

Serious business: why our environment is the ultimate investment

There are few things more terrifying than the devastation that climate change brings. It has the potential to destroy our economy, our species, and our planet. And it's happening at a faster rate than we feared.

When I spoke to the Association of British Insurers (ABI) in February last year, I said that the climate emergency was the main thing we should all be tackling, because it's the greatest threat to us and future generations. And a year on, that threat has worsened.

Just last month the Met Office reported that there was a 50:50 chance that we would see a rise in the world's temperature by more than 1.5C over the next five years. Those are not good odds. And according to the Intergovernmental Panel on Climate Change, even just temporarily exceeding this warming level will result in additional and severe impacts, some of which will be irreversible.

This is scary stuff. The good news is that we can successfully tackle the climate emergency if we do the right things. Today's conference is right to be focusing on three areas in particular: the need to move from data analysis to practical action, the importance of evolving beyond emissions reduction to protecting ecosystems and biodiversity, and the alignment of climate action with social impact.

The insurance industry has been a leader in this fight, and it's great to hear that many ABI members have signed up to the UN-backed 'Race to Zero' campaign – committing themselves to net zero by 2050 and publicly reporting on progress against targets. I suggest that the wider financial sector might want to follow suit, because tackling climate change is as good for business as it is for our planet.

Why we should care: the power of investment

Why is it smart for the insurance industry to help tackle the climate emergency? Answer: because insurers and their customers are increasingly feeling its impacts. The changing climate is causing more extreme weather and increasing the frequency and severity of floods, heatwaves and droughts, which means more frequent and more serious impacts on people, homes and infrastructure – the very things that the insurance industry and its customers want to see protected from those impacts. As the climate risk rises, so too do the physical risks to people and property and the financial risk to insurers.

But you have agency. As Huw Evans, former ABI Director General, has said: "the biggest thing the industry can do is to use its sizeable investment portfolios to move funding away from things that are polluting the planet and into greener initiatives". More investment is needed across the board if we

are to make our communities climate resilient and protect the environment for future generations. And most of that potential investment will come from the private sector, which can marshal much bigger resources than any government.

That is why in 2019 the UK government launched the Green Finance Strategy, which is designed to mobilise finance for clean and resilient growth by making it easier for investors to identify attractive opportunities that don't just make good financial investment sense but will also help us tackle climate change and restore nature – the best of all the investments we can make in our own futures. The government is now looking to update this Strategy to take stock of progress so far and identify how we can ensure the financial services industry can support the UK's energy security, climate and environmental goals, and thrive as it does so.

As part of this we in the Environment Agency are working with the government and other independent experts to develop standards for green investment. This is the Green Taxonomy – a common framework that will set the bar for investments that can be defined as environmentally sustainable. And what it will do is help businesses, investors and consumers make informed choices and support investment in sustainable projects. It will also help clamp down on greenwashing – false, unsubstantiated or exaggerated claims that an investment or business is environmentally friendly or carbon neutral or otherwise helping tackle the climate emergency. That's important, because investors, markets and the public want to be assured that green investment really does meet the gold standard.

Mitigation and adaption

Much of the focus in the media, and in investment to date, has been on Net Zero – getting to a position whereby cutting our carbon emissions and offsetting those that continue through measures like carbon capture and storage we emit no additional carbon overall into the atmosphere and therefore don't drive further change to the climate. The technical term for that is mitigation – reducing the rate of climate change.

But to tackle the climate emergency successfully mitigation alone is not enough. We also need adaptation – changing the way we live, run our economy and build our cities so that we are resilient to the changes in climate that have already happened, and will continue to happen whatever we now do, because of the carbon we've already pumped into the atmosphere.

Adaptation too is only possible with investment, which again will need to come from both private and public sources. Here too investment now will pay massive dividends in the future. It is much better value to invest early in climate resilience than to live with the costs of inaction.

What is the Environment Agency doing?

The Environment Agency is playing a substantial role on mitigation and adaptation – both sides of the climate coin.

We are mitigating the extent of climate change, by ensuring the progressive

reduction of carbon emissions through our role as the regulator of most of the industries that produce those emissions and in administering the UK Emissions Trading Scheme.

We are helping the country adapt to the effects of climate change by building and maintaining flood defences, by managing water resources to ensure that we will have enough in future, and through our statutory planning role through which we help create better and more resilient places for people and wildlife.

And we are trying to walk the walk ourselves. We have made a commitment to make the Environment Agency itself and our whole supply chain Net Zero by 2030. And we are using our own Pension Fund to generate strong financial returns by investing in companies that contribute to a sustainable economy – proof, I hope you will accept, that we are literally putting our money where our mouth is.

So, what next?

None of us is as good as all of us. I'm much more optimistic than I was a few years ago that we will successfully tackle climate change. The main reason for that is that the three main ingredients for success are now in place – governments around the world are taking action, ordinary people are changing how they live, and businesses are investing in sustainable economic growth and a low carbon future. In doing that, businesses are not just doing the right thing for the planet and their customers, though they are. They are also doing the right thing for their shareholders and their bottom lines. Nearly a century ago US President Calvin Coolidge said, "the business of America is business". Today I say the business of business is climate.