



Governance and Climate Insights Report

Triggering a domino effect in finance

May 2023

Table of contents

Executive summary	5
Focus of the report	5
Seven report findings	6
Five calls to action	6
Stakeholder call to action	7
Introduction	9
Triggering a domino effect	9
About the Financial System Benchmark	10
Transforming the financial system	10
Financial System Benchmark	10
Institutions with outsized influence	10
What influences financial institutions to act on climate change?	11
Governance and strategy	11
Performance on governance across the industry	11
Insights from Helle Bank Jorgensen, CEO of Competent Boards	14
Board-level sustainability oversight matters	14
Gender-balanced boards matter	15
Higher performance on climate when sustainability is linked to executive pay	16
Lobbying positions on sustainability	17
Industry initiatives	17
GFANZ	17
Climate Action 100+	18
The influence of policy on industry initiatives	19
Disclosure regulation	19
Insights from ShareAction	20
Mapping the benchmark against industry regulatory reports	20
The influence of EU regulation	21
Climate findings	22
Insights from RMI	22
Findings by climate indicator	23
Financed emissions	23
Financed emissions targets	24
Engagement on a 1.5°C trajectory	25
Climate solutions – ‘green finance’	25



Approach to fossil fuels	26
What tools exist to help financial institutions align with a 1.5°C trajectory?	27
Breakdown by geography on climate	29
Differences within regions	30
Breakdown by industry on climate	30
Asset owners	31
Pension funds	31
Sovereign wealth funds	33
Development finance institutions (DFIs)	34
Banks	36
Asset managers	38
Asset managers	38
Alternative asset managers	39
Investment consultants	40
Insurance companies	41
Next steps and how to work with us	44
References	45
Annex	46



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About WBA

The World Benchmarking Alliance (WBA) is a non-profit organisation that develops free and publicly available benchmarks to hold 2,000 of the world's most influential companies accountable for their part in achieving the Sustainable Development Goals (SDGs). Our benchmarks are grounded in the seven transformations needed to put our society, planet and economy on a more sustainable and resilient path.



Executive summary

The first edition of the Financial System Benchmark was launched at COP27 in Egypt in 2022. The benchmark provides an insight into the transparency of interconnected institutions within the global financial system: banks, insurance companies, asset managers, pension funds, sovereign wealth funds, development finance institutions and investment consultants. All 400 institutions in the benchmark either directly or indirectly influence people and planet through the flow of money in and across developed and developing economies. The benchmark covers governance, planetary boundaries, human rights and social issues.

Focus of the report

This report uses the benchmark findings to highlight the state of play in the financial system across governance and climate and the relationship between them. It looks at progress on issues such as impact strategy and corporate policies, board-level oversight and remuneration through to gender, engagement and public policy. We overlay these with our findings on the progress of climate-related issues, including financed emissions, alignment with the Paris Agreement, target setting, processes and approach to fossil fuels as well as engagement on climate issues.

Our objective is to show where solutions are already available to the financial system while some of the bigger blockages needing policy and global collaboration are being worked through. The aim is to improve peer-to-peer learning across industry silos and provide clarity on which financial actors need to accelerate their role in triggering a domino effect within the system.

Summary of key findings

There are no surprises in this report – the financial system is a long way off from global expectations on climate change. As highlighted in the benchmark's [five key findings](#) from November 2022, despite global commitments, significant work is needed by financial institutions across all measurement areas to operationalise these commitments. While there are many people working hard both within and outside finance, [action is simply not happening fast enough](#).

This report shows which industries and geographies are leading on disclosure, where there is a lack of transparency and, most importantly, where institutions can take positive action to accelerate their progress.



Seven report findings

1. The whole financial system scores poorly against expectations on governance and climate. There are no notable overall outliers. However, there are financial institutions that have made progress in areas which others can learn from.
2. The whole financial system scores poorly on its approach to fossil fuels. This clearly remains a contentious issue. We urge stronger multi-stakeholder collaboration to find pathways forward and enable an environment of greater transparency, not less.
3. Institutions with gender-balanced boards outperform across climate indicators compared to those institutions with boards that are not gender balanced.
4. Institutions that link executive remuneration to sustainability outperform across all climate indicators.
5. Stronger regulations lead to greater transparency and therefore better performance on climate indicators.
6. Many of the asset owners that are regarded as important influencers in the financial system remain opaque and score poorly on climate indicators.
7. Financial institutions that typically fall outside the scope of mainstream regulations, such as private equity and venture capital, are opaque and score poorly on climate indicators despite being on the frontier of financing climate solutions.

Five calls to action

This report shows the nuance of where better practice lies across different industries and geographies, and how financial institutions can learn from their peers. All stakeholders across the finance ecosystem are urged to dig into the relevant sections of the report and cross-reference with the data on our website. We recommend championing the work of those who are making headway and influencing the laggards to move forward, empowered by the insights from this report.

There are specific calls to action for each industry within the report. However, these are the clear overarching needs apparent from our findings:

1. **Board responsibility drives climate action;** ultimate responsibility for climate and sustainability MUST sit at board level. Tone from the top matters.
2. **Gender balance matters for climate too;** prioritise gender-balanced boards and leadership. This is good for more than just equity, it also has a positive impact on sustainability decision-making.
3. **More influence to innovate from within the system;** financial actors must recognise their place in the financial system and use their power to positively influence the actions of other institutions, not just real-economy companies. The industry succeeds together, and no institution should be an exception.
4. **Transparency on answers and problems;** transparency is critical to rebuild trust in the financial system. Greater transparency and understanding of decisions taken, including the more challenging aspects of addressing climate change, are essential to foster collaboration on finding solutions. Institutions also need to recognise that their stakeholders go beyond their clients and members. They must make climate disclosures accessible to all.
5. **Collaboration on approaches to fossil fuels;** it is stark that not one institution in the benchmark has an adequate approach to phasing out all fossil fuels. This highlights the complexity of the issue and the fact that ALL stakeholders must come together to make this happen.



Stakeholder call to action

Civil society

- Download the full results [here](#) and filter and review sectors and companies to view the results in context.
- Use our methodology and scoring to provide a framework for engagement with financial institutions.
- Use the findings from this report to inform and prioritise your activities. Use the nuance in this report to tailor your actions to specific areas of finance. If you need more detailed data, please get in touch.
- To help raise awareness of our work, you are welcome to reference and use this report content (please do let us know too).

Financial institutions

- Review results and scorecards for your institution, peers and leaders across the whole benchmark [here](#) – see what is possible.
- Leverage your position in the financial system to influence others, using our methodology as a framework for prioritising discussions and actions from your service and product providers.
- Get in touch for detailed scoring and gap analysis.
- Tell us how the methodology and scoring can be improved.
- Use our methodology [here](#) to guide your resource allocation, your priorities and your disclosure.

Policymakers and regulators

- Use our data and assessments for reports and discussions. Please get in touch if you need more detailed data.
- Our [methodology](#) was developed through multi-stakeholder consultation and built on existing global principles. It forms a strong basis for creating and reviewing your existing voluntary and mandatory frameworks.
- We are available to contribute findings and expertise to relevant working groups and consultations.
- If our work is valuable to your decision-making, please reference it. This helps our own decision-making regarding resource allocation.

Standard and framework setters

- Avoid reinventing the wheel. Use our [methodology](#) and those cited in this report to inform your standards and frameworks. You are welcome to our full methodology and scoring guidelines.
- If you spot duplication or inconsistencies in our activities, please get in touch and let us know.
- We welcome the opportunity to contribute to relevant working groups and consultations.
- Invite us to relevant events and discussions to share insights and experience across your platform and members.



We are always happy to connect with financial institutions and other stakeholders. Please contact us at: info.financial@worldbenchmarkingalliance.org.



Introduction

Triggering a domino effect

This report draws on the first edition of the benchmark, and we want it to inform and empower all of those working in and influencing sustainable finance. The benchmark includes all major financial actors that are key to triggering a 'domino effect' in mainstreaming sustainable finance. The financial system is interwoven and complex, with institutions having distinctive and interchanging roles across the system. However, there is an underlying order of hierarchy, where the demands of one sector influence the actions of another. For example, asset owners such as pension funds, sovereign wealth funds and state-backed institutions influence the actions of asset managers and banks through their investment mandates and due diligence processes. Aligning these institutions across common principles is essential to accelerate mainstreaming sustainable finance.

By assessing these institutions across a broad range of principles, we can provide more nuanced insight. The benchmark shows the relative performance of each sector on operationalising and disclosing across sustainability issues. It shows where more attention is needed and equally draws attention to pockets of progress which can potentially be scaled across the system. Demonstrating 'the art of the possible' is powerful as financial institutions move from asking 'why?' to asking 'how!'

While we recognise that progress is not linear, the lack of visible progress is eroding trust in the financial system and fuelling polarised opinions, politics and the media.

The Financial System Benchmark aims to provide a north star amid all this noise, an objective window into the status of the financial system on sustainability and help chart progress through future assessments. In between each benchmark year, the methodology and results create a framework for dialogue and action across different stakeholder groups on how to prioritise, collaborate and accelerate change.

One key question which we constantly ask ourselves relates to the balance of disclosure versus impact. We want to ensure that benchmarking 400 of the most influential financial institutions leads to positive change, not just box ticking or, at worst, greenwashing. Many financial institutions argue that they would rather spend their time making change happen rather than reporting it, or else will only report when they have certainty of data. However, without disclosure and transparency there is no accountability on progress, and no clarity on what is and is not possible or where focus by all the stakeholders within and around the financial system is needed. It is essential that financial institutions remain transparent, even when they do not yet have all the answers. As legal and compliance functions take responsibility for sustainability reporting, we are seeing the willingness to disclose slowing not accelerating. Courage and direction from boards are essential to define the remit for legal and compliance, on strategy, resource allocation and the importance of transparency.

We can see from our assessments the relationship between board-level responsibility for sustainability and impact, and higher performance on planetary boundaries scoring. For example, the top quartile on governance score on average three times higher on planetary boundaries. Setting the right tone at the top goes hand in hand with influencing action and progress throughout organisations.



About the Financial System Benchmark

Transforming the financial system

The financial system is recognised as the game-changer in funding a sustainable and just economy. Financial institutions are both the enabler and straitjacket of the economic system. The objective of the Financial System Benchmark is to accelerate the mobilisation and allocation of funds away from destructive practices towards their most productive and positive use. If harnessed positively, financial institutions by their nature can promote economic growth, drive investment and employ millions of people worldwide.

Financial System Benchmark

WBA is focused on system-level change. The Financial System Benchmark is one of seven system benchmarks created and managed by WBA to map the progress of the private sector on its contribution to a just and sustainable world.

The benchmark assesses financial institutions across a broad range of subjects, including Governance and strategy, Planetary boundaries (Climate, nature and biodiversity) as well as WBA's Core Social Indicators covering human rights and social issues.

Assessments are not voluntary, with scoring based on publicly disclosed information. However, each financial institution is given the opportunity to review and provide evidence of any inaccuracies. The full methodology is available [here](#).

Benchmarking is carried out every two years; the next benchmark is planned for 2024.

Institutions with outsized influence

Financial institutions included were identified as 'keystone', i.e. organisations with disproportionate influence on the structure and function of the systems within which they operate. The benchmark includes banks, asset owners (including pension funds, development finance institutions (DFIs) and sovereign wealth funds), asset managers (including investment consultants, alternative asset managers such as private equity, venture capital and hedge funds) and insurance companies.

The assessment is based on group-level disclosure. Given that many institutions can fall into more than one industry, they are categorised according to where they derive most of their revenues.

The benchmark shows the nuance across the financial system, where the laggards are, where the existing pathways are that others can follow and where policymakers and regulators need to focus their attention.



What influences financial institutions to act on climate change?

There are various motives and levers that drive financial institutions to take action on climate change. Societal and political pressure can influence the financial system as well as pressures from within and around the industry system. In this section, we explore three specific influences and their relationship to progress on climate. These are governance and strategy, industry initiatives and regulation.

Governance and strategy

Good governance is key to managing risk within the financial system. Therefore, there are existing frameworks and protocols which can be extended to sustainability and impact.

The behavioural change needed within the financial system to accelerate mainstreaming sustainable finance comes from the board. As famously noted, 'culture eats strategy for breakfast'.

It is widely stated that good corporate governance underpins good performance on climate action. For example, the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking highlight buy-in from boards and senior leaders as 'a key enabler of strategic integration of climate considerations' (Anders, Dichtl, Sosa Taborda, Messenger, & Kemmitt, 2022).

An analysis of our benchmark results supports this statement. The relationship between board-level sustainability oversight and climate performance, as well as other key governance topics, is explored below.

Performance on governance across the industry

The benchmark assesses institutions on governance and strategy across five key areas.

1. How financial institutions identify and manage their impact.
2. Who within the financial institutions is accountable for sustainability.
3. How financial institutions approach gender equality and diversity.
4. How financial institutions engage on sustainability topics.
5. How financial institutions align their lobbying and public policy engagement with their sustainability strategy.

Within these areas are 23 elements spanning strategy, remuneration, gender on boards and in leadership roles, engagement and public policies. The full methodology is available [here](#).

While different sectors of finance have different roles and regulatory regimes, governance and strategy are common to all.



Unsurprisingly, performance varies significantly across the industry and by measurement area. Areas that are well-established and naturally fit within existing processes, such as engagement policy, score better in general. Those areas which require new areas of expertise and knowledge, or are politically sensitive, score lower. Likewise, by industry, it is no surprise that development finance institutions (DFIs) score better across areas that are embedded in their core mandates. In addition, industries that have less regulatory reporting requirements and are more opaque score poorly. This will be a recurring theme in this report.

FIGURE 1: AVERAGE PERFORMANCE ON GOVERNANCE ACROSS DIFFERENT INDUSTRIES IN FINANCE

	Impact management and strategy	Senior leadership accountability and remuneration	Gender equality and diversity	Engagement policy	Public policy engagement
Bank (155)	22%	20%	21%	10%	12%
Insurance (63)	15%	18%	18%	19%	8%
Asset manager (62)	8%	10%	12%	37%	8%
Pension fund (59)	7%	4%	11%	28%	3%
Alternative asset manager (18)	7%	3%	2%	7%	3%
Sovereign wealth fund (18)	7%	7%	4%	12%	0%
Development finance institution (15)	18%	25%	28%	28%	17%
Investment consultant (5)	0%	5%	17%	44%	5%

Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure under each industry is the number of institutions represented in the benchmark.

Benchmark performance favours industries and areas within existing working practices

Over the past decade, disclosure frameworks and standard setters, such as the Task Force on Climate-Related Financial Disclosures (TCFD), GRI and the ISSB draft standards (as well as their predecessors), have highlighted the importance of good governance in catalysing private sector action on climate change.

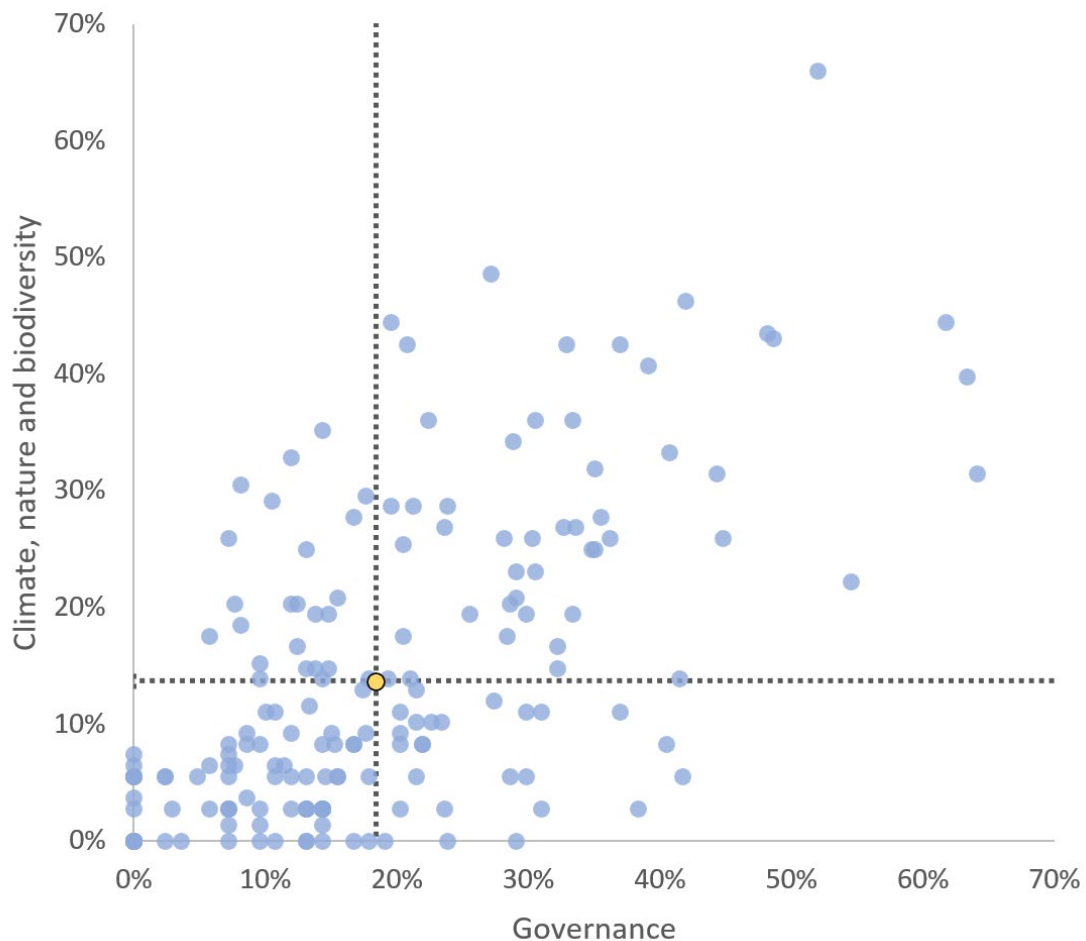
This is echoed in the results of the 2022 Financial System Benchmark, showing a relationship between good governance and action on climate change.



- Financial institutions that score highly (top 25%) on governance and strategy score, on average, 20 percentage points higher in the benchmark overall, compared to financial institutions in the bottom 75% on governance and strategy (28% versus 8%).
- Financial institutions that score highly (top 25%) on governance and strategy score, on average, 16 percentage points higher in the climate, nature and biodiversity area, compared to financial institutions in the bottom 75% on governance and strategy (23% versus 7%).

Financial institutions tend to have a relatively balanced performance across the governance and climate measurement areas, meaning that if they do well on one, they are likely doing well on the other. Figure 2 shows the sample of 177 financial institutions that publish sustainability-related disclosures. The average performance is marked in yellow on the graph. There are 83 institutions altogether that outperform the average on both measurement areas (upper right quadrant in the figure). Twenty-eight financial institutions perform above average on climate but below average on governance (upper left quadrant), while 21 institutions perform above average on governance but below average on climate (lower right quadrant). There are 45 institutions that perform below average on both measurement areas (lower left quadrant).

FIGURE 2: RELATIONSHIP BETWEEN PERFORMANCE ON GOVERNANCE AND PLANETARY BOUNDARIES



Notes: Percentages relate to the average score of institutions relative to the maximum potential score in each measurement area. This figure shows the sample of 177 financial institutions that publish sustainability-related disclosures.



Insights from Helle Bank Jorgensen, CEO of Competent Boards

Best practice corporate governance is no longer a 'nice to have'. It is a must for most, if not all, companies and their boards. With new regulations, standards, processes and expectations coming thick and fast, board directors and senior executives must be ever-



COMPETENT
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more mindful of their governance procedures. Good governance is not only crucial for mainstreaming sustainable finance. It is also crucial for companies that are looking to future-proof their business, and for financial institutions that have a double duty or opportunity to both ensure their own governance and to assess customers and business partners.

There is nowhere to run or hide. The only smart course of action is to ensure that governance is in place and admired at the financial institution and at the companies the institution serves. And if not admired, at least good enough to ensure that the institution and its partners are not accused of greenwashing, brown-spinning or any of the other less favourable terms that have hit the news, along with lawsuits against boards and companies. Those kinds of accusations not only hurt reputations and the bottom line, they hurt us all.

There are growing stakeholder and investor expectations around corporate governance as well as media scrutiny of how companies are run. Activists have also found their voice in and outside boardrooms and are not afraid to use it, with a rise in say-on-climate voting expected in the 2023 proxy season.

With the rapid increase in environmental, social and governance (ESG) risks and opportunities on board agendas, including the omnipresent climate and biodiversity crisis as well as the plethora of specialist rating agencies, it is vital that good corporate governance also connects to sustainable finance, in a measurable and standardised way.

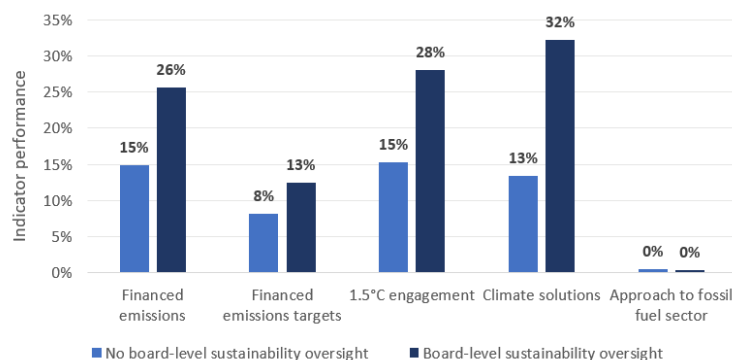
Like it or not, companies must acknowledge that climate change is inextricably intertwined with all areas of their performance, and that starts at the top with corporate governance. The analysis below reveals a positive data correlation between those that score well on governance and better performance across the assessments on planetary boundaries (indeed across all areas).

Board-level sustainability oversight matters

Effective board-level oversight is a crucial component of good governance. Financial institutions that disclose that they assign decision-making and oversight of sustainability to the highest governing body perform better across all the climate indicators included in the benchmark (Figure 3). This creates a culture of accountability on sustainability from the top down, enabling long-term decision-making. This, in turn, has influence across the organisation from business strategy through to resource allocation. The exception is on the approach to fossil fuels, where there is no notable difference, which we explore in more detail later in the report.



FIGURE 3: INSTITUTIONS WITH BOARD-LEVEL SUSTAINABILITY OVERSIGHT OUTPERFORM ACROSS CLIMATE INDICATORS



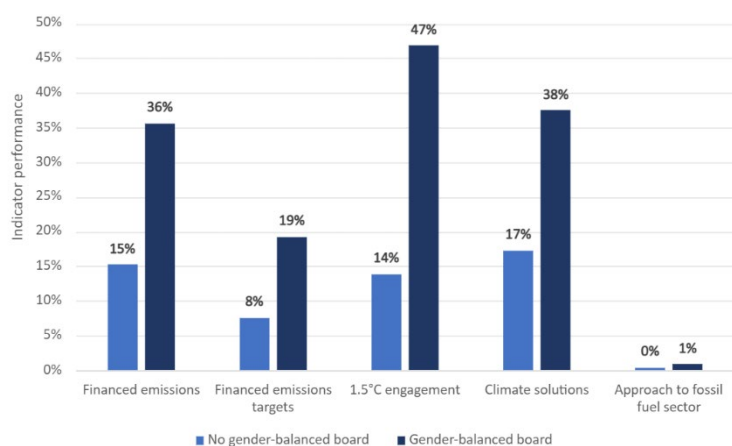
Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between financial institutions with and without board-level sustainability oversight.

Gender-balanced boards matter

Achieving a gender balance in the highest governing body should be a priority for financial institutions. Aside from [evidence](#) that not having balance can have a negative influence on decision-making, there is also increasing regulation in this area (Bénabou, 2013). For example, the European Parliament now requires large, listed companies to have 40% women on their non-executive board and 33% women among all directors by 2026 (European Commission, n.d.). Of the 112 EU-headquartered financial institutions included in the benchmark, only a fifth of them (21%) have 40% women on the board.

The benchmark found that financial institutions that disclose they have at least 40% women on their board perform better across all climate indicators (Figure 4). Financial institutions that fall into this group report having on average 48% women on the board.

FIGURE 4: GENDER-BALANCED BOARDS OUTPERFORM ACROSS ALL CLIMATE INDICATORS



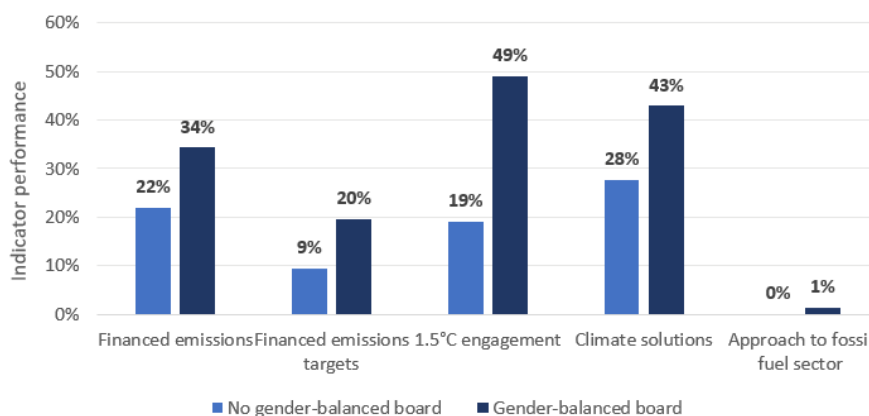
Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between financial institutions with and without gender-balanced boards. 'No gender-balanced board' includes the 45 financial institutions that were found to have disclosed no relevant evidence regarding gender diversity at the board level.



Gender-balanced boards with sustainability oversight

Both board-level sustainability oversight and having a gender-balanced board are independently important in promoting action on climate change. Simply put, board-level sustainability oversight matters, but a gender-balanced board appears to matter more. This is illustrated in Figure 5, which shows that within the subset of 175 financial institutions that assign oversight of sustainability to the highest governing body, the financial institutions that also have a gender-balanced board perform better across all climate topics.

FIGURE 5: GENDER-BALANCED BOARDS AMONG INSTITUTIONS WITH BOARD-LEVEL SUSTAINABILITY OVERSIGHT OUTPERFORM ON CLIMATE INDICATORS



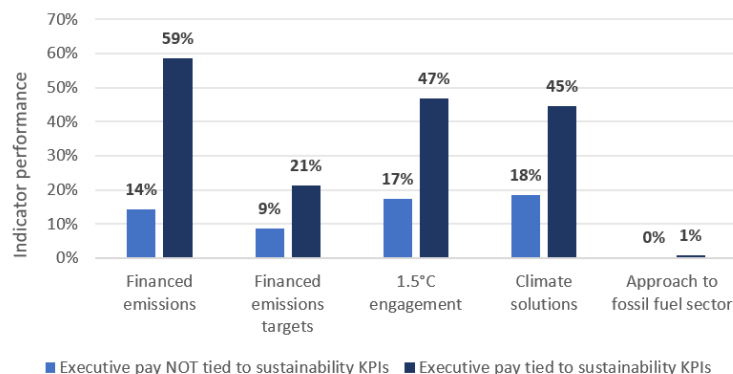
Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between financial institutions with board-level sustainability oversight and a gender-balanced board, and financial institutions with board-level sustainability oversight but no gender-balanced board.

Higher performance on climate when sustainability is linked to executive pay

Financial institutions that tie executive pay to sustainability targets perform better across all climate indicators (Figure 6). Within governance, the biggest difference in performance on climate is between financial institutions that link executive pay to sustainability and those that do not. For example, we see from the data that financial institutions with board-level sustainability oversight score on average 26% on financed emissions, compared to 15% for those without this board-level oversight. However, the difference is starker for executive pay. Those linking pay to sustainability score 59%, compared to 14% on the financed emissions indicator. Given that 76% of financial institutions that tie executive pay to sustainability also assign responsibility for sustainability to the board, it infers a stronger culture of sustainability in these institutions.



FIGURE 6: FINANCIAL INSTITUTIONS WITH EXECUTIVE PAY TIED TO SUSTAINABILITY OUTPERFORM ON CLIMATE INDICATORS



Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between financial institutions with and without executive pay tied to sustainability.

Lobbying positions on sustainability

Just 20 of the financial institutions included in the benchmark disclose their lobbying positions on sustainability themes. Most of these organisations are headquartered in Europe (9), followed by North America (6), Africa (2), Oceania (2) and finally Asia (1). Transparency on lobbying positions is crucial to ensure that financial institutions are lobbying in line with their overarching sustainability and climate strategy.

Industry initiatives

Recognising that the financial system plays an important role in supporting the Paris Agreement, various industry initiatives have been adopted to publicly agree commitments and ensure consensus and alignment.

The benchmark cross-references our assessments to two leading industry initiatives: the Glasgow Financial Alliance for Net Zero (GFANZ) and the Climate Action 100+.

GFANZ

GFANZ was formed in 2021 during COP26 in Glasgow. Within GFANZ, there are specific alliances for different financial industries (GFANZ, 2023). For many, GFANZ’s formation symbolised the industry’s growing recognition of its crucial role in achieving net zero by 2050. However, others have noted that while initiative membership signals support for sustainability, the extent to which there is a relationship between membership and financial institutions’ impact on the environment can be limited (Sood, et al., 2022).

The global breadth of institutions in the benchmark allows us to compare GFANZ and non-GFANZ performance. In the benchmark, 110 institutions were GFANZ members at the time of the benchmark launch: 56 are European, 28 are North American, 16 are Asian, four are South American, three are from Oceania and three are African.

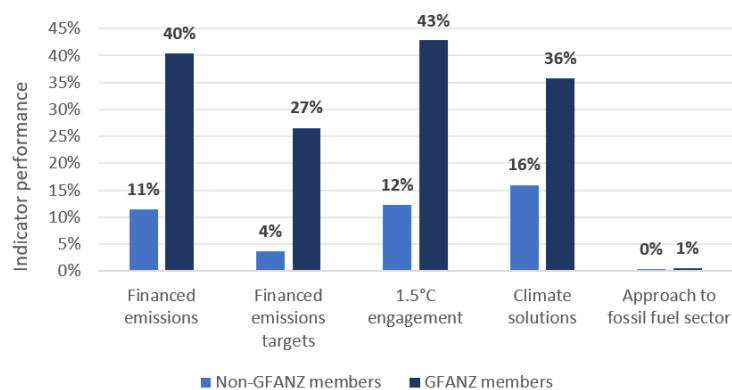
From our data, we see that GFANZ members outperform non-GFANZ members on all climate-related indicators.



As GFANZ was established specifically as a call to action on climate, it is unclear whether this is causal or coincidental. Potential reasons for this positive relationship could vary from an emphasis on disclosure among alliance members to senior executive commitment sharpening internal focus on climate.

Outside of the climate topics, we can also see that GFANZ members outperform across all the benchmark's measurement areas, including governance, nature and biodiversity, human rights and social issues. More than two thirds (69%) of institutions in the top quartile of the benchmark are members.

FIGURE 7: GFANZ MEMBERS OUTPERFORM ON BENCHMARK CLIMATE INDICATORS



Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between GFANZ members and non-members.

Climate Action 100+

Established in 2017, Climate Action 100+ (CA100+) is an investor initiative for collective engagement with companies on climate change. It aims to increase corporate disclosure on climate-related risks and emissions reduction strategies by using the interaction of financial institutions with their corporate clients and investees to influence real-economy companies to align with the Paris Agreement (Climate Action 100+, n.d.).

Of the institutions in the benchmark, 105 are members of CA100+. Given the nature of the initiative, overall CA100+ members perform much better on the 1.5°C engagement assessment. While we are unable to identify a causal link from the data, it is fair to hypothesise that collective and coordinated engagement provides a framework and pathway for financial institutions on engagement, and therefore membership should be encouraged.

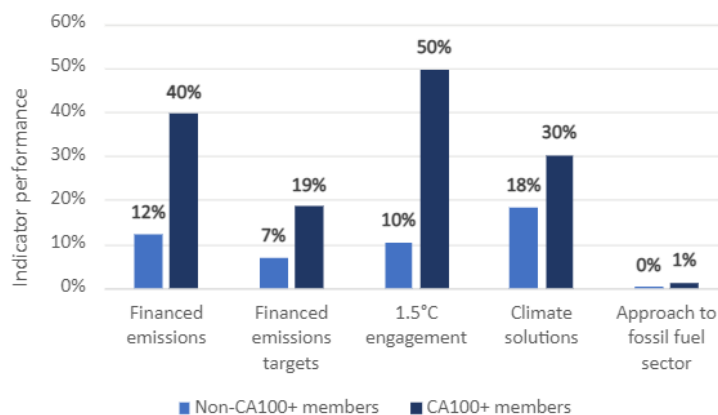
While CA100+ members score an average of 40 percentage points higher on the 1.5°C engagement indicator (50% versus 10%), it is worth noting that only 24 financial institutions require target companies to have a strategy aligned with a 1.5°C trajectory. Although we recognise that this is a rapidly evolving backdrop, there is clearly a need to improve engagement.



Performance of CA100+ members and non-members:

- 45% of CA100+ members engage with key companies and sectors on the topic of climate change versus 14% for non-members.
- 42% of CA100+ members engage on a 1.5°C trajectory versus 12% of non-members.
- Only 11% of CA100+ members and 4% of non-members require the companies they engage with to have a strategy aligned with a 1.5°C trajectory.

FIGURE 8: CA100+ MEMBERS OUTPERFORM ON BENCHMARK CLIMATE INDICATORS



Notes: Percentages relate to the average score of institutions relative to the maximum potential score on each indicator. The figure shows the difference in performance on climate indicators between CA100+ members and non-members.

The influence of policy on industry initiatives

Voluntary initiatives rely on a favourable legal and regulatory context for success and are particularly relevant in countries with polarised opinions. Some financial institutions have cited the fear of legal challenges as a barrier to participating in such collective initiatives, as they are deemed increasingly prone to ‘anti-trust’ litigation. Likewise, there are data disclosure dependencies between financial institutions and real-economy companies.

Regulators must provide clarity on these issues. For example, the UK Competition and Markets Authority has announced plans to relax competition law, so an existing exemption applies to companies with a demonstrably positive impact on climate change. Regulators in Germany and Japan are considering similar measures (Azizuddin, 2023) (Webb, 2023).

Aligned regulatory and disclosure policy are a third critical driver for financial institutions to act on climate change.

Disclosure regulation

While it is widely recognised that regulation around risk management and disclosure influences the financial system on climate change, the rate of implementation has varied greatly globally.

Regulators need evidence to justify and draft good regulations, so the benchmark results help to identify the positive relationship between climate disclosure and regulation (United Nations’ High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, 2022). The results also highlight where regulation is needed.



Insights from ShareAction



The past few years have witnessed investors using their rights and influence to ask companies to go above and beyond what voluntary initiatives ask them to do. ShareAction coordinated both a USD 4.2 trillion coalition of 115 investors demanding that global banks step up their climate and biodiversity ambitions before COP26 and a recent USD 1.5 trillion coalition of investors asking five European banks to cease financing for new oil and gas fields and to take action against the companies behind these fields. It is clear that bolder action is required from banks and their regulators.

Governments around the world now have a wealth of voluntary examples to draw upon when developing mandatory frameworks for the finance sector. For example, the Transition Plan Taskforce (TPT) in the UK has made progress in building support for a robust disclosure framework for climate transition plans. However, in our view, to really make the leap to consistency and effectiveness, the UK government needs to move at pace to make this framework mandatory for all. Regulation not only addresses the laggards and 'free riders' in the sector, it also establishes a level playing field and ensures consistency and transparency across the board.

As crucial as transparency and disclosure are, in the long run, policy and regulation must go further if they are to be truly effective in unlocking the full potential of finance to address social and environmental impacts on people and planet. As such, in addition to setting and enforcing disclosure requirements, taxonomies and labelling regimes, governments should also embed sustainability mandates with regulators and public bodies. They should look again at some of the barriers holding the sector back from bold and proactive action, from alleviating concerns about investor collaboration to widening the concept of 'best interests' in fiduciary duties such that social and environmental impacts are considered alongside financial return.

The work of ShareAction and WBA is highly complementary, with both looking at progress and alignment across the financial system on ESG issues. WBA's macro-level approach includes a wide breadth of sectors, countries and firms in its benchmarking analyses while ShareAction produces deeper-dive industry-specific benchmarks for the asset management, insurance (both global in focus) and banking sector (European focus).

The evidence couldn't be clearer: we need decisive action from governments to build on proven examples of good practice and establish the robust regulatory frameworks the sector and the world needs.

Mapping the benchmark against industry regulatory reports

Although assessing specific regulations is outside the scope of the benchmark, mapping the results against other industry reports helps us identify where positive relationships exist, and therefore where regulations can make a difference. We compared our results to the 2022 PRI report Review of Trends in ESG Reporting Requirements for Investors (Principles for Responsible Investment, 2022).

A high-level comparison on the reporting requirements versus the average benchmark scores shows the positive effect of regulation at the top end and the bottom end of the scale. For example, countries headquartered in the UK perform the best in the benchmark, on average, on both the governance and planetary boundaries indicators, corresponding to the PRI report findings that the UK has the most specific reporting requirements.

We recognise that there is significant nuance in making such a comparison, including the scope of reporting requirements, the length of time regulation has been in place and the profile of the financial



industries in each jurisdiction. However, the objective is to show the positive relationship between performance and provide guidance on which jurisdictions can help provide roadmaps for regulators.

Our full suite of data is available to regulators or organisations wishing to conduct more detailed analysis.

FIGURE 9: HIGH-LEVEL COMPARISON OF REGULATION TO BENCHMARK PERFORMANCE

Jurisdiction	Number of specific reporting requirements (PRI)	Performance on governance (average %) (FSB)	Performance on planetary boundaries (average %) (FSB)
UK	52	26%	27%
EU	44	25%	22%
Australia	25	23%	18%
France	25	22%	26%
Japan	20	11%	14%
US	18	8%	5%
Canada	11	21%	16%
China	10	6%	3%

Notes: The PRI categorised France as a separate jurisdiction from the EU as it has stricter national reporting requirements than the EU or other member states.

The influence of EU regulation

Europe continues to be the dominant continent in terms of sustainability regulation, which is clearly echoed in the benchmark results. While other continents, and indeed individual countries, are following suit, we can see that financial institutions headquartered in the EU are more progressive in their climate plans and disclosure.

- Financial institutions headquartered in the EU consistently perform better across all three measurement areas.
- 75% of EU-headquartered financial institutions disclose the amount of finance they direct towards climate solutions, 44% of non-EU institutions do the same.
- 40% of EU institutions engage specifically on alignment with a 1.5°C trajectory, only 17% of non-EU institutions do.
- 25% of EU institutions require some of their companies to have a strategy aligned with a 1.5°C trajectory, but only 7% of non-EU institutions have the same requirement.



Climate findings

Global warming beyond 1.5°C poses catastrophic risks that are impossible for the financial system to ignore. Identification, mitigation and adaptation must be an essential part of institutions' strategy and policies.

Considering the net-zero commitments made by a growing number of financial institutions, these findings serve as an accountability and feedback mechanism for those within and outside the financial system wanting to track net-zero commitments into actions.

Insights from RMI

The Intergovernmental Panel on Climate Change (IPCC) found that limiting global warming to 1.5°C is necessary to avoid catastrophic environmental and economic harms. Meeting this international climate goal, as noted in Article 2c of the Paris



Agreement, **will require an unprecedented acceleration and shift in how money flows globally.**

The financial system is a key enabler of real-economy activity, so transforming the practices and priorities of financial institutions will be critical for delivering a rapid, just and inclusive transition.

At RMI, we define '**climate alignment**' as the process of bringing the global economy's emissions in line with 1.5°C temperature targets. Given the systemic nature and urgency of the challenge of meeting global net-zero targets, **every financial actor has a role to play. Financial institutions should expand their activities and commitments beyond financed emissions targets to support economy-wide (not just portfolio-wide) alignment.**

Measuring financed emissions, setting up science-based interim targets using sectoral pathways, and understanding real-economy transition plans are all important. But to achieve alignment with 1.5°C goals, **financial institutions' net-zero plans need to be quickly actioned** through the deployment of capital and engagement that supports and incentivises the transition to a Paris-aligned economy. This will need to include both **accelerating flows of capital towards innovative solutions and climate-aligned assets** as well as actively supporting the **decarbonisation or phaseout of high-emitting assets.**

Since financial institutions cannot be expected to do everything, everywhere, all at once, they should **prioritise actions to expedite progress and maximise impact across key sectors, geographies, asset classes and business units.** Net-zero strategy design, implementation and reporting should be tailored to account for a firm's unique characteristics, competitive advantages, and role in the real and financial economies. What best practice for climate alignment looks like for a large European bank, for example, will be different than for a Japanese insurance company. Tailoring approaches can help financial institutions navigate increasing stakeholder expectations, an evolving landscape of net-zero guidelines and regulation, and complex organisational structures while maximising their potential influence.

As noted in the following results from the Financial System Benchmark, there is still a long way to go as financial institutions navigate the sometimes-blurry lines between meaningful action and greenwash.



Findings by climate indicator

The benchmark assessed financial institutions across five areas related to climate:

1. Whether financial institutions report their financed emissions.
2. Whether financial institutions disclose financed emissions targets.
3. Whether financial institutions engage with clients and investee companies on their 1.5°C trajectory.
4. Whether financial institutions disclose their financing directed towards climate solutions.
5. Whether financial institutions disclose their approach to fossil fuel financing.

Given the broad range of institutions in the benchmark, scoring on the climate indicators was focused primarily on group-level disclosure, avoiding the situation where one entity in the group led on sustainability while another entity was an industry laggard. To use a common analogy, we focused on the whole ship rather than on individual cabins. For pragmatic reasons reflecting the nature of the industry or group, subsidiary and business-segment climate disclosures were accepted in some instances, with clear justification. Refer to the [2022 Financial System Benchmark Scoring Guidelines](#) for detailed information on how each indicator is scored.

Progress and context

While we recognise that the results represent a snapshot in time, and some institutions may have since improved their reports, the undeniable trend that emerged from the benchmark is that the financial system is significantly behind where it should be on climate action.

The majority of financial institutions scored poorly. Even leading financial institutions on governance and climate only scored around 60% in either measurement area.

As the financial system varies significantly by both industry and geography, the benchmark findings aim to provide more nuanced insight within an overall global picture.

Importantly, the benchmark shows where there is potential for learning across regions and industries to accelerate progress, and where further attention and collaboration are needed across the financial system and its stakeholders.

The benchmark indicators provide a useful overview of the range of activities a financial institution can undertake to align with 1.5°C pathways. However, these options must be reviewed in context and deployed with consideration for an equitable and just transition to net zero (World Benchmarking Alliance, n.d.).

Financed emissions

The emissions that result from financing activities such as investing, lending or underwriting are both significant and complex.

The benchmark found that just under a quarter (23%) of financial institutions report financed emissions, and of that only 16% disclose the coverage and data sources used to calculate them. This is in line with research from other institutions.

There were some instances where financial institutions disclosed financed emissions intensity rather than absolute financed emissions. While normalising emissions and, for example, disclosing weighted average carbon intensity (WACI) is useful, financial institutions should ensure that they disclose absolute financed emissions so that data is comparable and complete (Sood, et al., 2022).



While the available data is incomplete for all sectors, tools and frameworks exist to guide financial institutions in calculating their financed emissions (see below). Financial institutions are scored on their transparency regarding data coverage and data sources. In the interim to regulation and assurance of data, this will help reduce instances of greenwashing and improve trust among institutions' stakeholders.

We review the performance on emissions targets by industry later in this report to provide context.

Financed emissions targets

Financial institutions have a vital role to play in helping the real economy to achieve net zero. This can only be achieved if financial institutions set targets for their financed emissions, including interim targets. As best practice, financial institutions should set targets for their financing activities aligned with a 1.5°C trajectory and report progress against the targets. These targets need to be science-based with a specific time horizon, including interim targets, and result in a reduction of financed emissions by at least 45% by 2030 relative to the baseline year 2010 (United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, 2022).

As for target setting, 37% of financial institutions report a net-zero financed emissions target by 2050. However, only 2% of institutions set a science-based interim target, and 1% aim to reduce absolute financed emissions by at least 45% by 2030. Of companies with net-zero targets, 45% disclose their absolute financed emissions versus only 10% of companies that have not set a net-zero target.

Notable institutions among their peers in terms of the disclosure of financed emissions data and targets in the benchmark are shown in Table 1.

TABLE 1: LEADERS IN FINANCED EMISSION DISCLOSURE

Continent	Financed emissions ¹	Financed emissions targets ²
North America	Bank of Montreal (BMO) Caisse de dépôt et placement du Québec (CDPQ) BlackRock	California Public Employees Retirement System (CalPERS) Sun Life Financial Morgan Stanley
Asia	Mizuho Financial Group Mitsubishi UFJ Financial Group (MUFG) Cathay Financial Holding	Nippon Life Insurance Meiji Yasuda Life Insurance Sumitomo Life Insurance
Europe	PGGM UBS NatWest Group	Royal London Group Willis Towers Watson EIB Group
South America	Bancolombia Banco Bradesco Itau Unibanco	Bancolombia Banco del Estado de Chile
Africa	Ninety One	Standard Bank FirstRand

Go to page 29 of our [methodology](#) to see the climate indicators and elements.

¹ Financed emissions (B6): North America, Asia and Europe – these institutions were selected as they disclose emissions data, including coverage and data quality, as well as scored the highest across all our climate measurement areas. South America and Africa – these are the only institutions in their regions to disclose fully on emissions data, coverage and data quality.

² Financed emissions targets (B7): Asia and Europe – these institutions met more than one of the four target emissions scoring elements. North America, South America and Africa – these institutions met one target scoring element relative to their regional peers.



Engagement on a 1.5°C trajectory

Through engagement to influence real-economy companies, financial institutions can decarbonise their portfolios and align their financing activities with a 1.5°C trajectory.

Engagement is common place in the financial system, as historically engagement with portfolio companies has been necessary to maximise shareholder value and achieve the investment objectives of the portfolio manager. However, under climate engagement, specific, meaningful practices are required with actionable targets, timelines and escalation policies. Refer to guidelines from the [UNEP FI](#) or [Principles for Responsible Investment](#).

While 22% of financial institutions disclose that they engage on the topic of climate change, only 6% specify that they require some companies to have a strategy aligned with a 1.5°C trajectory.

To evaluate company performance, and guide engagement with real-economy companies on climate change, financial institutions can refer to WBA's [Climate and Energy Benchmark](#).

We review the performance on emissions targets by industry later in this report to provide context.

Climate solutions – 'green finance'

Climate solutions typically fall under the umbrella term 'green finance'. These are financial activities that aim to deliver a better environmental outcome (Fleming, 2020). Common green finance products include green bonds, loans and investments as well as green insurance and mortgage products.

Due to the lack of a universal definition for what can be considered green, green finance has become a focal point of greenwashing. To address concerns, regulators and standard setters are rolling out definitions and taxonomies along with emerging regulations for mandatory sustainability reporting standards. For this reason, our scoring asked institutions to align with international frameworks (see the tools section below).

While 43% of financial institutions disclose some kind of climate solution on their balance sheets, only 13% align these solutions with international frameworks.³

The most disclosed instruments are green bonds; 13% of financial institutions assessed disclose issuance of green bonds, out of which 60% is aligned with the International Capital Market Association (ICMA) Green Bond Principles.

Institutions that disclose financing activities devoted to climate solutions, specifying what they are, according to internationally adopted frameworks, with time-bound targets and details of progress made (see page 32 of our [methodology](#)) can be seen in Table 2.

³ As green bonds are the most commonly disclosed climate solutions, one of the most commonly used international frameworks in the sample is the ICMA Green Bond Principles. Other frequently used frameworks and standards are the Climate Bond Initiative's standards, the EU taxonomy and green bonds standards, and the Common Principles for Climate Mitigation Finance Tracking.



TABLE 2: LEADERS IN THE BANKING INDUSTRY

Financial institution	Country	Industry	Benchmark score out of 100
Allianz	Germany	Insurance	40.1
Arbejdsmarkedets Tillaegspension (ATP)	Denmark	Pension fund	25.5
Banco Santander	Spain	Bank	28.0
Bank of Nova Scotia	Canada	Bank	27.4
British International Investment	United Kingdom	Development finance institution	24.2
Caisse de dépôt et placement du Québec (CDPQ)	Canada	Pension fund	32.4
EIB Group	Luxembourg	Development finance institution	50.9
International Finance Corporation (IFC)	United States of America	Development finance institution	27.8
NatWest Group	United Kingdom	Bank	40.0
Sumitomo Mitsui Financial Group	Japan	Bank	27.0
Swiss Life Holding	Switzerland	Insurance	16.9

Approach to fossil fuels

This is one of the starkest outcomes of the benchmark assessment and mirrors the complexity of exiting from fossil fuels.

According to the latest report by the UN's high-level expert group, in order to meet the goals of the Paris Agreement, financial institutions' net-zero targets and transition plans must include an immediate end to the financing of any company planning new coal infrastructure, power plants and mines.

Equally, for oil and gas, in order to achieve net zero by 2050, financial institutions must end financing of new oil and gas field exploration, expansion of oil and gas reserves, and oil and gas production (United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, 2022).

The data from the benchmark clearly shows that the financial sector is not only lagging on its approach to the fossil fuel sector but has yet to convincingly start developing one.

Across all climate indicators, financial institutions show the weakest performance on their approach to the fossil fuel sector. Apart from a few pension funds, no sector scores above zero on the indicator. Only 1.3% of assessed institutions disclose the amount of financing activities linked to fossil fuels. Disclosures are often unclear, if made at all.

No financial institution in the benchmark was found to disclose that it does not provide any type of financial service to new fossil fuel projects. Financial institutions often have exclusion criteria in place for coal investments, but there was very limited evidence found on oil and gas exclusion. At the time of the assessment, we also found no public evidence of an institution demonstrating a definitive approach to its fossil fuel financing activities, in other words, having a policy to phase out financial services to existing projects and companies across the fossil fuel value chain unless there was a clear strategy aligned with a 1.5°C trajectory.



While in certain jurisdictions financial institutions have to report a breakdown of their credit exposures in high-emitting or fossil fuel sectors, it is rare for financial institutions to report a monetary exposure. Credit exposures, however, can be misleading. For example, credit exposure to a fossil fuel company that has a high credit rating and is based in a highly rated jurisdiction can result in lower exposure than the same amount of monetary investment towards a renewable energy company that has a low credit rating or is based in a less secure jurisdiction.

Transparency around financing for fossil fuels is of great importance to civil society. While a larger proportion of public and private actors supports ‘net’ exposure reporting – where companies with fossil fuel exit plans are removed from exposure calculations – civil society supports ‘raw’ exposure reporting (French Sustainable Finance Observatory, 2023).

What is exceptionally clear is that given how divisive opinions are on fossil fuel, multi-stakeholder collaboration is needed for financial institutions to disclose meaningful approaches. Governments must provide clear policy with supportive actions to give certainty and incentivise the financial system, while civil society engagement is essential to consider all sides of the argument.

What tools exist to help financial institutions align with a 1.5°C trajectory?

For reference, we note the broad range of initiatives and tools available to financial institutions to align with the Paris Agreement (Table 3). We urge anyone working in or with financial institutions to adopt and champion their use.

TABLE 3: INITIATIVES AND TOOLS TO ALIGN WITH THE PARIS AGREEMENT

Resource name	Source organisation	Description	FSB indicator relevance
<u>Assessing low-Carbon Transition: ACT4Finance methodologies</u> ⁴	ACT Initiative, WBA	‘The methodology basically aims to assess the following elements: i. The credibility and robustness of the financial institution’s transition plan. ii. The impact of the financial institution in terms of contribution to bring down GHG emissions in the real economy. iii. Its contribution to financing a low carbon economy (e.g. climate solutions financing).’	Climate solutions, Financed emissions, Financed emissions targets, Engagement on a 1.5°C trajectory
<u>Climate Bonds Taxonomy</u>	Climate Bonds Initiative	‘The Climate Bonds Taxonomy is a guide to climate-aligned assets and projects.’	Climate solutions
<u>Green Bond Principles</u>	International Capital Market Association (ICMA)	‘The Green Bond Principles (GBP) seek to support issuers in financing environmentally sound and sustainable projects that foster a	Climate solutions

⁴ Since 2022, WBA has been the official host of the ACT initiative. ACT is now developing two methodologies for financial institutions: one for banks and one for investors (asset managers, private equity/debt investors and asset owners). These methodologies are currently being ‘road-tested’ with banks and investors. The results of the road test will inform the final refinement of the methodologies, which will be presented at COP28 in November/December 2023. They will also give the financial institutions a deep-dive insight into their climate-related performance, complementing their FSB assessment and showing them where to improve.



		net-zero emissions economy and protect the environment.'	
<u>Green Loan Principles</u>	Loan Syndications and Trading Association (LSTA)	'The Green Loan Principles (GLP) aim to promote the development of the green loan product by providing a recommended framework of market standards and guidelines for use across the green loan market, whilst allowing the loan product to retain its flexibility.'	Climate solutions
<u>Financed Emissions – The Global GHG Accounting and Reporting Standard: Part A</u>	Partnership for Carbon Accounting Financials (PCAF)	'Part A - Financed Emissions provides detailed methodological guidance to measure and disclose GHG emissions associated with seven asset classes as well as guidance on emission removals.'	Financed emissions
<u>Technical Guidance for Calculating Scope 3 Emissions</u>	Greenhouse Gas Protocol	'Methods for calculating GHG emissions for each of the 15 categories of scope 3 emissions (such as purchased goods and services, transportation and distribution, and use of sold products).'	Financed emissions
<u>SBTi Finance Framework</u>	Science Based Targets initiative	'With the SBTi Finance Framework, financial institutions can set near-term science-based targets that align their investment and lending activities with the Paris Climate Agreement.'	Financed emissions targets
<u>Automotive, Electric Utilities, Oil and Gas, and Transport benchmarks</u>	WBA Climate and Energy Benchmark	'The Climate and Energy Benchmark assesses the highest corporate carbon emitters. It measures their progress against the Paris Agreement and SDG 13, and inspires action for the low-carbon transition.'	Engagement on a 1.5°C trajectory
<u>Paris Agreement Capital Transition Assessment (PACTA)</u>	RMI / Paris Agreement Capital Transition Assessment (PACTA)	'PACTA is a climate scenario analysis methodology. It measures the alignment of financial portfolios to climate change scenarios across climate critical sectors.'	Engagement on a 1.5°C trajectory
<u>Net-zero sector-specific alliance protocols and guidelines</u>	UNEP FI, PRI and others	The sector-specific alliances that comprise GFANZ are distinct alliances which independently establish requirements and recommendations for membership. Each of the alliances has a target-setting protocol, guidance or framework to which members must adhere.	Climate solutions, Financed emissions, Financed emissions targets



Breakdown by geography on climate

Geographical context is essential when looking at the progress of the financial system on climate and identifying the actions needed. Money flows across international borders, and different institutions in different geographies have varying global reach or local influence.

Political will and priorities influence regulation, often reflecting different profiles of economic development and social backdrop. These all influence progress on climate action by institutions headquartered in different countries. Likewise, the shape and maturity of the financial sector in different countries and regions bring nuance to the results.

We also recognise that the language barrier must be considered when analysing results, and those with English-speaking capabilities will have an advantage in the benchmark performance. While we were pragmatic in our assessments, this bias is unavoidable within available resources.

As noted in earlier sections, government sentiment expressed through regulation is reflected in the regional results. Europe is strongest relative to the number of institutions. Oceania effectively represents Australian institutions, with a strong weighting to banks and pension funds where regulation and societal support are both strong for climate action by financial institutions.

FIGURE 10: VARIATIONS IN REGIONAL PERFORMANCE ON CLIMATE INDICATORS REFLECT THE NUANCE ACROSS THE FINANCIAL SYSTEM

	Financed emissions	Financed emissions targets	1.5°C engagement	Climate solutions	Approach to fossil fuel sector
North America (139)	10%	7%	15%	15%	0%
Asia (115)	17%	6%	11%	16%	0%
Europe (101)	36%	19%	40%	35%	1%
Africa (17)	6%	7%	18%	21%	0%
South America (12)	25%	8%	2%	22%	0%
Oceania (11)	23%	20%	41%	48%	0%

Notes: Percentages relate to the average scores relative to the maximum potential score on each indicator. The figure under each region is the number of institutions represented in the benchmark to highlight any skew in the comparison.



Differences within regions

It is also important to recognise nuance within each region, and that findings within a region can vary significantly by country.

For example, while North America as a continent scores poorly, Canadian financial institutions outperform their US-headquartered peers. There are multiple factors playing a role in the difference. We assessed 20 Canadian institutions versus 118 US ones, and the Canadian institutions are skewed towards banks, insurance companies and pension funds. The US hosts some of the notoriously weak performers such as hedge funds, venture capital funds, private equity firms and investment consultants.

Nevertheless, out of the four sectors where both countries are represented, Canadian institutions undeniably outperform their US peers. The difference is especially stark when looking at banks and insurance companies. Canadian banks score on average 20% in the climate and nature measurement area while US banks score only 9%. Canadian insurers score on average 16% while US firms score 2%. Canadian financial institutions are particularly strong on climate solutions and financed emissions compared to their US peers. There is significant scope for peer-to-peer learning between these neighbours.

Another example is Japan. Although geographically located in Asia, it is a leading developed nation with mature and deep capital markets. The reach of its financial institutions is significant, and therefore the sustainability expectations of its global stakeholders are arguably greater than those of its developing neighbours in Asia. Japan's Corporate Governance Code and a stewardship code called the Principles for Responsible Institutional Investors, as well as stronger government focus and global competitiveness all contribute to areas of outperformance against peers (Tokyo Stock Exchange, Inc., 2021) (Financial Services Agency, 2014).

Japanese insurance companies and banks perform relatively well on financed emissions disclosure, scoring 45% and 50% respectively. Insurance companies score better on having financed emissions targets than banks, with scores of 30% versus 13%. Meanwhile, banks outperform their insurance peers on engagement on a 1.5°C trajectory, scoring 38% versus 26%.

Breakdown by industry on climate

Decision-making by industries included in the benchmark affect the flow of money across economies and countries, and therefore can influence system change through their activities.

This section highlights notable findings and relevant information for each industry. There is more detailed information available on our website, which includes industry filters and results on institutions.

The variety in the results across the financial system predominantly reflects the different business models, regulations and culture of that section of finance.

The different roles of financial institutions are also reflected in the results. For example, development banks by their nature lead on the disclosure of financing for climate solutions, as that is typically within their mandate.

The broad variety of performance across the findings is notable, especially across asset owners, which are key influencers within the financial system.



FIGURE 11: DIFFERENT LEVELS OF DISCLOSURE ON CLIMATE ARE CLEARLY REFLECTED IN INDUSTRY PERFORMANCE

	Financed emissions	Financed emissions targets	1.5°C engagement	Climate solutions	Approach to fossil fuel sector
Bank (155)	22%	11%	20%	29%	0%
Insurance (63)	23%	13%	26%	24%	0%
Asset manager (62)	17%	10%	25%	7%	0%
Pension fund (59)	23%	8%	24%	16%	3%
Alternative asset manager (18)	3%	1%	3%	1%	0%
Sovereign wealth fund (18)	14%	3%	8%	3%	0%
Development finance institution (15)	13%	12%	13%	67%	0%
Investment consultant (5)	0%	25%	30%	8%	0%

Notes: Percentages relate to the average score of institutions in that industry within the benchmark. The figure under each industry is the number of institutions represented in the benchmark.

Asset owners

Asset owners are typically at the top of the hierarchy and the starting point of a domino effect in finance. Many are the clients of other institutions in the benchmark. Typically, they are state entities or responsible for assets on behalf of their members. The scope of their activities is set either by government or in the mandate voted on or selected by members.

Pension funds

There are 59 pension funds in the Financial System Benchmark.

Pension funds perform best on engagement on a 1.5°C trajectory, followed by reporting financed emissions:

- 19% of pension funds assessed identify priority sectors to engage with on climate.
- 29% disclose net zero as an engagement topic with investees.
- 41% engage collectively with investees on net zero.

Disclosure on which sectors are targeted for engagement is less transparent. This is a potential area to highlight given the priority needed for sectors that are high carbon and hard to abate.



Pension funds are the second-best industry in the benchmark in terms of disclosing financed emissions. Of the 59 pension funds assessed, 27% disclose the absolute financed emissions of at least a part of their portfolio, with 19% disclosing the scope and quality of the data.

Reaffirming the relationship between pension funds' performance on governance and climate, the seven pension funds with board-level sustainability oversight have an average score of 58% on climate engagement, whereas those that do not score just 20% on average.

Looking at geographical performance, given the historical difference in the development of pension schemes, there is a clear skew to performance based on the sophistication of the sector and the regulatory backdrop.

US pension funds are the largest represented group in the benchmark, but they predominantly disclose little if anything on sustainability.

Europe and Oceania are leading. European pension funds perform particularly well on the financed emissions and 1.5°C engagement indicators, where they score on average 50%. Pension funds from Oceania are leading on 1.5°C engagement and are strong on financed emissions targets, scoring 67% and 42% respectively.

While there is significant need for improvement, identifying current leaders in the pension fund industry that meet scoring criteria others can look to include (Table 4).

TABLE 4: LEADERS IN THE PENSION FUND INDUSTRY

Region	Leading pension funds	Notable action	Benchmark score out of 100
North America	California Public Employees Retirement System (CalPERS)	Discloses its financed emissions arising from its global equity and real asset portfolios. It also describes the calculation process of its financed emissions.	21.1
North America	Caisse de dépôt et placement du Québec (CDPQ)	Reports that its 'portfolio of low-carbon assets totalled CAD 36 billion' (low-carbon and green assets are used interchangeably). It further reports that green assets include 'investments in renewable energy, clean transportation and other green project categories compatible with the CBI's Climate Bond Taxonomy'. CDPQ discloses that it aims for CAD 54 billion in green assets by 2025 and tracks progress against the target.	32.4
Asia	Government Pension Investment Fund (GPIF)	Discloses fossil fuel-related revenues as a share of total apportioned revenues.	8.1
Europe	APG	Discloses that it expects high emitting companies to identify and manage their climate risks; reduce emissions; set short, medium and long-term goals in line with 1.5°C;	31.2



		link climate targets to executive remuneration; and, report in line with TCFD.	
	Caisse des Dépôts	Discloses its residual share in companies active in fossil fuels.	20.3
	PGGM	Discloses that investments in fossil fuel amount to 1.6% of the assets it manages on behalf of its pension fund clients.	29.1
Oceania	Aware Super	Discloses an overarching goal to reach net-zero portfolio emissions by 2050, with a 45% reduction in emissions by 2030.	22.6

Call to action

Recommended actions for pension funds:

- Recognise their role in influencing others in the financial system.
- Ensure their board and senior oversight committees have the necessary skill and expertise to lead their institution on climate and sustainability.
- Actively seek a mandate on sustainability from members or their governing body, if they have not already done so.
- Recognise their fiduciary duty to all members who will be materially affected by climate.
- Align their disclosures with the highest global reporting standards and conventions.
- Join net-zero alliances and peer-group initiatives.

Sovereign wealth funds

There are 18 sovereign wealth funds in the Financial System Benchmark.

Regarding climate, sovereign wealth funds perform best on reporting financed emissions and engagement on a 1.5°C trajectory. Seventeen percent of sovereign wealth funds disclose absolute emissions arising from at least one segment of their portfolio, and 11% disclose the underlying data quality metrics. As for engagement on a 1.5°C trajectory, 27% of the assessed sovereign wealth funds identify priority sectors to engage with on climate, 11% engage with their investees on net zero, and 6% disclose that they engage collectively with investees on climate-related topics. There was no evidence found that any of the assessed sovereign wealth funds disclose a net-zero requirement from portfolio companies or institutions.

In terms of the relationship between performance on governance and climate, the five sovereign wealth funds that have board-level sustainability oversight and impact perform much better on climate. Indeed, the sovereign wealth funds that do not have board-level oversight also do not disclose any emissions reduction targets, any relevant information regarding engagement on climate change or any climate finance figures.

As for geographic performance, European sovereign wealth funds show the strongest results. They score on average 50% on financed emissions, followed by 25% on 1.5°C engagement and climate solutions respectively. Other regional outliers include Temasek, GIC and Kazakhstan's Samruk-Kazyna.



Transparency is a significant issue with sovereign wealth funds and the reason why many of the institutions score very poorly in the benchmark. While there are high-profile project launches and a presence at key international moments, reporting is often low or superficial for several institutions. For example, only Norges Bank Investment Management and Temasek meet our full assessment criteria on financed emissions. It is disappointing that some of the largest sovereign wealth funds in the world lack transparency. We welcome the opportunity to work with them to improve reporting and increase peer-to-peer learning in the next benchmark.

Norges Bank undisputedly sets the bar in this industry on reporting standards. In disclosing its financed emissions, it details how they are calculated, the percentage of data that comes directly from companies and the percentage that is estimated using models. Furthermore, it discloses that it prioritises engagement with the highest emitters in its equity portfolio and expects some of the oil and gas companies it invests in to set targets that take the Paris Agreement into account.

Call to action

Recommended actions for sovereign wealth funds:

- Ensure their board and senior oversight committees have the necessary skill and expertise to lead their institution on climate and sustainability.
- Recognise their important role in influencing other financial institutions and motivating them to act positively on climate change.
- Recognise that their stakeholders are global, and therefore sovereign wealth funds must be accessible and transparent to a global audience.
- Align their disclosures with the highest global reporting standards and conventions. Sovereign wealth funds should set the bar for other institutions in the industry as an extension of government.
- Join net-zero alliances and peer-group initiatives.

Development finance institutions (DFIs)

There are 15 DFIs in the Financial System Benchmark.

DFIs play a unique role in triggering a domino effect in finance by channelling finance into areas that are hard for other financial actors to reach. DFIs are typically an extension of government policy and priorities, and usually have sustainable economic development embedded in their mission mandate.

Perhaps indicative of the nature of DFIs, transparency is either poor or complex across our different climate indicators. As expected, DFIs, whose mandate is to invest in sustainable economic growth, lead in the benchmark on financing climate solutions: 93% disclose the amount of finance they direct towards climate solutions, and 86% disclose a time-bound target for finance directed towards climate solutions. However, less than half (47%) of DFIs disclose a target of net zero by 2050. None of the assessed institutions disclose an interim emissions reduction target. It is particularly noteworthy that none of the institutions disclose a robust approach to fossil fuels. Given that regulators and civil society expect commercial institutions to have such an approach, it should be essential for DFIs to set the bar on targets and transparency.

In 2020, the Association of European Development Finance Institutions (EDFI) committed to ensuring that its 15 members align their portfolios with the Paris Agreement. The association has an opportunity to take this further and require its members to develop short- and medium-term



decarbonisation objectives. These objectives should cover all of the financial institutions' financing activities.

Zooming in on governance performance, only a third of DFIs disclose that their highest governing body is responsible for sustainability, while only two of the 15 DFIs in the benchmark link executive remuneration to sustainability targets.

In terms of geographical performance, DFIs show a balanced performance on climate indicators, with all of them scoring above 50% on average. Europe leads the way, scoring 69% on average. European DFIs also score well on financed emissions (25%) and financed emissions targets (22%).

Notable action by DFIs

European Investment Bank (EIB Group)

The PATH framework describes EIB's climate engagement with key sector clients on climate change and alignment with the Paris Agreement while requesting counterparties to have a strategy in line with the latter. Furthermore, EIB discloses the amount of finance devoted to climate action or environmental sustainability projects that are aligned with the EU taxonomy and multilateral development banks' approach to climate finance.

British International Investment

British International Investment has set a climate finance target of 30% of its annual commitments as a rolling average for the 2022-2026 period, and it tracks progress against this target.

Asian Development Bank (ADB)

ADB has various climate-related targets as part of its Strategy 2030. For example, it is committed to ensuring that 75% of all lending supports climate change adaptation and/or mitigation by 2030, with an interim target of 65% by 2024. Moreover, it aims to direct USD 80 billion to climate change mitigation and/or adaptation cumulatively from 2019 to 2030.

Call to action

Recommended actions for DFIs:

- Recognise their important role amongst other financial institutions in leading by example and creating investment pathways for private institutional investors.
- Establish clear, consistent and transparent policies on fossil fuels within their financing activities.
- Increase transparency across governance as well as across the full suite of climate accountabilities, not just climate finance.
- Recognise that their stakeholders are global, and therefore DFIs must be accessible and transparent to a global audience.
- Align their disclosures with the highest global reporting standards and conventions. This includes aligning the format of reporting with other financial actors, rather than on a project-by-project basis.



Banks

There are 155 banks in the Financial System Benchmark.

Banks perform relatively well in terms of providing climate financing. Of the 155 banks assessed, 56% disclose finance directed towards climate solutions. However, only 16% of banks define climate solutions according to international frameworks. In addition, only 25% of banks disclose their financed emissions, underperforming insurance companies (29%) and pension funds (27%). This makes sense, given that guidance on calculating financed emissions resulting from investments has existed longer than guidance focused on lending.

Of the 155 banks, 61% assign oversight of sustainability to the board. These banks consistently perform better on climate topics. For example, regarding financing for climate solutions, banks with board-level oversight score 11 percentage points higher on average. In terms of engaging on a 1.5°C trajectory, they score 8 percentage points higher on average. The 16% of banks that link executive remuneration to sustainability targets perform much better on climate. For example, on average, 54% of banks that link executive remuneration to sustainability disclose financed emissions, versus 15% for banks that do not link remuneration to sustainability (Table 5).

TABLE 5: LEADERS IN THE BANKING INDUSTRY

Region	Bank	Notable action	Benchmark score out of 100
North America	Bank of Montreal (BMO)	The asset management arm of the Bank of Montreal (BMO) 'asks investee companies to adopt net-zero targets'. It also identified four sectors within its lending portfolio with which it engages on their transition plans. BMO Asset Management engages collectively on the topic of 1.5°C alignment through the CA100+. BMO states that it may vote against 'laggard companies in key high-impact sectors' and 'companies in high-impact sectors (that) fail to provide investment-relevant climate disclosure'.	52.5
Asia	Sumitomo Mitsui Financial Group	Discloses that it provided JPY 2.7 trillion in green finance. It also supplies a definition and scope of what green finance is, based on various International Capital Market Association (ICMA) principles. Furthermore, it discloses that it aims to provide JPY 20 trillion in green finance by 2029 and tracks progress against this target.	27.0



Europe	NatWest Group	Discloses the amount of financing going towards climate solutions and specifies what the climate solutions are. The bank's Climate and Sustainable Funding and Financing Inclusion Criteria draw on international frameworks. It has set a target of GBP 100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025 and tracks progress against the target.	40.0
Africa	Standard Bank	Discloses agriculture as one of its primary sectors to engage with on climate. Aligns its green bonds with International Capital Market Association (ICMA) principles and has a 2026 monetary target for sustainable finance.	28.5
Latin America	Bancolombia	Discloses absolute emissions resulting from its financing activities. Provides a breakdown across asset classes and industries as well as a clear indication of the portfolio coverage of the reported emissions. Discloses that it uses the GHG Protocol and the PCAF web tool to calculate emissions.	28.3
Oceania	National Australia Bank	Discloses that its lending segment is supporting 100 of its largest greenhouse gas-emitting customers to develop or improve their low-carbon transition plans by 2023. It also discloses that it engages with some companies on the topic of 1.5°C.	29.3

Call to action

Recommended actions for banks:

- Ensure their board and senior oversight committees have the necessary skill and expertise to lead their institution on climate and sustainability.
- Recognise their important role in influencing the real economy to act positively on climate change and have clear group-level engagement policies to ensure clarity for all stakeholders.
- Set policies, targets, timelines, processes and tracking at a group level, not entity level, to guide board decision-making and transparency across all financing activities.
- Establish clear, consistent and transparent policies on their approach to all fossil fuels, including solutions as well as challenges faced. Rebuilding trust with all stakeholders is essential.
- Join net-zero alliances and relevant peer-group initiatives.



Asset managers

The asset managers in the benchmark cover traditional asset managers, including active and passive investment providers, as well as private equity, venture capital and hedge funds. Investment consultants are also included in this category, given their role advising asset owners. Typically, asset managers are at the lower end of the financial system hierarchy as product and service providers. However, this is significantly skewed by the largest institutions, which dominate the market and can influence the rules of the game.

Stewardship spotlight

Stewardship through active ownership is the natural habitat of the asset management industry. Transparency on engagement policy is an important best practice. Reaching net zero by 2050 will not be possible without a responsible approach to stewardship, requiring asset managers to actively engage with their investees.

Half (50%) of asset managers in the benchmark disclose having an engagement policy that includes sustainability and impact topics. Of these, 70% have an engagement policy in place that has clear frameworks with success criteria and an escalation point, and 97% of them publish an engagement or stewardship report providing evidence of how the policy is applied in practice. Almost half (48%) of asset managers in the benchmark disclose case studies of successful engagement on sustainability and impact topics, and 16% disclose unsuccessful cases. In terms of 1.5°C engagement, 21% of asset managers in the benchmark disclose the priority sectors they identified to engage with on alignment with the Paris Agreement and the rationale for identifying those sectors. Similarly, 21% of asset managers engage individually with investees on net zero. Conversely, 48% of asset managers disclose collective engagement on net zero. Only 10% of asset managers require companies to which they provide financial services to have a strategy in line with a 1.5°C trajectory.

Asset managers

There are 62 'traditional' asset managers in the Financial System Benchmark. This excludes alternative asset managers or asset managers within the banking groups.

Asset managers perform best on reporting financed emissions and engaging on a 1.5°C trajectory. Almost half (48%) of institutions engage collectively on alignment with a 1.5°C trajectory. Although overall, very few financial institutions require investee companies to have a strategy aligned with a 1.5°C trajectory, asset managers perform the best comparatively on this indicator. That said, asset managers trail behind banks, insurance companies and pension funds on financing for climate solutions. Only 20% of institutions disclose the amount of finance they direct towards climate solutions.

In terms of the relationship between performance on governance and climate, the third (31%) of asset managers that have board-level sustainability oversight consistently perform better on climate topics. For example, they score 17 percentage points higher on average on engagement on a 1.5°C trajectory, and 15 percentage points higher on average on financing for climate solutions, compared to those that do not have board-level oversight.

Asset managers from Europe and Oceania perform particularly well on climate indicators. Asset managers from Oceania score on average 63% on the climate solutions indicator, while European asset managers score 57% on engagement on a 1.5°C trajectory. This is likely indicative of the different complexity of the asset management industry in these jurisdictions as well as different levels of regulation and societal pressure (Table 6).



TABLE 6: LEADERS IN THE ASSET MANAGEMENT INDUSTRY

Region	Asset manager	Notable action	Benchmark score out of 100
North America	BlackRock	Discloses that it focuses engagement on climate with carbon-intensive sectors and asks some companies to show how they plan to align their business with net-zero by 2050.	34.4
	Federated Hermes	Discloses that it focuses on all sectors, utilising both individual and collective engagement on climate issues, including net zero, and provides a rationale for it. Also discloses its escalation process for companies.	19.4
Europe	M&G	Discloses that it targets engagement on Paris Agreement alignment, based on highest emissions and largest exposure. It also discloses the aggregate amount of finance it devotes to climate solutions, such as clean transport and renewable energy.	31.2
Africa	Ninety One	Discloses the absolute carbon emissions of its investment portfolio using the Global GHG Accounting and Reporting Standard. In addition, it discloses that it reports emissions for 97-98% of its corporate investments, which account for 72% of its total assets under management.	20.7
Oceania	Macquarie Group	Discloses the amount devoted to green financing and specifies what green financing is. Also reports that its green financing is in line with APLMA Green Loan Principles. Moreover, it discloses targets in relation to its renewable energy projects.	21.6

Alternative asset managers

There are 18 alternative asset managers in the Financial System Benchmark.

This category includes private equity, venture capital and hedge funds. Although there are fundamental differences between them, they typically identify as alternative, non-traditional managers and generally are subject to less regulation than traditional, mainstream asset managers.

Alternative asset managers are one of the poorest performing industries in the benchmark. They perform best on disclosing emissions and engagement; 6% of institutions disclose financed emissions



and 6% engage with companies on alignment with a 1.5°C trajectory. Regarding governance, only two financial institutions disclose that they have board-level sustainability oversight, and none link remuneration to executive pay. This means we are unable to specifically conclude there is a relationship between performance on governance and performance on climate.

Alternative asset managers are historically highly opaque for several reasons. These include looser regulation on disclosure, tighter regulation on not making information available to non-professional investors and protection of commercially sensitive information.

The majority of alternative asset managers in the benchmark are headquartered in the US, underlining the regulatory and cultural norms which influence disclosure.

The leading benchmarked institution in this industry is the Europe-based CVC Capital Partners. Although low scoring overall, it assigns responsibility for sustainability with the board-level ESG committee. It also has an engagement policy with some of its portfolio companies on 1.5°C alignment.

Ironically, anecdotal evidence informs us that alternative asset managers, especially venture capital and private equity, are key frontier investors in the area of climate finance. They have a higher tolerance for risk than mainstream investors and accept longer investment horizons. Many of their clients are asset owners within the benchmark. Greater disclosure of their policies, targets and progress will help rebuild trust and foster greater stakeholder collaboration.

We welcome the opportunity to engage with the industry to improve their performance in the next benchmark.

Investment consultants

Although there are only five investment consultants in the Financial System Benchmark, their influence across the system is disproportionate to their number and size. They are powerful gatekeepers when it comes to the flow of money.

Overall, their performance in the benchmark varies. While none of the institutions disclose any financed emissions, investment consultants perform well on financed emissions targets and engagement on a 1.5°C trajectory. More than half (60%) of investment consultants have a target to reach net zero by 2050, and 40% engage with companies specifically on the topic of alignment with a 1.5°C trajectory. There is an opportunity for investment consultants to further this engagement and require companies to have a strategy aligned with a 1.5°C trajectory.

In terms of governance, four out of the five investment consultants in the benchmark disclose that they have board-level sustainability oversight. While these four institutions perform much better on climate indicators – for example, scoring on average 62 percentage points higher on setting financed emissions targets – this sample is too small to conclude that there is a relationship between governance and climate.

Investment consultants included in the benchmark are based in Europe and North America. European institutions are in the lead, scoring 38% on both financed emissions targets and 1.5°C engagement. In comparison, U.S. institutions score 17% and 25% on the same indicators respectively. It is reasonable to conclude that the geographical location of the head office and client base has a strong influence on performance in the benchmark.

While investment consultants have a different business model from the traditional institutions in the benchmark, the methodology is designed to accommodate this. Demonstrating the art of the possible, Willis Towers Watson leads significantly on disclosure. The company discloses that it will halve financed emissions from investment advisory services and fully discretionary services by 2030.



We welcome the opportunity to engage with the other four investment consultants to improve their performance in the next benchmark.

Call to action

Recommended actions for asset managers:

- Ensure their board and senior oversight committees have the necessary skill and expertise to lead their institution on climate and sustainability.
- Set policies, targets, timelines, processes and tracking at a group level, not entity level, to guide board decision-making and transparency across all financing activities.
- Collaborate with stakeholders on product, strategy and process innovation to encompass the developments in sustainability and anticipate future demands and trends.
- Use their influence through discretionary portfolios to meet sustainability expectations and ensure reporting adheres to globally recognised standards and principles.
- Establish clear, consistent and transparent policies on their approach to all fossil fuels, including solutions as well as challenges faced. Find ways to collaborate with stakeholders, not step back.
- Engage with WBA to review and refine the methodology to reflect the particularities of their industry.
- Join net-zero alliances and relevant peer-group initiatives.

Insurance companies

There are 63 insurance companies in the Financial System Benchmark.

Insurance companies perform particularly well on climate financing and engagement. Over half (54%) of insurers disclose the amount of finance they direct towards climate solutions. However, only 12% of insurers disclose that their climate solutions are in line with international standards. Regarding engagement, insurers lead on collective engagement. Just under half collectively engage on the topic of climate change, which is unsurprising as insurance is the industry whose future business model is most affected by climate issues. There is an opportunity for more insurers to engage independently, particularly on the topic of 1.5°C alignment, which currently sits at 24%.

Half (49%) of the insurance companies included in the benchmark assign oversight of sustainability to the board. These companies consistently perform better on climate topics. For example, regarding financed emissions, companies with board-level oversight score 15 percentage points higher on average. The 17% of insurers that link executive remuneration to sustainability targets perform much better on climate. For example, on average 60% of insurers that link executive remuneration to sustainability disclose engagement with companies on climate change, versus 18% for insurers that do not link remuneration to sustainability.

As for geographies, European insurance companies are in the lead, scoring on average 47% on 1.5°C engagement, 39% on financed emissions disclosure and 37% on climate solutions disclosure (Table 7).



TABLE 7: LEADERS IN THE INSURANCE INDUSTRY

Region	Insurance company	Notable action	Benchmark score out of 100
North America	Sun Life Financial	Assesses some of its portfolio companies' long-term emissions targets and discloses a breakdown of its USD 65.2 billion sustainable investments, including USD 10,891 million in renewable energy and USD 1,888 million in energy efficiency.	33.2
Asia	CTBC Financial	Discloses its financed emissions resulting from its financing activities across corporate loans, bank investments, securities investments and insurance investments, using Global GHG Accounting and PCAF reporting standards.	15.9
Asia	Tokio Marine Holdings	Discloses absolute financed emissions from domestic equities and bonds of its subsidiary, Tokio Marine & Nichido, and discloses the percentage of financed emissions data which is based on estimates. Moreover, it has targets to increase its revenue from insurance for offshore wind farms by JPY 5 billion by 2023.	25.9
Europe	Aviva	Aviva's subsidiary, Aviva Investors, asks firms in all sectors to align their business models with a low-carbon future and to set science-based targets, including net-zero scope 3 emissions. Aviva engages collectively on the topic of 1.5°C alignment through the CA100+. Moreover, it discloses that part of its engagement activities incorporates clear escalation measures for non-responsive businesses or those that do not act fast enough.	51.2
Africa	Old Mutual	Discloses that it has identified companies responsible for large carbon emissions to engage with on their long-term transition strategies. However, it does not provide a rationale for this. Old Mutual also discloses aligning its engagement on a 1.5°C trajectory as part of its commitment to the Net-Zero Asset Owner Alliance, and that it engages collectively through CA100+.	13.6



Call to action

Recommended actions for insurance companies:

- Ensure board and senior oversight committees have the necessary skill and expertise to lead their institution on climate and sustainability.
- Ensure underwriting and product innovation is collaborative across all stakeholders, with decision-making underpinned by group-level policy as the insurance sector responds to climate-related challenges.
- Establish clear, consistent and transparent policies on their approach to all fossil fuels, including solutions as well as challenges faced. Find ways to collaborate with stakeholders, not step back.
- Join net-zero alliances and relevant peer-group initiatives.



Next steps and how to work with us

WBA is a multi-stakeholder, global movement. We aim to ensure the Financial System Benchmark supports collective understanding, decision-making and action by all stakeholders to accelerate transformation of the global financial system.

We invite stakeholders to work with us in the following ways:

Use our insights and engage with us

- This report and the Financial System Benchmark key findings and accompanying dataset are free and publicly available resources.
- These resources shed light on where financial institutions are contributing to a sustainable financial system. They also provide a roadmap for the further steps institutions need to take and give examples of how their peers are addressing the same challenges.
- These resources equip other stakeholders – including policymakers and civil society – with the information they need to better understand the progress and challenges of financial institutions. The findings and discussions resulting from the benchmark enable us to create an important feedback mechanism among stakeholders. We use this to create Communities of Practice for peer-to-peer learning and Collective Impact Coalitions to agree frameworks for calls to action, which we invite stakeholders to join.

Please share your thoughts and ideas with us on info.financial@worldbenchmarkingalliance.org.

Methodology review

- We undergo a methodology review every other year to ensure our methodologies continue to be relevant and aligned with the latest science and stakeholder expectations. We also continuously strive for alignment with other relevant benchmarks and frameworks to make sure what we do is coherent and complementary.
- Later in 2023, we will publicly share an updated version of the Financial System Benchmark methodology with the financial institutions in the benchmark, as well as all other interested stakeholders to invite feedback. The methodology will then be finalised for use in the second edition of the benchmark in 2024.
- Financial institutions with investor activities can work with our investor engagement team to use our real-economy company benchmarks in their decision-making.

Looking beyond 2023

- In 2024, the 400 financial institutions will be assessed for the second time. The second edition of the benchmark will be able to show progress on financial system transformation for key regions and industries as well as at a financial institution level. Serving as an accountability tool and feedback mechanism for the private sector, the benchmark supports and feeds into industry and policy processes.



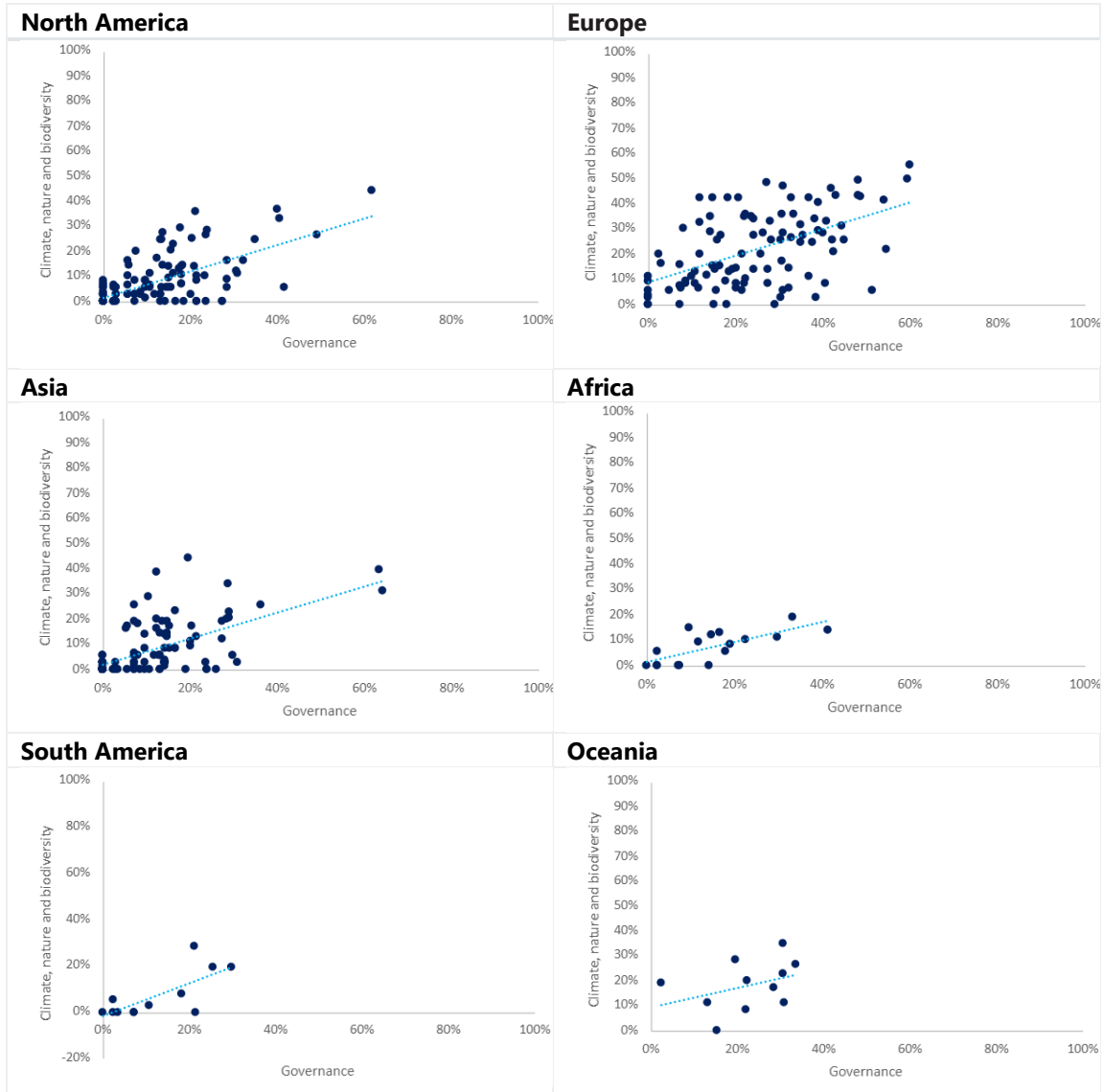
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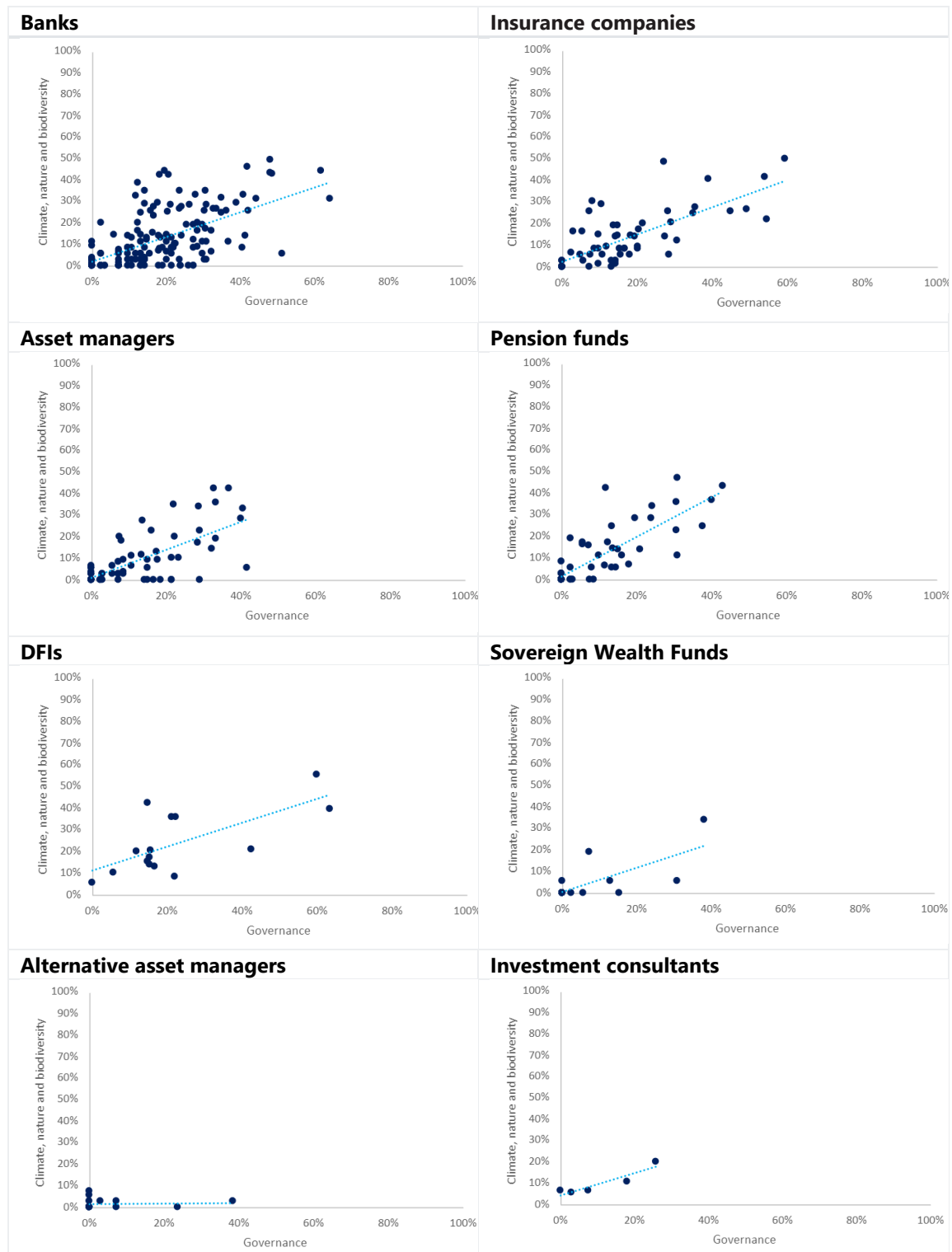


Annex

Geographic focus: relationship between Governance and Planetary Boundaries



Industry focus: relationship between Governance and Planetary Boundaries



Breakdown of financial institutions in scope of the Financial System Benchmark

Breakdown of geography by industry								
	Alternative asset managers	Asset managers	Banks	DFIs	Insurance companies	Investment consultants	Pension funds	Sovereign wealth funds
Africa	0%	6%	65%	6%	18%	0%	6%	0%
Asia	0%	5%	50%	3%	21%	0%	9%	13%
Oceania	0%	18%	45%	0%	0%	0%	27%	9%
Europe	2%	11%	46%	8%	19%	2%	11%	2%
North America	12%	29%	18%	2%	12%	2%	24%	0%
South America	0%	8%	92%	0%	0%	0%	0%	0%
Total	5%	16%	39%	4%	16%	1%	15%	5%

Breakdown of industry by geography						
	Africa	Asia	Australia	Europe	North America	South America
Alternative asset managers	0%	0%	0%	11%	89%	0%
Asset managers	2%	10%	3%	18%	66%	2%
Banks	7%	37%	3%	30%	16%	7%
DFIs	7%	20%	0%	53%	20%	0%
Insurance companies	5%	38%	0%	30%	27%	0%
Investment consultants	0%	0%	0%	40%	60%	0%
Pension funds	2%	17%	5%	19%	58%	0%
Sovereign wealth funds	0%	83%	6%	11%	0%	0%
Total	4%	29%	3%	26%	35%	3%



Governance and strategy and Respecting planetary boundaries indicators and elements

Measurement area	Indicator	Element
Governance and strategy	1. Impact management and strategy	Element a: The financial institution acknowledges its impact on society, the environment and the economy AND
		Element b: The financial institution discloses its process for identifying and prioritising the impacts/ issues it aims to address AND
		Element c: The financial institution discloses time-bound targets for the impacts it has prioritised AND
		Element d: The financial institution progresses against the targets it has identified
	2. Senior leadership accountability and remuneration	Element a: The financial institution assigns decision-making and oversight responsibility for a strategy on impact and/or sustainability themes to the highest governing body (e.g. board of directors). AND
		Element b: The financial institution links performance criteria and remuneration of the executive team to its targets relating to sustainability themes (society and the environment). AND
		Element c: The financial institution links performance criteria and remuneration of its management teams with its targets relating to sustainability themes (society and the environment). AND
		Element d: The financial institution discloses that at least 60% of bonuses is linked to targets relating to sustainability themes (society and the environment).
	3. Gender equality and diversity	Element a: The financial institution has a public commitment to gender equality and women's empowerment. AND
		Element The financial institution discloses one or more time-bound targets on gender equality and women's empowerment. AND
		Element c: The financial institution has at least 40% women in the highest governance body. AND
		Element d: The financial institution has at least 40% women in senior leaderships positions. AND
		Element e: The financial institution discloses the ratio of the basic salary and remuneration of women to men in its total direct operations workforce for each employee category, by significant locations of operation. AND



		Element f: The financial institution discloses that it takes action to address any pay gaps.
	4. Engagement policy	Element a: The financial institution has an engagement policy that includes sustainability and impact topics
		Element b: This engagement policy includes clear frameworks with success criteria and escalation points.
		Element c: The financial institution publishes an engagement/stewardship report providing evidence of how the policy is applied in practice.
		Element d: The financial institution publishes case studies describing where it has engaged successfully on sustainability and impact topics.
		Element e: The financial institution publishes case studies describing where it has engaged unsuccessfully on sustainability and impact topics.
		5. Public policy engagement
	Element b: The financial institution discloses the positions it takes in its lobbying and political engagement activities on sustainability themes (society and the environment) AND	
	Element c: The financial institution discloses internal or third-party audits of its direct and indirect lobbying and political engagement activities to ensure alignment with its sustainability policy and commitments AND	
	Element d: The financial institution discloses the trade associations of which it is no longer a member due to misalignment or it discloses it has influenced a trade association to change its position to be aligned.	
Respecting planetary boundaries	6. Financed emissions	Element a: The financial institution discloses its financed emissions resulting from its financing activities AND
		Element b: The financial institution discloses the coverage of emissions and the data quality across its emissions reported under a).
	7. Financed emissions targets	Element a: The financial institution discloses a target to reach net-zero financed emissions by 2050. AND
		Element b: The financial institution discloses interim targets (e.g. 2025 and 2030). AND
		Element c: The financial institution discloses a target to reduce its financed emissions by at least 45% by 2030. AND
		Element d:



8. Engagement aligned with a 1.5°C trajectory	Element a: The financial institution discloses key sectors and companies it has identified as priorities to engage with on climate issues and the rationale for choosing these priorities
	Element b: The financial institution discloses alignment with a 1.5°C trajectory as one of its engagement topics/priorities with companies it provides financial services to
	Element c: The financial institution discloses that it collectively engages (e.g. through Climate Action 100+) with companies it provides financial services to on the topic of alignment with a 1.5°C trajectory.
	Element d: The financial institution discloses that it requires companies to which it provides financial services to have a strategy aligned with a 1.5°C trajectory.
9. Climate solutions	Element a: The financial institution discloses the aggregate amount (\$) and share (%) of its financing activities devoted to climate solutions, while specifying what those are.
	Element b: The financial institution defines climate solutions according to internationally adopted frameworks, (e.g., EU Taxonomy, Climate Bond Initiative).
	Element c: The financial institution discloses time-bound targets for its climate solutions.
	Element d: The financial institution discloses progress against its targets.
10. Financed emissions targets	Element a: The financial institution discloses the amount (in monetary terms) and share (%) of financing activities linked to high-emitting sectors and fossil fuel sectors. AND
	Element b: The financial institution discloses that it does not provide any type of financial service to any new fossil fuel projects (e.g. project loans) or any type of financial service to a company undertaking new fossil fuel projects. AND
	Element c: The financial institution discloses an approach towards financing activities, outlining a strategy to phase out the provision of any type of financial service to existing projects and companies across the fossil fuel value chain, unless they have a clear strategy aligned with 1.5°C trajectory.
11. Nature and biodiversity-related impacts	Element a: The financial institution discloses its process to identify the nature- and biodiversity-related impacts of its financing activities. AND
	Element b: The financial institution is committed to minimise its negative impact on nature and biodiversity AND



		Element c: The financial institution discloses targets to minimise its negative impact on nature and biodiversity
12. Protection and restoration of nature and biodiversity through finance		Element a: The financial institution provides a definition of priority sectors and areas and the process to identify them AND
		Element b: The financial institution discloses the amount (in monetary terms) and share (%) of its financing portfolio in priority sectors and areas AND
		Element c: The financial institution discloses financing criteria it has towards ensuring the protection of priority sectors and areas
13. Protection and restoration of nature and biodiversity through engagement		Element a: The financial institution discloses nature- and biodiversity-related impacts as one of its engagement topics/priorities with companies it provides financial services to. AND
		Element b: The financial institution provides evidence that it requires companies to which it provides financial services to have a strategy addressing the companies' nature- and biodiversity-related impacts. AND
		Element c: The financial institution provides evidence that it collectively engages with companies it provides financial services to on the topic of their nature- and biodiversity-related impacts.
14. Nature- and biodiversity-related solutions		Element a: The financial institution discloses aggregate amount (in monetary terms) and share (%) of its financing activities devoted to nature- and biodiversity-related/regenerative solutions, while specifying what those are AND
		Element b: The financial institution has targets to contribute to regenerative solutions.





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