they invest in. Most asset managers in scope invest across asset classes. However, a small number of the largest single-asset-class investors (private equity, venture capital and hedge fund managers) have been included due to their relative importance over different stages in companies' life cycles, and companies' increased reliance on non-bank financing. Depending on the products they offer, asset managers seek to attract a range of clients, often by customising their offers, which – for those operating on a vast scale – can influence the direction of the economy.

Banks receive deposits from private clients and institutions, which they use to provide loans and other types of financing to (other) private clients and institutions that need money for consumption or investment (commercial banking). Some banks act as intermediaries in the financial market by ensuring that companies receive funding from other financial institutions (investment banking). In both cases and similar to asset managers, banks can have a wider influence on the economy, depending on the market segments they choose to work with and in.

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Insurance companies are the system's risk managers and carriers, as they prevent and cover insured losses suffered within the economy when risks materialise. They protect their clients by absorbing financial shocks due to risks such as natural disasters, accidents, death and illnesses. Their clients can range from individuals, businesses and governments to financial institutions in the scope of this benchmark, including insurance companies themselves. Insurance companies are also investors, with total insurance assets reaching over US\$36 trillion by end 2019⁵⁵. They pool premiums paid by policyholders and invest them in the economy, to accrue sufficient funds to pay out insurance contracts that mature or materialise, as well as earn a profit. Given the expertise they have developed as money managers, many insurance companies also serve external clients through asset management arms of the business.

Across the categories outlined in Box 3, we have identified 400 financial institutions or keystone companies⁵⁶ by drawing on at least one of the following five principles:

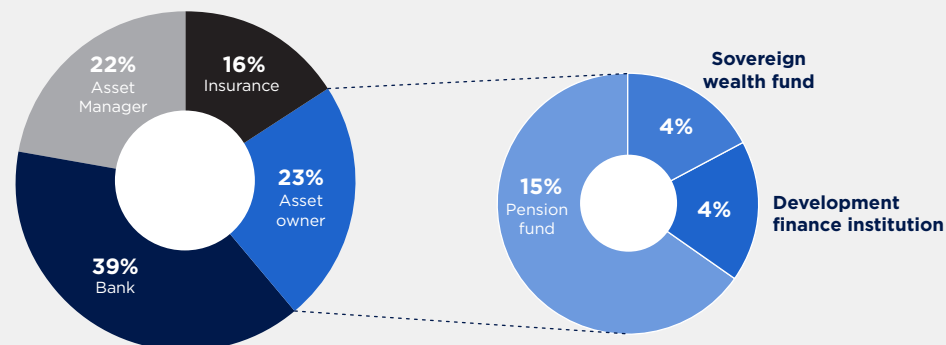
1. The company dominates global production revenues and/or volumes within a particular sector.
2. The company controls globally relevant segments of production and/or service provision.
3. The company connects (eco)systems globally through subsidiaries and supply chains.
4. The company influences global governance processes and institutions.
5. The company has a global footprint, particularly in developing countries.

The five principles represent WBA's overarching approach to identifying keystone actors but have been adapted for the financial system to account for practicalities within each industry. For example, under the first principle, we used AUM instead of revenues for pension funds, sovereign wealth funds and asset managers. This categorisation is institution- and industry-centric, reflecting the power structures that exist in the industry today. We feel it is important to shine a light on the ambition level, contributions by and influence of such powerful keystone financial institutions when it comes to meeting global goals.

The categorisation of financial institutions as described in Box 3 cannot be applied so neatly to every financial institution within the scope of the benchmark. Financial institutions in scope span from those with activities across categories to those with activities related to only one category. For simplicity, we have categorised institutions on the basis of the activities from which they derive most of their revenues⁵⁷. This approach resulted in the following breakdown of the 400 companies within the scope of the benchmark, as illustrated in Figure 5⁵⁸.

Keystone financial institutions

FIGURE 5: BREAKDOWN OF KEYSTONE FINANCIAL INSTITUTIONS WITHIN THE SCOPE OF THE BENCHMARK



The geographic breakdown illustrated in Figure 6 reflects where financial institutions are headquartered, which does not reflect where their impact is felt. They are clustered in the world's global financial centres, which explains why the United States, Europe and East Asia are heavily represented on the map. However, the majority of institutions selected from these three areas have a more global influence, with operations, clients, investments, financing products and impacts in many countries that are not represented by local financial institutions on the map.

“Over 80% of US\$379 trillion in financial assets managed globally by banks, asset managers and institutional investors are held in OECD [Organisation for Economic Co-operation and Development] countries. Yet these resources are not effectively used and risk contributing to a misalignment of the SDGs”⁵⁹.

The impact of other institutions in scope is often felt far more regionally or even locally. This is especially true of those headquartered in developing countries, which have a more limited range of choice on both the asset and liability sides of the ledger. Regulation and cultural norms can influence the practical ways financial institutions have an impact, as we will discuss in the next section. Since most institutions headquartered in developing countries have smaller revenues and AUM than their counterparts in high-income countries, we relaxed the inclusion criteria for institutions headquartered in Latin America, Africa and South and Southeast Asia.



FIGURE 6: GEOGRAPHIC SPREAD OF FINANCIAL INSTITUTIONS WITHIN THE SCOPE OF THE BENCHMARK, BY HEADQUARTERS



141 Northern America	103 Europe	16 Africa	117 Asia
19 Canada	2 Austria	1 Côte d'Ivoire	71 Eastern Asia
122 United States	1 Belgium	2 Egypt	30 China
	3 Denmark	3 Morocco	3 Hong Kong, China
13 Latin America	2 Finland	10 South Africa	26 Japan
4 Brazil	15 France		8 South Korea
3 Chile	12 Germany	10 Australia and New Zealand	4 Taiwan, China
4 Colombia	4 Italy	10 Australia	46 Rest of Asia
1 Mexico	2 Luxembourg		11 India
1 Peru	10 Netherlands		4 Indonesia
			1 Iran
			1 Kazakhstan
			2 Kuwait
			4 Malaysia
			1 Philippines
			1 Qatar
			4 Saudi Arabia
			6 Singapore
			5 Thailand
			2 Turkey
			4 United Arab Emirates

Keystone financial institutions

As with the other six systems we identified, the financial system is marked by a high degree of complexity and continuous innovation. The rise of new approaches such as digitally enabled financial technology (Fintech) has enabled financial inclusion in many underserved areas⁶⁰. This has frequently been driven by smaller financial institutions acting as disrupters, and by companies that identify as technology companies rather than financial institutions, although these approaches remain limited in scale⁶¹. Significant barriers to entry – and to scale – remain in the industry, given the dominance of existing entities and a high degree of complex regulation that is designed to protect consumers and the wider economy. So, although the necessary transformations will be greatly informed by developments outside this keystone actor group, our focus is on the actions and reactions of the 400 key participants that often seek to acquire or incorporate innovations over time⁶².

That is not to underestimate the enormous importance of local and regional financial institutions in emerging markets, and not just when it comes to Fintech. Microfinance (including microinsurance) has had a profound impact on many thousands of lives, and has influenced more traditional financial services' offerings. Local and regional institutions contribute greatly to the financial and wider economic inclusion of innovative entrepreneurial responses to the needs of people and the planet. Although few of these are included in the 400 (for the reasons indicated above), we will continue to look to their experience as we develop the methodology for the proposed benchmark.

We also intend to explore further the specific area of disruption around access to finance that is being driven by technology companies. This is helping close the gap between those that have an active stake in the financial system and those that do not, which is relevant to inclusion in the financial and digital systems. In this further exploration, we will draw on our experience of developing methodologies that sit at the intersection between transformations, such as the forthcoming just transition framework⁶³.

Feedback questions:

- Do you agree that if keystone financial institutions disclose their progress in meeting the global goals, this could help improve the likelihood of these goals being achieved?
- What is your opinion on our view that digital financial inclusion sits at the intersection of the financial and digital systems?

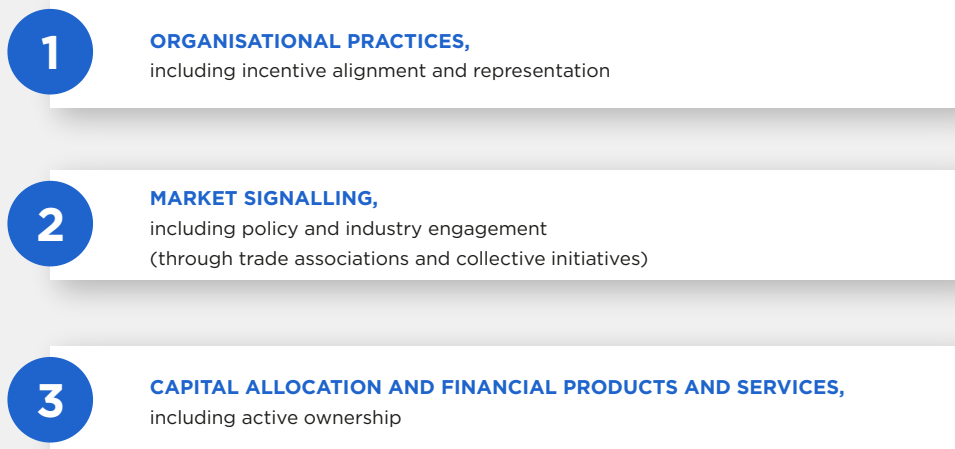
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How financial institutions have an impact

Because financial institutions are intermediaries, they typically have an indirect rather than direct impact. With this in mind, a linear approach to assessing the impact of a financial institution – for example, based on the SDG alignment of its shareholdings, lending book, retail lending or underwriting reach – only paints part of the picture.

Through our research and consultations, we identified three broad ways that financial institutions can be said to have an impact (positive or negative, intended or unintended), as summarised in Figure 7⁶⁴.

FIGURE 7: LEVERS OF IMPACT FOR FINANCIAL INSTITUTIONS



1. Organisational practices

The impact of financial institutions is primarily felt through their financing activities. However, the determinants of influence start at corporate headquarters. Sustainability considerations that are embedded in culture, governance and leadership support the adoption of sustainability across operations and business strategies. A commitment to sustainability ideally exists at the highest level of the organisation, to minimise any risk of misalignment between business objectives and sustainability.

Furthermore, if incentive structures are aligned with sustainability goals, decision makers are more likely to steer their behaviour towards these goals. The same holds for structures that value inclusion and diversity of thought and experience, which have been shown to influence risk-adjusted returns, as indicated previously in the Setting the scene section. Internal practices transfer into external activities, in relationships with stakeholders such as clients, industry associations, regulatory bodies and civil society, for example. Indicators of commitment at corporate HQ may therefore act as necessary but insufficient indicators, in and of themselves, for the transformation required.

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2. Market signalling

Financial institutions – particularly the 400 keystone actors – wield influence in the regional and often global markets in which they operate. Through market signalling such as active policy engagement and their positions taken in trade and industry associations, financial institutions can have a significant sphere of influence. In several of our regional consultations, this lever of impact was referred to as “the biggest area of untapped potential” with “a much broader impact than [on] your own portfolio”. In direct client and company engagement, financial institutions’ influence can be effective but necessarily limited. By individually or collectively engaging with policymakers, financial institutions seek to inform the far wider ‘rules of the game’ that inform and regulate their activities within the other two broad levers of impact outlined in Figure 7. These include the problematic market operating norms identified earlier. Although market signalling of this kind is not unique to financial institutions, they often have a privileged seat at the table given their influential role in driving economic activity.

3. Capital allocation and financial products and services

Capital allocation and provision of financial products and services are the most commonly understood levers of impact for financial institutions. Throughout our consultations, participants agreed that capital allocation (for institutional investors such as pension funds, sovereign wealth funds and asset managers, but also for banks) and provision of financial products and services (by banks and insurance companies) were the most directly relevant levers of change open to financial institutions.

As covered in the previous section, the specific ways in which financial institutions wield influence vary considerably depending on the types of financial services they provide and the types of capital they can allocate (which, for property and casualty insurers, for example, might be a minimal part of their business model). The potential of financial institutions to widen access to the underserved, to exclude, divest, thematically engage or vote, for example, depends first on the financial product or type of capital deployed. Moreover, even the decision about what types of financial services to provide or types of capital to allocate – and in what proportions – can influence the systemic barriers identified previously. Distinct asset classes have their own structural and systemic impact, influencing the direction and pace of change in the economy⁶⁵.

Taking in all of this, the influence of financial institutions in this broad category is clearly diverse. But it essentially boils down to where and to whom financial institutions provide capital and services (including underwriting), and how they engage with those receiving investments and financing (active ownership). The latter was highlighted repeatedly in consultations as one of the most effective ways to identify the impact of financial institutions⁶⁶.

All three levers of impact summarised in Figure 7 are needed, and in any institution should be aligned and complementary. There is little rationale for levers of impact being deployed inconsistently, but our consultations highlighted that misalignment is a practical reality in some institutions.

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This may be due to the lack of overarching commitment needed to coordinate efforts, or a misalignment between incentives and sustainability goals. The translation of the common denominators needed to assess and direct positive impacts is also often lacking.

“Statements of good intentions; plans to be more efficient in the future; and incremental improvements from today’s performance all signal that progress is being made, but it can be difficult to calibrate and judge in practice. No longer are we facing a question of ‘Are we doing better?’ than before – but ‘How good is good enough?’”⁶⁷.

Feedback questions:

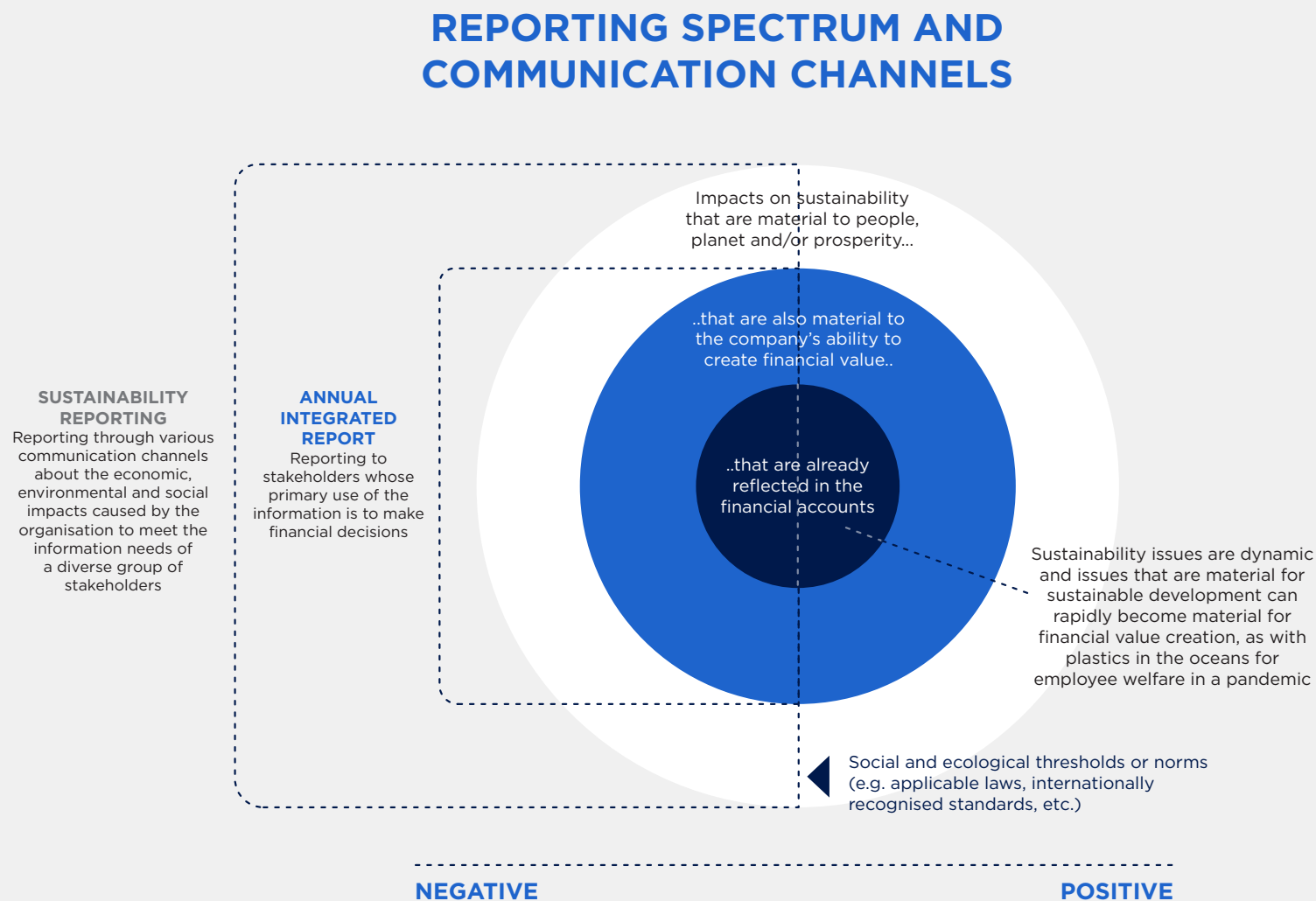
- Are we missing any significant ways in which financial institutions have an impact on people and the planet?
- We currently categorise key levers of impact as organisational practices; market signalling; and capital allocation and financial products and services. Would a particular focus on any one of these areas help accelerate the transformation needed? Is a particular spotlight needed within any one of the three areas?
- We particularly highlight inclusion and diversity within the first lever of impact, organisational practices. What are your views on this topic having such a spotlight? Does it seem universally relevant to the 400 financial institutions in scope, given that much of the data we reference in the systemic barriers section earlier relates to research from the United States and Europe?

What are financial institutions currently disclosing?

The upsurge in talk of corporate sustainability disclosure throughout 2020 shows that consumers, investors, civil society and policymakers increasingly expect businesses to report their contribution to people and the planet. As explained in the Impact Investing Institute’s recent paper⁶⁸, “outcomes that are material to an enterprise’s ability to create long-term enterprise value should be reported alongside financial information in an integrated annual report”, and “outcomes that are material for society, the environment and the economy, even if they are not yet material for enterprise value creation, should be reported through communication channels suited to the enterprise’s various stakeholders (public interest reporting)”.

The challenge is that the latter category – outcomes that are material for people and the planet – can shift, either gradually or quite suddenly, to being seen as material to a company’s ability to create financial value. Figure 8 reflects how, as a result, financial accounting, the annual integrated report and sustainability reporting can overlap or converge through a process of so-called ‘dynamic materiality’. Given this dynamism, it is in the interests of all to greatly strengthen the understanding and disclosure of such impacts. Currently, coupled with the short-termism identified earlier as rife in the industry, too many social and environmental challenges are placed in the long-term drawer. This means there is unlikely to be timely or sufficient short-term action, allowing negative externalities to continue unabated.

FIGURE 8: REPORTING SPECTRUM AND COMMUNICATION CHALLENGES



Source: Impact Management Project

Keystone financial institutions

Financial institutions use corporate disclosure to guide their decision making in various ways. As mentioned, without comparable disclosure of the progress of companies – the entities that asset owners and asset managers invest in, banks lend to and insurers underwrite – against the global goals, it is challenging to assess the influence and impact of these financial intermediaries. “To date, relatively little attention has been paid to the sustainability outcomes of investors. In general, the investment industry’s approach has been that strengthening of systems and processes should lead companies to better social and environmental performance. However, in practice this is only partially true”⁶⁹.

Attention is instead turning to the financial institutions themselves, as shareholders and other stakeholders including consumers, civil society and regulators seek comparable disclosure of their progress. Categorised by their shared intent to minimise negative harm and maximise positive impact, impact investors’ sustained practical efforts have contributed much to the growing understanding of how financial institutions can have an impact, and to good practice standards in reporting that impact⁷⁰. But across the financial system, the reality is that we still “have no idea how much financing is contributing to good, and how much to greater inequalities and unsustainable ends”⁷¹.

There are many efforts underway to improve this picture. Broadly speaking, two distinct but complementary types of frameworks enable financial institutions to assess and disclose their impact in this way. (That is, if they so choose – so far, all approaches are voluntary.) Some frameworks enable financial institutions to review for themselves the materiality of impacts they have on people and the planet – the most widely used being the Global Reporting Initiative (GRI). However, these are not prescriptive on the specific environmental, social or economic impacts – positive or negative.

Other frameworks instead start from the perspective of a specific global issue or need, and identify steps financial institutions can take to minimise the negative impact and maximise the positive impact they have on that issue. Examples include the UNGP Reporting Framework, which provides guidance for financial institutions on disclosing how they respect human rights⁷²; and the International Investors Group on Climate Change Net Zero Investment Framework, which sets out a comprehensive set of recommended actions, metrics and methodologies intended to enable asset owners and asset managers to become ‘net zero investors’.

The two approaches are complementary, and both are needed. The former enables organisations to do the necessary internal homework to assess materiality, and, in conjunction with the latter, can enable them to then disclose in a more comparable way the progress they are making towards achieving the global goals. Understanding this impact in the context of the global goals is especially important given

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the urgency of meeting those goals, the increasing recognition of their systemic relevance to keystone organisations, and the potential of these organisations to influence their realisation.

“Investors will in turn be judged [...] The challenge to the industry is to ‘make a material meaningful metric’ so that people can ‘make their money matter’.” – Mark Carney, UN Special Envoy for Climate Action and Finance, and British Prime Minister Boris Johnson’s COP26 Adviser.

The challenge is that the tools and frameworks currently available to measure progress against global goals are generally dominated by a single issue – climate – or are designed only for a specific industry category. They largely focus on disclosing progress in organisational practices, and capital allocation and financial products and services (see levers 1 and 3 in Figure 7), with less scrutiny of market signalling, including policy engagement.

The role of policy

Financial institutions’ ability to effect change at the institutional and portfolio levels is greatly influenced by policy and regulation. As a participant in our Europe consultation put it: “Regulation is as, if not more, important than competition”. Transformation requires existing regulations to be strengthened and new regulations to be implemented, to integrate stronger considerations of impact. Yet there is a global lack of policy coherence when it comes to financing the SDGs. There are few or misaligned incentives, rewards and sanctions encouraging investment in SDGs, and public resources are underleveraged and insufficiently innovative⁷³.

We are starting to see developments in the regulatory space, as more actors – from the United States Federal Reserve to the Central Bank of India – affirm the systemic risk that climate change poses to the financial industry. The certainty of climate change is now accepted, but uncertainty about the economic fallout suggests that these negative externalities will increasingly be reflected in market regulation, in recognition of the market’s contribution to climate change. “The role of governments and regulators is not to force the shift but to increase the efficiency of markets and remedy their failures to leave no-one and no goal behind”⁷⁴. To do so, regulators need “better [measurement] and [increased] transparency on resources contributing to sustainable development”⁷⁵.

This leaves a significant role for the financial industry to step up, and not just in relation to climate change. Industry leaders are always at least one step ahead of regulation, which usually serves to raise minimum requirements rather than set ambition levels. Given the scale of the challenges, financial institutions cannot afford to wait for regulation before taking action. The need to adapt is particularly pressing for those operating globally and challenged by differing regional contexts and regulatory environments. The maturity of the European sustainable finance regulatory market lends itself to many opportunities for regional collaboration and alignment (see Box 4), perhaps more than in emerging regulatory markets such as Africa, or countries with more nascent sustainable finance regulatory policy, such as the United States. There is significant potential for sustainable finance in Asia to leapfrog developments elsewhere, given the growing interest in Japan, China and India, and among the Association of Southeast Asian Nations (ASEAN). Complex regulatory schemes require many actors to come together

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to achieve alignment, sometimes even within individual countries. In the United States, for example, 50 different state regulators govern the insurance industry alone. The risk is that policies set in a market-dominating region, such as Europe, become default global standards without having engaged those affected. Central banks have a vital role to play in collectively raising levels of ambition, coordinating action at the national and regional levels, and “accelerating the global pivot to sustainable regulation”⁷⁶. The International Platform on Sustainable Finance has recently launched a working group co-chaired by the European Union and China to identify synergies in their approaches to categorising taxonomy-linked investment. Future working groups on environmental disclosures and green product standards have been planned, with the intention of promoting greater market transparency at a global level, and channelling investments to support the green transition.

Other international organisations and initiatives – such as the Financial Stability Board, the Supervisors Network for Greening the Financial System, the UN Sustainable Insurance Forum (backed by the International Association of Insurance Supervisors), the Sustainable Finance Network of the International Organization of Securities Commissions, and the United Nations ‘High-Level Event on Financing for Development in the Era of COVID-19 and Beyond’ – are well positioned to drive global consensus in this regard. Analysis from UNEP FI reveals an average convergence of 40% across global regulatory networks, which presents a unique opportunity to build on core competencies and leverage each other’s strengths⁷⁷. To do so, these various organisations and initiatives must move beyond narrow definitions of materiality and fiduciary duty, to advocate for and implement consistent and effective regulations that incentivise disclosure of progress against the global goals.

BOX 4: REGULATORY DEVELOPMENTS IN THE EUROPEAN UNION

There have been concerted efforts to create a coherent sustainable finance strategy at the European Union level, namely by focusing private investment on a just transition to a climate-neutral and resilient economy, as a complement to public funding. The 2018 European Commission Action Plan for Financing Sustainable Growth started this process by setting out its commitment across four areas: the European Union taxonomy (to create a unified system of environmentally sustainable economic activities); investor duties and sustainability disclosures; low-carbon benchmarks; and better sustainability advice for clients. Within the framework of the European Green Deal, the Commission launched its renewed sustainable finance strategy, which aims to improve the policy toolbox and encourage the EU financial system to support the transition of businesses towards sustainability, particularly in the context of post-COVID recovery.

The European Commission is making headway in developing the EU taxonomy, including a forthcoming taxonomy for climate change mitigation and climate change adaptation. The recent EU Regulation on Sustainability-Related Disclosures introduced obligations for institutional investors and asset managers to disclose their due diligence policies in relation to:

- adverse ESG impacts
- their adherence with internationally recognised standards for due diligence and reporting, such as those developed by the OECD.

The revised NFRD should improve the current framework of corporate reporting so that it includes the environmental and social information necessary to understand a company's development, performance and position, as well as the impacts of its activities on society. The European Commission has also announced its intention to publish a legislative proposal on corporate due diligence and sustainable corporate governance in 2021.

The Capital Markets Union is also aiming to ensure that the EU economic recovery from the effects of the pandemic is green, digital, inclusive and resilient. It is doing so by making financing more accessible for European companies, a key move towards integrating ESG matters across financial products and business operations.

These efforts, combined with the other initiatives outlined in this report, will encourage the financial industry to better disclose its performance against standardised criteria, a necessary step on the journey towards achieving the global goals. But even all of this is not enough. Financial institutions need to be at the table alongside regulators, to advance these proposed changes to the rules of the game, which will help level the playing field by introducing a range of minimum requirements. This requires proactive engagement, rather than seeking to water down or slow the pace of change. Some financial institutions – including the industry associations that represent them – have been called out by non-government organisations such as InfluenceMap and ShareAction for stymying progress in this way⁷⁸.

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Policy coordination is vital for mitigating the negative effects of climate change, biodiversity loss and rising inequality. Emerging markets are most vulnerable to these impacts, and local and regional regulation will be crucial, particularly regarding the role of domestic financial institutions in financing the required transformations. The impact of these local regulators and financiers is huge⁷⁹. At a global scale, regulatory environments that are conducive to private investment in areas such as infrastructure can pay dividends⁸⁰. These enabling environments must ensure transparency, legal stability and predictability for investors, facilitated by globally consistent, standardised and comparable disclosure and reporting⁸¹. They must also be accompanied by the political will to institute systemic regulatory reform that can support the collective pursuit of the global goals. It is encouraging that at the launch of the 75th session of the UN General Assembly, heads of state and government from around the globe acknowledged the need to improve the transparency of all financing sources and align them with the SDGs.

“Governments have a singular role and opportunity to avoid the collapse in financing for sustainable development in developing countries and enable changes to the way global finance is invested. Overcoming the financing paradoxes through better incentives to correct market failures means removing obstacles to transparency and building greater accountability of different finance flows”⁸².

A shift in perception is underway within the network of financial institutions. In the past, they did not engage in discussions on sustainable development because of the lack of immediately available and appropriate investment products; now they are seeking a place at the table to inform what could become investment opportunities. This shift recognises the systemic risk to long-term stable market returns as a result of failing to address sustainable development, and the ongoing need to search for and secure those long-term stable returns.

For keystone actors, it is no longer a viable strategy to do ‘just enough’ to stay abreast of regulation. The operating norms of the industry act as a powerful and dangerous lock-in to our current system, carrying the risk that “transitions happen to actors within regime contexts, rather than the actors being proactively engaged in shaping transitions”⁸³. To minimise this transition risk and deliver the scale of transformation needed, financial institutions must take an active seat at the table alongside public and civil society, using their experience, capital and power to drive the transformations required.

Proposed focus of the benchmark

We are far from having a comprehensive picture of how the financial system will help to address the systemic risks posed by climate change, biodiversity loss and rising inequality. Individually, let alone collectively, these risks pose an existential threat to people and the planet. They also pose an existential threat to the financial institutions that drive and shape – negatively and positively, in intended and unintended ways – the economy, and by extension people and the planet. Yet it is unclear how these influential financial institutions will contribute to achieving the SDGs, the Paris Agreement and the UNGPs – global goals that were agreed between public, private and civil society some years ago in response to these global challenges.

This gap in understanding is significant. It matters to financial institutions, which face systemic risks from the collective failure to address these issues. But they can also contribute to tackling them – including by shifting the operating norms identified earlier in this report. Individually and collectively – and across all three areas of impact: organisational practices; market signalling; and capital allocation and products and services. It also matters to financial institutions because they are often lumped together in the public eye when it comes to perceptions of and trust in various industries. There is a huge opportunity to demonstrate leadership in these areas of increasing public interest, and to demonstrate the essential and necessary role of the financial system in shaping and financing the solutions needed. Given the interconnectivity of these institutions, there is also an opportunity to demonstrate leadership by holding one another to account. There is an opportunity to demonstrate

how, as intermediaries, they are taking action consistent with the long-term pecuniary interests of the economy, people and the planet. The race to the top has certainly started, but it needs to accelerate.

The gap in understanding matters for the regulators that need to drive effective and coherent policy that can raise minimum standards. And it is relevant to the clients of financial institutions, most of whom can choose which institution will intermediate on their behalf – by providing financial products and services, or stewarding assets on their behalf – but who often struggle to navigate this opaque and complex system. It also matters for the far wider group of citizens who are ultimately affected by unsustainable economic activity within the financial system.

The proposed financial system transformation benchmark aims to present a clear image of how the world's most influential financial institutions contribute – positively or negatively – to achieving the global goals. At the core of this is the need for financial institutions to avoid and address the negative impacts associated with their activities. Excellent work on some parts of this agenda is underway within and outside the industry. Some of this work has been referenced already and more work is highlighted later in this section. We intend for the benchmark to amplify and accelerate this work wherever possible, to address the many remaining gaps discussed later in this section.

The proposed benchmark plans to focus on how financial institutions contribute to global goals through the lens of their systemic influence.

Proposed focus of the benchmark

This includes exploring how keystone financial institutions can tackle the previously identified operating norms that are holding back sustainable development, and to what extent they are using the three broad levers of impact available to them.

Our assumption, as with any benchmark, is that by shedding light on and comparing financial institutions' progress, the results could be used to drive the necessary transformation.

- Financial institutions could use the benchmark as a guide, highlighting where they may be leading or lagging in a race to the top. Given the interconnectivity of these keystone actors, this would also help them hold one another to account.
- Regulators and supervisory bodies could use the benchmark to identify market gaps and the progress possible.
- Civil society, media and consumers could use the benchmark to hold institutions to account for their impact on people and the planet.

The rest of this section outlines the benchmark design principles and illustrates how we seek to develop the methodology. We invite input on this and the other questions posed in this report, and warmly welcome you to contribute to our methodology development throughout 2021.

Design principles for the benchmark

WBA has a set of development principles for all our benchmarks. In addition to these benchmarks having a **clear intent** (the focus of this scoping report) and a **clear method** (forthcoming in the draft methodology due in mid-2021), we aim for each benchmark to be relevant, responsive and iterative, and complementary.

- **Relevant:** By considering scale, we are focused on what seems appropriate and feasible for globally influential financial institutions in particular – after all, these points may not be relevant for all financial institutions. We consider the relevance of the benchmark to people and the planet, informed by best available science and existing global norms, which are themselves guided by societal expectations.
- **Responsive and iterative:** A benchmark needs to be sufficiently 'static' so it can be measured against over time and serve as the scaffolding for a race to the top. To allow space for the emergence of data, frameworks and tools that financial institutions may currently lack, a proposed benchmark will also need to evolve. We are designing for the future, in a landscape that is rapidly evolving. For example, one year ago no financial institution had made a net zero commitment. Today, a small but growing number of banks, asset owners and asset managers have set out such a commitment, prompting questions about how far and how fast these institutions and others can move to meet their commitments – or to even go beyond them and be 'climate positive'. The Task Force on Climate-related Financial Disclosures (TCFD) was launched as a voluntary

Proposed focus of the benchmark

initiative in 2015 and is now set to require mandatory reporting in the United Kingdom and New Zealand, with other countries likely to follow. The Task Force on Nature-related Financial Disclosures (TNFD) was launched in September 2020, with a framework to be introduced in 2021 and test reporting to take place in 2022. Given such rapid developments, our process must be iterative, looking to what is possible (via multi-stakeholder feedback and consultations) rather than focusing only on what exists today.

- **Complementary:** Each benchmark aims to be additive, not duplicative. Benchmarking relies on existing standards, frameworks and initiatives to enable standardised comparison, particularly when operating at scale. Wherever possible, WBA benchmarks use publicly disclosed information, preferably information that has been disclosed in line with the industry best practices indicated by leading independent framework- and standard-setters. In that sense, a benchmark is not a standard, but a complementary learning and accountability mechanism. We are committed to working with our Allies and beyond in this ambition to be complementary.

Methodology development

Practically, the proposed benchmark looks for evidence of commitments, activities and performance against specific global goals, wherever feasible, and across the three broad levers of impact identified earlier. ‘Commitments’ in this sense involve public disclosure of policies or targets, using global goals as the denominator as opposed to setting targets relative to the organisation’s own starting point, wherever possible. ‘Activities’ are the strategies and actions that indicate implementation of these policies or targets. And ‘performance’ is evidence of progress in line with these policies or targets. Where possible, this may include evidence of outcomes, although we recognise the many challenges in providing and accessing this evidence. In developing the methodology, we aim for a small set of indicators across the three areas, including a combination of qualitative and quantitative, retrospective and forward-looking data.

This evidence would ideally come from financial institutions in scope, since the benchmark aims to incentivise further public self-disclosure on progress. There is currently little overarching perspective on how the system is performing, yet there is strong public interest in this, reflected at the highest political levels. “Governments, the private sector and other actors need clearer, more consistent global standards and norms to align relevant public and private decision making and investment with the SDGs and the Paris Agreement; and to report in a comparable and transparent manner. These standards and norms are essential for public and private capital to focus on a recovery that is sustainable and inclusive of the most vulnerable”⁸⁴.

Proposed focus of the benchmark

We recognise this ambition is aspirational; the benchmark cannot address all the issues identified, and will likely need to be phased to reflect the current status of the industry's reporting. Many of the frameworks that financial institutions need for dynamic, global goal-aligned impact assessment, measurement, management and reporting still need to be developed. Given that part of the transformation required is an improvement in the quality and comparability of progress towards the global goals, disclosure must be consistent with market standards. Amid complaints of an 'alphabet soup' of sustainability reporting initiatives, there are fewer voluntary frameworks and accountability initiatives focused specifically on financial institutions rather than corporates in general. Nonetheless, we have so far identified more than 50 such frameworks and initiatives, listed in the Appendix.

Some target individual global goals, mostly climate mitigation. Others are non-prescriptive. Most focus on single materiality rather than the double materiality needed to improve understanding of financial institutions' impacts. Far fewer are firmly based on the global goals. Only one existing framework – UNEP FI's Positive Impact Tool for banks – looks at all 17 SDGs, using country-level data as the common denominator in an attempt to enable a comparable, holistic, impact-oriented materiality assessment. We anticipate that these frameworks will continue to evolve, because "failure to meet one SDG will be to the detriment of the others and will affect us all"⁸⁵.

Towards a universal benchmark

We will continue working towards a universal benchmark – comparing all 400 institutions on some indicators, across regions and industries. This is because our research and consultations confirm there is an appetite for a macro perspective on how keystone financial institutions are meeting the global goals – particularly in relation to their contributions to and influence on the goals, and how ambitious they are to achieve them. This universal approach also reflects our systemic focus, as well as the interconnectivity of the 400.

Throughout our consultations, questions were raised about how to reflect and accommodate regional differences. Given that the footprint of most financial institutions in scope transcends national and often regional boundaries, we agree that when it comes to the financial system, "to aggregate performance, consistent indicators across geographies are required and where relevant [these] should align with international agreements"⁸⁶. WBA has been able to address regional peer comparisons in previous transformation benchmarks by keeping the benchmark global but providing more detailed regional reports alongside the rankings⁸⁷, an approach we can explore for the proposed financial system benchmark.

Proposed focus of the benchmark

Questions were also raised as to how meaningful it would be to compare financial institutions across industries – for example comparing an insurance company to a bank or an asset manager – given their fundamentally different business models. We acknowledge these differences but will strive to use consistent indicators wherever possible, given our systemic focus and interconnectivity of the 400 in scope. We have encountered this challenge in previous benchmarks, and addressed it by varying the way we score institutions by industry, for example. There is precedent for using the same indicators across industries in the market, particularly in areas of organisational practices and market signalling (see levers 1 and 2 in Figure 7). When developing indicators that reflect organisational practices, we will look to corporate reporting frameworks in the first instance – such as those from CDP, the Climate Disclosure Standards Board, GRI and the soon-to-be-created Value Reporting Foundation. These cover a range of financial institutions and have “a striking degree of commonality in terms of the information requested on governance and related matters”⁸⁸. Although less commonly disclosed by financial institutions themselves, civil society, academics and industry initiatives are using indicators of market signalling to assess different categories of financial institutions and products, and these indicators could be applied across other industries⁸⁹.

Amplifying existing disclosure frameworks

When it comes to meaningfully comparing actions within capital allocation and financial products and services (see lever 3 in Figure 7), the picture becomes far more complicated. Here, we will explore the need to adapt the methodology for different industries (such as bank-to-bank and insurer-to-insurer relationships). To cut through the complexity of this particularly broad lever of impact and in fulfilling our aim to be additive with this benchmark, we are working with and amplifying frameworks that are already available or in development for financial institutions, and which could be used as proxy indicators for commitment and action in the proposed benchmark.

To filter the more than 50 frameworks that already apply to financial institutions, we will use five criteria:

1. **Double materiality focus:** Does the framework enable assessment of the impact of financial institutions on people and the planet, including through the investment value chain? This addresses the single materiality focus identified in our discussion of systemic barriers.
2. **Aligned with global goals:** Does it incorporate global goals and use these as the denominator against which commitments, activities and performance are reported? This addresses the lack of using global goals as a denominator, identified in our discussion of systemic barriers.
3. **Publicly available:** Could the results of applying the framework be made public, and are they likely to be? This aligns with our focus on incentivising public disclosure of progress.

Proposed focus of the benchmark

4. **Wide coverage:** Does the framework cover a broad category of financial institutions, as defined in the Keystone financial institutions section, as opposed to a particular market sub-category (such as microfinance) or product (like funds or bonds)? This aligns with our focus on scale and breadth, and our proposed focus on the institution as opposed to its specific products.
5. **Industry support:** Does it have some uptake from institutions within the scope of the proposed financial system benchmark? Change will need to accelerate at scale, which requires some existing degree of momentum within the industry.

“Unless we base our understanding of ‘how good is good enough’ on the actual contribution to sustainability goals, rather than solely on good intentions or incremental steps, financial markets will struggle to play their full potential role in realising sustainability goals”⁹⁰.

Applying these five criteria greatly reduces the number of potential frameworks, reflecting the limited presence of standardised comparable disclosure in line with the global goals. Only one initiative – the UNEP FI Positive Impact Tool – meets these five criteria and enables a holistic materiality assessment of the impact on people and the planet across all SDGs. The remaining handful of initiatives that meet all five criteria are singularly focused on climate mitigation, including collective efforts such as the Institutional Investors Group on Climate Change (IIGCC), Net Zero

Investment Framework (for asset owners and asset managers) and the Climate Safe Lending Network Pathway (for banks). This indicates that the area of climate mitigation has made the most progress in translating scientific evidence into tools, frameworks and pathways needed to apply a comparable threshold-based approach. As such, it is likely that the benchmark will be able to paint a clearer picture of progress towards the Paris Agreement than against any other global goal.

Feedback questions:

- When it comes to the third lever of impact identified in Figure 7 – capital allocation and financial products and services – when seeking to measure progress within specific categories of financial institutions, we propose using disclosure against existing or emerging frameworks as proxy indicators of commitment or action. Do you think using frameworks as proxies in this way could help amplify their adoption – and would doing so contribute to the transformation needed, as outlined above?
- Would you add any further criteria to the five proposed for filtering the disclosure frameworks that could be used as a proxy for indicators of commitments and action?
- Would you add any voluntary disclosure frameworks or accountability initiatives – existing or emerging – to those listed in the Appendix?

Proposed focus of the benchmark

The proposed benchmark aims to look beyond only climate. The industry's pronounced focus on climate, although practically understandable, risks making progress along a truly sustainable trajectory slower and more costly. It could even jeopardise the ability to deliver against climate goals, given the interrelated nature of the issues. For example, most existing climate frameworks do not consider the implications for people. As the just transition movement has highlighted, unless the benefits of the required economic transition are shared widely, there is a significant risk that those already struggling will lose out further – with job losses and the increasing risk of energy poverty, for example – and may resist the transition. The concept of a just transition is gaining ground among existing climate-focused initiatives (and in the EU taxonomy). WBA is developing just transition indicators that we will use to assess the 450 high-emitting keystone companies in our decarbonisation and energy transformation, alongside the core social transformation indicators. We will use the lessons from this process to build the methodology for the proposed financial system benchmark.

As noted earlier, when it comes to social issues, the realisation of fundamental rights – such as the right to work, education, health, equal treatment and non-discrimination – is lagging. As is the assessment and comparable disclosure of financial institutions' respect for these rights. Human rights do not lend themselves to neat discussions about progress and pathways, given their somewhat binary nature (they are either respected or they are not). The OECD due diligence recommendations

for the financial sector mentioned in the Appendix (which will soon be a legal reporting standard under EU law), the UNGPs and the UNGP Reporting Framework provide detailed guidance on due diligence, how to meet the responsibility to respect human rights, and how to disclose implementation of the UNGPs, respectively. These are crucial frameworks, but they do not provide standardised indicators that can be used to compare performance or progress.

WBA has developed a set of core social indicators based on an extensive review of available methodologies, which form the baseline for our social transformation⁹¹. The core social indicators will be applied equally to all keystone actors, regardless of sector, and will act as signposts for a set of social expectations that all influential companies – including financial institutions – should meet to enable the social transformation. We will incorporate these core social indicators into the financial system benchmark methodology, and will look to specific guidelines for financial institutions – such as those referenced above – to develop additional system-specific social indicators as needed. Wherever possible, these indicators will be designed to be meaningfully applied across industries and regions, for use in assessing and ranking financial institutions on their contributions. The financial system transformation must put people at its heart if it is to truly leave no-one behind.

Proposed focus of the benchmark

This is a rapidly developing landscape. Several existing initiatives are expanding in scope to embrace other global goals – notably biodiversity loss – and more categories of financial institutions⁹². Rather than ignoring the many gaps in content and coverage identified, we plan to explore how we can use the benchmark to assess and rank keystone financial institutions' contributions to helping to build and test the frameworks that are lacking or missing. These frameworks should enable comparable disclosure of progress, specifically in relation to capital allocation and financial products and services. In this way, we intend for the benchmark to contribute to the acceleration of a transition that is already underway.

Finally, a further aspect to explore in developing the benchmark methodology is the potential to develop 'spotlight' benchmarks. These would go deeper in assessing specific topics that may not be as universally applicable to the 400 organisations in scope as the systemic risks (climate change, biodiversity loss and rising inequalities) and related impacts are⁹³.

"This transformation of growth towards Sustainable Capitalism is likely to be chaotic, unpredictable, and volatile, but the trend line is clear: we are heading towards a new model of growth and it will change everything"⁹⁴.



This report marks the conclusion of the first step in developing the proposed financial system benchmark. We welcome feedback, particularly on the following questions:

- Do you agree that if keystone financial institutions disclose their progress in meeting the global goals, this could help improve the likelihood of these goals being achieved?
- What is your opinion on our view that digital financial inclusion sits at the intersection of financial and digital inclusion systems?
- Are we missing any significant ways in which financial institutions have an impact on people and the planet?
- We currently categorise key levers of impact as organisational practices; market signalling; and capital allocation and financial products and services. Would a particular focus on any one of these levers of impact help accelerate the transformation needed? Is a particular spotlight needed within any one of the three areas?
- We particularly highlight inclusion and diversity within the first lever of impact, organisational practices. What are your views on this topic having such a spotlight? Does it seem universally relevant to the 400 financial institutions in scope, given that much of the data we reference in the systemic barriers section earlier relates to research from the United States and Europe?
- Which levers of impact do you see as most meaningful and useful to focus on if comparing progress across industries in scope and across regions, as discussed in the final section of the report?

- When it comes to the third lever of impact – capital allocation and financial products and services – when seeking to measure progress within specific categories of financial institutions, we propose using disclosure against existing or emerging frameworks as proxy indicators of commitment or action. Do you think using frameworks as proxies in this way could help amplify their adoption – and would doing so contribute to the transformation needed, as outlined above?
- Would you add any further criteria to the five proposed for filtering the disclosure frameworks that could be used as a proxy for indicators of commitments and action?
- Would you add any voluntary disclosure frameworks or accountability initiatives – existing or emerging – to those listed in the Appendix?

We seek written responses to these questions, alongside general feedback on the findings of this report. Over the coming months, we will compile and synthesise these inputs as the basis for developing our draft benchmark methodology. Please reach out to us at info.financial@worldbenchmarkingalliance.org with any responses or questions, or if you would like to discuss the content of the report in further detail.

This feedback will inform the draft methodology, to be published mid-2021, and a final methodology to be published by the end of 2021 (see Figure 9). In 2022, we will begin the benchmarking process, and aim to launch the first benchmark by 2023.

FIGURE 9: BENCHMARK DEVELOPMENT TIMELINE



As this report indicates, there is a lot of ground to be covered, and we require collective multi-stakeholder effort to fill the gaps identified. If you are interested in joining our Alliance or partnering with us to complete this work, please get in touch.

Acknowledgements

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We give our thanks to the co-hosts and partners in the regional consultations that took place between September and December 2020:

- **Asia Pacific:** the Asian Corporate Governance Association
- **Europe:** NVB (Dutch Banking Association)
- **India:** the Confederation of Indian Industry
- **Japan:** the Financial Services Agency
- **Sub-Saharan Africa:** the Code for Responsible Investing in South Africa, and the Continental Business Network
- **United Kingdom:** City of London Corporation, and the Impact Investing Institute
- **United States:** Ceres, and the Institute for International Finance.



We also want to thank the almost 250 consultation participants, representing the following industry groups.

Industry	Participants
Academia	4
Asset management	41
Banking	31
Benchmarking and ratings organisations	4
Business or investor platforms	24
Civil society	45
Financial services	45
Government or policymakers	14
Insurance	13
Pension funds	8
Reporting platforms or standards setters	19
Total	248

Finally, we wish to thank the more than 100 individuals who have generously shared their time, experience and feedback – over and above the consultations indicated above – helping us explore the potential scope for such a benchmark. Any errors or omissions remain our own; we encourage you to help us identify them by responding via our [feedback form](#) here.

Voluntary disclosure frameworks and accountability initiatives focused on financial institutions

1. [Banking Environment Initiative \(Cambridge Institute for Sustainability Leadership\)](#)
2. [BankTrack Human Rights Benchmark](#)
3. [B Impact Assessment \(B Lab\)](#)
4. [CDP Non-Disclosure Campaign](#) and [Science-Based Targets Campaign](#)
5. [Center for Climate-Aligned Finance \(Rocky Mountain Institute\)](#)
6. [Climate Action 100+](#)
7. [Climate Action in Financial Institutions](#)
8. [Climate Disclosure Standards Board](#)
9. [Climate Finance Leadership Initiative](#)
10. [Climate Safe Lending Network](#)
11. [ClimateWise Principles \(Cambridge Institute for Sustainability Leadership\)](#)
12. [Collective Commitment to Climate Action](#)
13. [Fair Finance International \(Oxfam\)](#)
14. [Financing the Transition to a Net Zero Future \(World Economic Forum\)](#)
15. [Forests & Finance Bank Policy Matrix](#)
16. [Future-Fit Business Benchmark](#)
17. [Global Alliance for Banking on Values](#)
18. [Global Reporting Initiative Standards](#)
19. [Impact Management Project's Dimensions of Impact and Impact Classes \(ABC for investors\)](#)
20. [IMVO Convenanten](#)
21. [InfluenceMap \(including FinanceMap\)](#)
22. [Insure Our Future Insurance Scorecard](#)
23. [IRIS+ \(Global Impact Investing Network\)](#)
24. [MSCI SDG Alignment Tool](#)
25. [Net Zero Asset Managers Initiative](#)
26. Net Zero Finance Tracker (in development)
27. Net-Zero Insurance Underwriting Alliance (in development)
28. [Net Zero Investment Framework \(Institutional Investors Group on Climate Change\)](#)
29. [Responsible Business Conduct for Institutional Investors, and Due Diligence for Responsible Corporate Lending and Securities Underwriting](#) (Organisation for Economic Co-operation and Development)
30. [Operating Principles for Impact Management \(International Finance Corporation\)](#)
31. [Paris Agreement Capital Transition Assessment](#) (2° Investing Initiative)
32. [Partnership for Carbon Accounting Financials](#)
33. [Principles for Responsible Banking, Positive Impact Initiative](#) and [Principles for Sustainable Insurance](#) (United Nations Environment Programme Finance Initiative)
34. [Principles for Responsible Investment Reporting Framework](#)
35. [Responsible Asset Allocator Initiative](#)
36. [Real Impact Tracker](#)
37. [Science Based Targets initiative for financial institutions](#)
38. ShareAction recent Rankings: [Banks](#), [Asset managers](#), [Pension funds](#) and [Insurance companies](#)
39. [Social Value International Standards and Guidance \(including Social Return on Investment methodology\)](#)
40. [Sustainability Accounting Standards Board Financial Standards](#)
41. [Sustainable Development Investments Asset Owner Platform](#)
42. [Sustainable Development Goals Impact Standards \(United National Development Programme\)](#)
43. [Sustainable Finance League Tables \(Refinitiv\)](#)
44. [Sustainable Finance Report 2019: Sustainable Banking in ASEAN \(World Wildlife Fund\)](#)
45. [Task Force on Climate-related Financial Disclosures](#)
46. [Task Force on Nature-related Financial Disclosure](#)
47. [The Investor Agenda](#)
48. [The Test of Corporate Purpose Initiative](#)
49. [United Nations-convened Net-Zero Asset Owner Alliance](#)
50. [United Nations Guiding Principles Reporting Framework](#)
51. [Universal Standards for Social Performance Management](#)
52. Value Reporting Framework (to be launched 2021 from the merger of the Sustainability Accounting Standards Board and the International Integrated Reporting Council)

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26. LD Pensions is a Danish pension fund that has adopted the Future-Fit Business Benchmark, an open-source methodology developed to help companies and financial institutions assess their positive and negative effects. These effects are defined against 23 forward-looking 'break-even goals' that draw the line in the sand that every organisation much reach to guarantee it is not harming people or the planet. LD Pensions is using this logic and progress indicators to assess companies in its investment portfolio, and is now exploring going beyond 'do no harm' to assess the 'positive pursuits' identified by the Future-Fit methodology - activities that can help speed up the transitions needed to achieve a sustainable society.
27. Harvard Business School's Impact-Weighted Accounts Project seeks to drive the creation of financial accounts that reflect a company's financial, social and environmental performance. Its ambition is to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making. Commercial examples include the Schroders SustainEx tool, which measures the costs companies would face if all of their negative externalities were priced, or the boost if benefits were recognised financially.
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33. For example, the Science Based Targets Network is working to provide methods for companies to align their targets with a number of sustainability objectives, beginning with nature and the goals set out in the SDGs, the Paris Agreement, the Convention on Biological Diversity Post-2020 Global Biodiversity Framework, and the Convention to Combat Desertification 2018-2030 Strategic Framework.
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