

UKSIF Response: House of Lords Environment and Climate Change Committee, *Mobilising action on climate change and environment: behaviour change*

Introduction

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of sustainable and responsible finance in the UK. We look to promote a more sustainable and inclusive financial system that works for the benefit of the environment and wider society. UKSIF represents a very diverse range of financial services firms committed to these aims, and our 270+ members include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others.

UKSIF and our members have played a prominent role in helping meaningfully integrate sustainability in UK policymaking over recent years, and we will look to drive this further forward at home in the coming years. For example, through our membership of the UK's Green Technical Advisory Group, we look forward to helping ensure the UK's 'green taxonomy' can set the highest standard possible for green investment for the rest of the world to follow.

We know there is far more government, industry, regulators, and others can do to ensure the UK can meet its sustainability ambitions and cement its global leadership. We therefore welcome the Committee's inquiry, '*Mobilising action on climate change and environment: behaviour change*,' which we hope can effectively contribute to and move forward the policy debate over the role of behavioural change and specifically how the financial services sector might enable much more positive action in this area.

D. What can be learnt from research into consumer attitudes towards climate change, the environment, and the transition towards green products and services?

From recent research on consumers' attitudes towards climate change, the environment and green financial products, **we know that savers are increasingly keen for policymakers and the financial sector to address the serious risks posed by climate change to their investments and for their beliefs and values in this area to be better reflected.**

We see that savers have a growing awareness of the power that their pensions and investments can have as a positive force in driving progress to a greener and more sustainable future. As a result, savers are requesting financial services firms and investment managers, more and more, to explicitly incorporate environmental, social and governance (ESG) issues into their investment mandates and expecting their managers to consider the material impact of these areas, across the ESG spectrum, on the long-term value of their investments.

Recent [research](#) published by PA Consulting during UKSIF's 'Good Money Week' conference, our annual conference seeking to raise awareness of savers' sustainable investment options, indicated that **more than 80% of consumers interviewed care about sustainability issues, while more than 90% expect that sustainable financial services will become mainstream by 2025.**

The research highlighted that around two-thirds of consumers (63%) are looking for more sustainable options for products and services across all aspects of their life, with over half more likely to buy investment funds and products from financial services providers which demonstrate sustainable values. Interestingly, **the research showed that the desire for more sustainable investment options is not confined to a particular generation**, with the 60+ demographic caring the most about sustainable finance products, challenging the prevailing view from many policymakers and in the industry that millennial savers care the most about sustainability issues.

The FCA's latest Financial Lives [survey](#), its flagship survey of UK consumers, has showed similar conclusions on savers' values and attitudes to sustainable finance products. For example, it showed that 71% of consumers of retail investment or pension products wanted to 'invest in a way that is protecting the environment', with the same figure not wanting to put their money into unethical investments.

In response to this rising interest from consumers on ESG investments, financial services will need to take further steps to offer funds and products that can effectively cater to savers' shifting attitudes.

R. What role is there for the financial sector in supporting or enabling behaviour change?

The financial sector has come some way in recent years in respect of supporting positive behavioural changes, offering to savers, pension funds, and other clients, climate-conscious financial products and funds. For example, **many UK investment managers now offer a wide range of responsible investment products, such as ESG exchange traded funds (ETFs) and climate-change funds** that seek to mitigate the risks of climate-change and social impact funds.

This is seen in recent figures compiled by investment research organisations and others, showing rapid growth in these products. For example, according to [Morningstar](#) last year saw record investment of over £200 billion into European sustainable retail investment products, almost double the figure on 2019. Separately, [Bloomberg](#) has predicted responsible and sustainable financial products will account for around one-third of total global AUM by 2025.

Increasingly, we are seeing new funds being launched by UKSIF's members that seek to specifically address biodiversity related risks and opportunities. This includes HSBC Global Asset Management's series of natural capital funds in partnership with Pollination, aiming to channel billions of pounds into the long-term preservation and protection of nature, seeking to mainstream natural capital as an asset class and Invesco's Water Resources ETF.

S. How can Government and large and small businesses (from across supply chains and the financial sector) work together to support behaviour change?

There is more the financial sector could do, and **while our industry is well placed to meet the challenge of responding to clients' changing values and facilitating more sustainable investments, a number of challenges remain to the further growth of this market**, including a lack of common definitions and clarity for savers on what constitutes a sustainable investment product. There is absolutely a key role here for government and the sector to work hand in hand to address these challenges which represent a crucial barrier to more positive behavioural changes and action on sustainability.

A related issues we see is that sustainability is very subjective, and can mean very different things to different groups of savers: some may wish to prioritise certain ESG considerations over others, with an individual keen for their investments to focus on addressing bio-diversity risks and opportunities while others may prefer to focus on diversity issues. A sustainable fund is not necessarily only sustainable by addressing climate change alone.

There continues to be a significant need by financial regulators and the sector to provide greater confidence to individuals in what they are purchasing, and improve clarity and comprehension of objectives of sustainable investment funds. This is reflected in PA Consulting's research, which noted a majority of consumers have concerns over their confidence in the sustainable finance products available to them.

We welcome the FCA's ongoing work in this area to encourage a far better collective understanding among savers and others of a sustainable investment product. This includes its recent 'guiding principles' on the design and disclosure of ESG funds by investment managers, and upcoming work on the development of its investment labelling system, which UKSIF will be contributing to through our membership of the FCA's Disclosures and Labels Advisory Group (DLAG).

We hope both initiatives can help markedly improve the public's confidence in the potential that their investment decisions can have in positively impacting the environment and society more broadly, and help address the issue of 'greenwashing,' with some funds marketed as sustainable not always sustainable as they appear to be.

Strong, consistent regulations on the design and disclosure of ESG funds will be very important, as well as consistency between the UK and EU's disclosure rules particularly with many UK investors serving clients across Europe. Some of our members will have just completed their initial disclosures against the EU's disclosure framework, the Sustainable Finance Disclosure Regulation (SFDR), and their thinking and work on ESG funds may already have been shaped by SFDR. Some of our members will have concerns on potentially producing two very different sets of

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disclosures for their clients, both of which ostensibly aim to achieve the same outcomes, making compatibility very beneficial.

Finally, **we want our sector to better combat the existing misconception around investors needing to always accept lower returns when making investments which align with their environmental principles.** Various studies show companies which take into account, and address, ESG issues will create greater value in the long-run for investors. Those investments not aligning with environmental principles will arguably, in time, not deliver good returns especially as policymakers reform subsidies and regulations impacting these companies.

Further information

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