Risky Business:

How Australian financial institutions are managing nature-related risks and opportunities

2024 progress report

AUSTRALIAN CONSERVATION FOUNDATION | Nature needs us, now

We acknowledge the Traditional Owners of Country and their continuing connection to land, waters and community. **We pay respect to their Elders past and present** and to the pivotal role that First Nations Peoples continue to play in **caring for Country across Australia.**

Cover. Land clearing in Armidale, NSW *Photo.* Daniel de Silva
Right. Aerial view of Arthur river at Tarkine forest in Tasmania *Photo.* trabantos / Shutterstock

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Executive summary

Australia is home to an abundance of plants and animals that exist nowhere else on Earth. Yet due to the rapid and relentless destruction of our unique natural landscapes, we are now a world leader in mammal extinctions, with ecosystems fast approaching tipping points that could cause cascading losses.

These impacts have flow-on effects, and as our society and economic systems depend entirely on the health of our natural world, the continued destruction of nature will have major implications for financial institutions.

Banks play a critical role in enabling activities that can either worsen or reduce the risks of nature loss through financing both the causes of, and solutions to, the nature crisis. And while the value of nature goes beyond financial, to include social, health and climate benefits, superannuation funds are now increasingly recognising the ways in which nature destruction causes financial risks that interfere with their obligations as long-term universal owners.

This is the second iteration of the Australian Conservation Foundation's nature risk survey and report. First published in 2022, the report seeks to assess how 10 banks and 10 super funds are addressing nature-related risks in their portfolios. In doing so, the report provides a snapshot of how Australian financial institutions are addressing nature risk, where progress is being made, and where more action is needed.

Disappointingly, our first assessment found a broad lack of preparation, with 60% of financial institutions stating they had not assessed nature-related risks, opportunities, impacts or dependencies, despite over 90% agreeing that nature loss was a financially material risk that warranted attention. Only two of the 10 banks assessed had set a nature-related target or commitments, and only one super fund had adopted a policy on deforestation.

This year we analysed the same 10 banks and 10 super funds, representing a combined loan book value of $2.3 trillion and a combined $1.2 trillion in assets respectively. We found that both banks and super funds have made clear progress on understanding and integrating nature-related risks into their financial decision making. Key findings include:

- **Banks are progressing more quickly than super funds.** When it comes to assessing and disclosing nature risks and setting targets, banks have progressed more quickly than super funds. Banks have also moved more quickly to elevate strategic responsibility for nature-related issues to the Board, with 60% of banks surveyed assigning strategic responsibility for nature to the Board, compared to 10% of super funds.
- **Momentum is growing.** Banks and super funds have made clear progress, with more institutions having performed nature-related assessments in 2024, compared to 2022. This momentum is expected to continue, and in the next two years, we expect that 40% of financial institutions surveyed will have set nature-related targets.
- **Understanding of nature-related risk is becoming increasingly sophisticated, but management strategies are lacking.** While most banks and super funds have identified nature as a material risk and have incorporated nature into sustainability policies, few funds have nature-specific policies aimed at addressing the nature-related risks and opportunities in their portfolios.
- **Data is not being utilised effectively.** Data challenges were identified as a key barrier for the integration of nature-related issues into decision making. Evidence shows that data exists, however most banks and super funds appear to be struggling to find and match different data sources to progress their nature work.
- **More advocacy is needed from financial institutions.** Perceived pressure from Australian regulators has dropped since 2022. As such, greater advocacy from financial institutions is needed to support regulators to implement mandatory nature-related risk disclosures to ensure Australia doesn't fall behind international jurisdictions.

The landmark Kunming-Montreal Global Biodiversity Framework was a milestone for humanity, as the world finally agreed to halt nature destruction, reverse it to 2020 conditions by 2030, and set a pathway to full recovery by 2050. Given the pivotal role financial institutions, such as banks and super funds, play in our economy, a target for business was also adopted, recommending institutions disclose their nature-related risks, dependencies and impacts to reduce negative effects on biodiversity and to promote positive impacts as part of the transition to a more sustainable society. **Mandatory nature-related reporting is important because it provides transparency on a company's nature-related risks and opportunities, fosters accountability and improved management processes and enables informed decision-making by investors.**

Although this year's iteration of our assessment has delivered signs of progress, institutions still need to improve on the transparency of disclosures and their understanding of how nature-related impacts and dependencies give rise to risks or opportunities. More momentum is needed if Australia is to meet our international commitments and to protect the threatened wildlife and nature that we love, and our society depends on to prosper. All individuals, communities, businesses and decision-makers have a role to play to ensure nature and the economy continue to thrive for future generations.

Above. Pink cockatoo, perched on a dead tree *Photo.* Rixipix / iStock

Introduction

For centuries, financial institutions have operated as if the economy existed separately to the natural world. Economists and scientists have long recognised this is a problem, given the complete dependence of all human activity on nature to meet our needs.

Our society, and thereby our economy, derive benefits from nature, known as ecosystem services, such as the provision of fresh water, raw materials, and climate stabilisation. The prosperity and resilience of our society and economy depend on the overall state of the natural environment and its provision of ecosystem services. In Australia, it is estimated that roughly half of Australia's GDP (49% or $896bn) has a moderate to very high direct dependence on nature.[1]

Ecosystem services

Provisioning services are the raw materials that nature provides us such as food, water, timber or fibre.

Regulating services control other natural processes and materials through processes like pollination, decomposition, water purification and climate control.

Cultural services are the non-material benefits that nature provides people such as tourism and recreation.

Supporting services are the most basic natural cycles that nature needs such as photosynthesis, nutrient cycling, and the water cycle that underpin all other ecosystem services.

Due to Australia's dependence on nature, the rapid and unprecedented rate at which the natural environment is being degraded is of increasing concern. The changes we have made to the land and seascapes in Australia have driven more mammals to extinction than on any other continent. The 2021 State of the Environment report found Australia's natural environment is in an overall poor condition and is deteriorating due to increasing pressure from habitat destruction, invasive species, climate change, pollution, and resource over-extraction.[2] Without urgent action, the continued deterioration of Australia's natural environment will have damaging impacts on our society and economy. According to one study, Australia is set to be one of the worst affected by the decline in nature, with forecasts estimating losses of $20 billion per year in GDP by 2050.[3]

Central bankers are recognising the need for change, joining regulators in warning of the risk that nature loss could pose to financial stability and voicing the need for businesses and financial institutions to develop a more intimate understanding of the way their activities impact and depend on nature. These risks include physical risks that could flow from the loss of ecosystem services, the transition risks posed to ill-prepared businesses as the world moves towards a regenerative economy and the systemic risks that could flow from cascading impacts should ecosystems or biomes collapse.

The Taskforce for Nature-related Financial Disclosures (TNFD) broadly defines nature-related risks as "potential threats posed to an organisation arising from its and wider society's dependencies and impacts on nature".[4] Nature-related risks can be grouped into physical risk, transition risk and systemic risk as outlined in Table 1 below.

Table 1: Types and examples of nature-related risks[5]

Type of Risk	Example
Physical risk	Disruption of ecosystem services potentially leading to decreased availability of natural resources (e.g. timber or fresh water) or increased exposure of business activities to natural disasters (e.g. flooding, wildfires).
Transition risk	Regulatory risk: New and more stringent regulatory requirements potentially leading to increased costs to ensure compliance or liability for disruption of ecosystem services at a local level. Reputational risk: Increased expectation and scrutiny from stakeholders potentially leading to loss of social license to operate in an area or loss of consumer base.
Systemic risk	Deterioration of the natural environment results in widespread and pervasive impacts on economies, societies, and further impacts on ecosystems.

When physical, transition or eventually systemic risks manifest, nature loss can become a financial risk. This is because financial institutions are exposed to nature-related risks through the provision of finance to companies who are negatively impacted by, and contribute to, declines in the health of the natural environment. Specifically, as universal owners, super fund's financial interests at the portfolio level are optimised by taking an economy-wide view of the impact of investment decisions. This relationship is outlined in Figure 1 below.[6]

Figure 1: Transmission of nature-related risks to financial risks

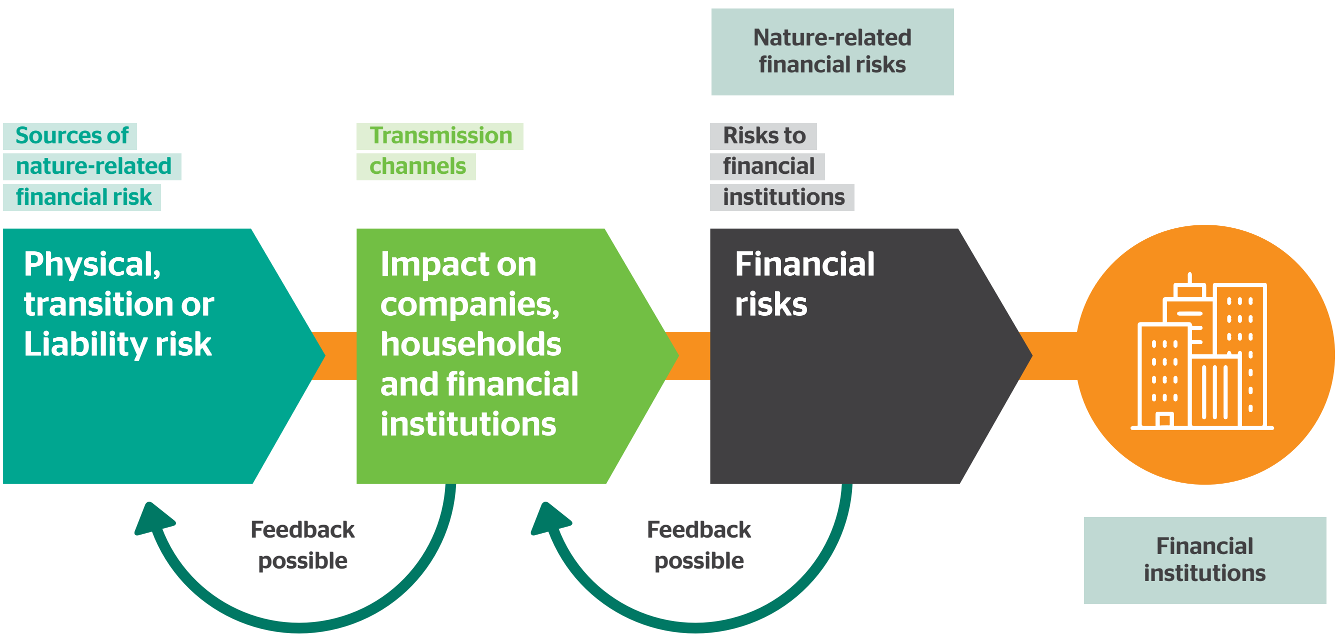


Image source: University of Cambridge Institute for Sustainability Leadership

In December 2022, the Australian government committed to ambitious goals and targets under the Kunming-Montreal Global Biodiversity Framework (GBF) to halt and reverse nature loss by 2030. This included Target 15 which calls for the assessment and disclosure of nature-related risks, impacts and dependencies by large companies, including financial institutions. To support this commitment and to align with reporting frameworks in other OECD jurisdictions, the Australian Treasury has indicated that corporate nature-related risk disclosures will ultimately be introduced as part of Australia's new sustainability reporting requirements.

Yet, despite global commitments, and the increasing likelihood and consequence of nature-related risks for businesses and financial institutions, most companies remain ill-prepared for the challenges and opportunities that lie ahead. Whilst interoperability is a challenge, the TNFD serves as a non-prescriptive framework that can guide financial institutions to integrate nature-related risks into decision making.

This report examines the state of nature-related risk management across some of Australia's largest financial institutions. It aims to help institutions learn from the progress made by their peers, prioritise areas to improve upon, and provide a guide for next steps.

Below. Horseshoe Falls at Mount Field National Park, Tasmania *Photo.* Jay Collier

Methodology

The purpose of this report is to capture the state of nature-related risk management across a sample of banks and super funds in Australia.

The report aims to highlight leading practice amongst the sampled financial institutions and capture progress in their management of nature-related risks within their portfolio – rather than direct operations.

Survey design principles

To collect data for the purpose of this report, a survey was developed. Below is an overview of the design principles followed for the development of the survey and collection of survey responses.

1. Alignment with industry accepted practice

The survey was designed leveraging key international nature-related initiatives including:

- TNFD[7] and TNFD additional guidance for financial institutions;[8]
- Global Reporting Initiative (GRI) standards on biodiversity;[9]
- Climate Disclosure Standards Board (CDSB) application guidance for biodiversity-related disclosures[10]
- Science Based Targets Network (SBTN)[11] and;
- The Accountability Framework initiative (AFi).[12]

2. Collaboration with industry experts

ACF collaborated with nature-risk experts from the University of Technology Sydney to design the survey and interpret and analyse survey results.

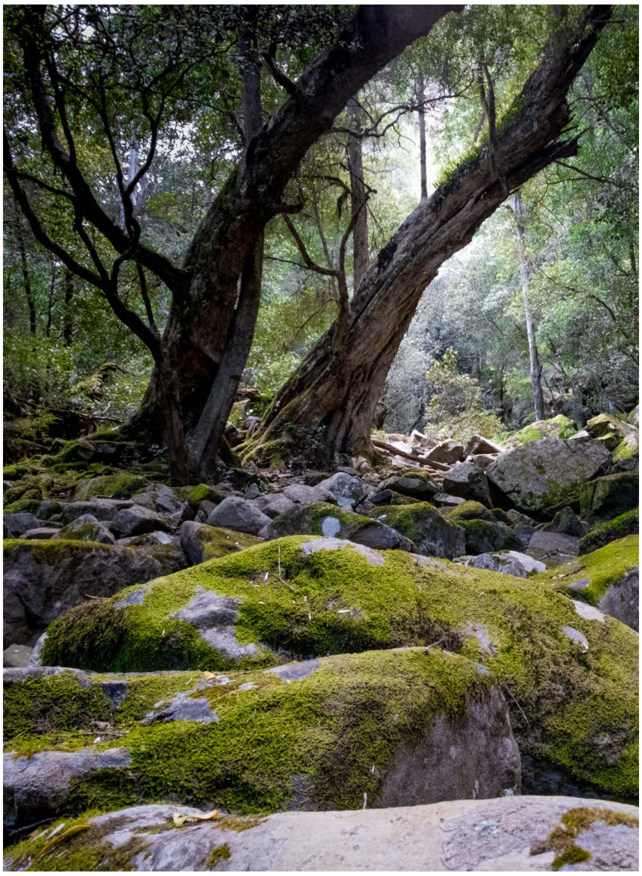
3. Participant feedback on the design of the survey

Banks and super funds included in the analysis were invited to provide feedback on the design of the survey. The purpose of this was to ensure that the questions asked, and materials covered were useful for their own purposes and appropriate for financial institutions.

4. Collection of survey responses

The survey was voluntary and was administered in excel format and shared with financial institutions in March 2024. A summary of the survey responses used in this report's analysis can be found separately online.

The survey was completed using publicly available information on behalf of financial institutions that chose not to participate. Additional data validation and data supplementation was conducted by the research team to ensure the accuracy and robustness of responses that were provided by financial institutions. Survey questions left unanswered were automatically marked as a 'no' response or equivalent unless a justification was provided.



Below. The beautiful forrest floor of Mitchell River National Park, Cobbannah VIC, Australia *Photo.* Zac Porter / Unsplash

Financial institutions assessed

Banks and super funds were selected based on a combination of selection criteria which included size (determined by membership, total assets or assets under management or market cap), status as ethical investors or lenders and their sector exposure to agriculture (as the biggest driver of deforestation in Australia).

A total of 10 banks and 10 super funds were selected based on the above characteristics. The selected banks collectively manage AUD $3.5 trillion in loans, representing 97% of the total lending from the banking sector in Australia. The selected superfunds collectively manage a total of AUD $1.2 trillion of assets under management, accounting for a total of 34% of Australia's superannuation industry. Of the 10 banks and 10 super funds selected, 6 banks and 6 super funds submitted a survey response. The banks and super funds selected are listed below:

- ANZ
- Bank Australia
- Bendigo and Adelaide Bank
- CommBank
- HSBC
- Macquarie Bank
- NAB
- Rabobank
- Suncorp Bank
- Westpac

- Australian Ethical
- Australian Retirement Trust
- AustralianSuper
- Aware Super
- Future Super
- HESTA
- Hostplus
- MLC
- Rest Super
- UniSuper

Overview of survey themes

The survey comprised a total of 21 questions, grouped into five different themes as shown below in Figure 2. An overview of the survey themes is provided below.

Introduction questions

Introduction questions broadly focus on how financial institutions perceive nature-related issues. They include identifying the highest level of accountability for nature issues, perceived external pressures to consider nature in financial decisions, the challenges faced, and the strategies employed to promote nature-positive outcomes.

Strategy

Strategy questions aim to explore the measures that the financial institutions have taken to adjust their business strategy given the nature-related issues identified. Questions seek to determine whether the institution has assessed and disclosed its nature-related impacts and dependencies, developed policies, frameworks or transition plans in response and integrated nature-related considerations into its financial strategies and offerings.

Risk management

Risk management questions focus on the practices and methodologies a financial institution uses to identify, assess, manage and monitor any nature-related impacts and dependencies that have been identified. Questions focus on the assessment techniques, the materiality perspective applied, risk management processes and how specific teams within the institution track and mitigate nature-related issues.

Targets

Target questions seek to determine whether a financial institution has established specific targets or goals to manage and mitigate its nature-related impacts and dependencies. They also seek to uncover any additional actions or plans, such as the development of nature-related metrics, that the institution has undertaken or intends to implement in response to identified nature-related issues.

Stakeholder engagement

Stakeholder engagement questions focus on the engagement strategies a financial institution employs to manage their identified nature-related issues. Questions examine whether specific processes are in place for engaging entities that have significant nature-related impacts, processes for engagement with Indigenous Peoples or local communities and how these engagements are structured and escalated.

Figure 2: Survey themes used in this analysis

Introduction Questions
4 questions, 15 sub-questions

Strategy
6 questions, 1 sub-question
2 tables

Risk management
6 questions, 2 sub-questions
2 tables

Targets
2 questions, 1 table

Stakeholder engagement
3 questions, 4 sub-questions

Interpretation of survey results

Throughout the report, survey results are displayed in percentage format, followed by the sample size 'n' in brackets *(n = x)*. In instances where n = 20, this indicates that the statistic includes responses for all 10 banks and 10 super funds **collectively**. Where n =10, banks and super funds are referred to **separately**. In cases where i) only institutions that responded directly to the question could be counted, or ii) where the statistic was only relevant to a subset of institutions that entered a specific response to the *previous* question, 'n' will be less than 20 for statistics referring to banks and super funds collectively, or less than 10 for statistics referring to banks and super funds separately.

Below. Deforestation *Photo.* Dan Smedley / Unsplash

Discussion

1. Introduction questions

Findings

- Board level accountability for nature is growing among banks, yet only one super fund has assigned strategic responsibility for nature-related issues to the Board.
- Banks are feeling more pressure to respond to the nature crisis than super funds. Stakeholder groups exerting more pressure on banks than on super funds include international and local regulators, employees, and First Nations groups.
- More super funds identify internal resourcing constraints as a key challenge to progressing their nature work than banks, while data availability related issues are a key challenge for both banks and super funds overall.
- Super funds and banks use different approaches to influence nature-positive outcomes, with most super funds using stewardship and engagement as a key tool, and most banks using financial incentives.

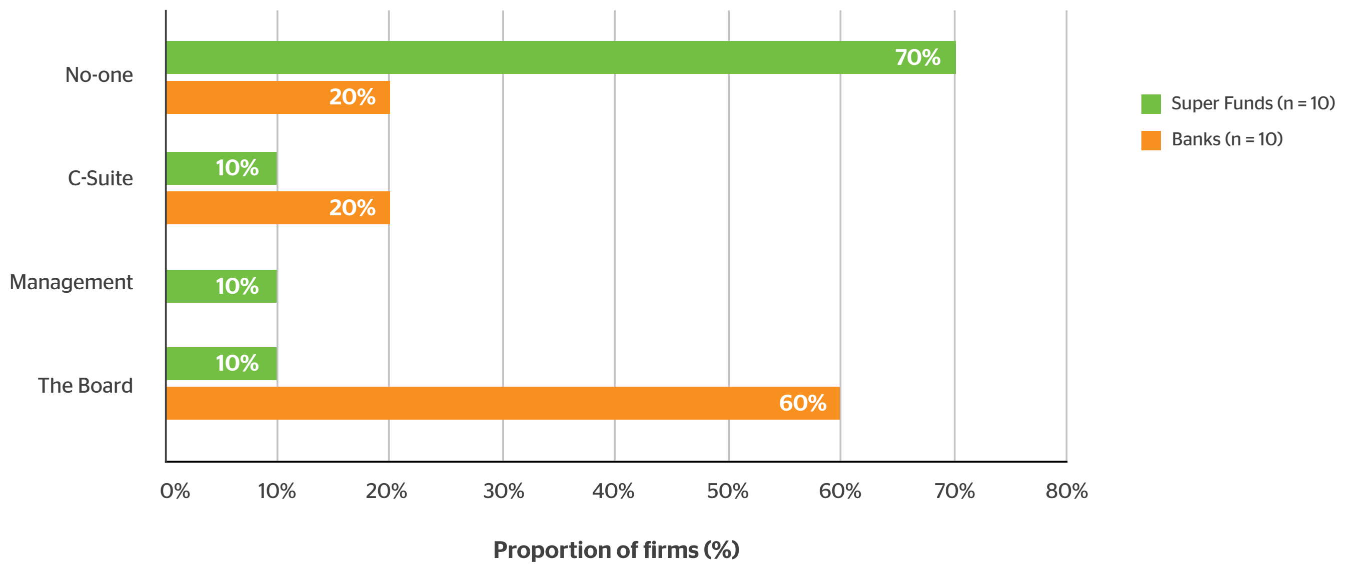
In 2022, we found that all banks and super funds surveyed recognised the destruction of nature to be a relevant issue to their organisations, with over 90% of the 20 institutions surveyed indicating that they have a fiduciary responsibility to consider nature risks and opportunities in financial decision making.

With the case for responding to nature loss clearly established, this year we investigated how banks and super funds had progressed in their efforts to integrate nature into financial decision making from our 2022 baseline — starting with making nature an organisational priority.

Results show that nature is fast becoming a board level issue for banks, with 60% of banks stating that the Board now has ultimate responsibility for nature (n = 10), compared to just 10% of super funds (n = 10), (Figure 3). This suggests a growing recognition that nature loss is a governance issue, which is likely driven by the high proportion of banks feeling at least some pressure from a range of stakeholder groups to integrate nature risk into decision making compared to super funds.

Below. Exploring the wild beauty of Tasmania, Australia *Photo.* pixdeluxe/ iStock

Figure 3: Highest level of responsibility for nature-related issues

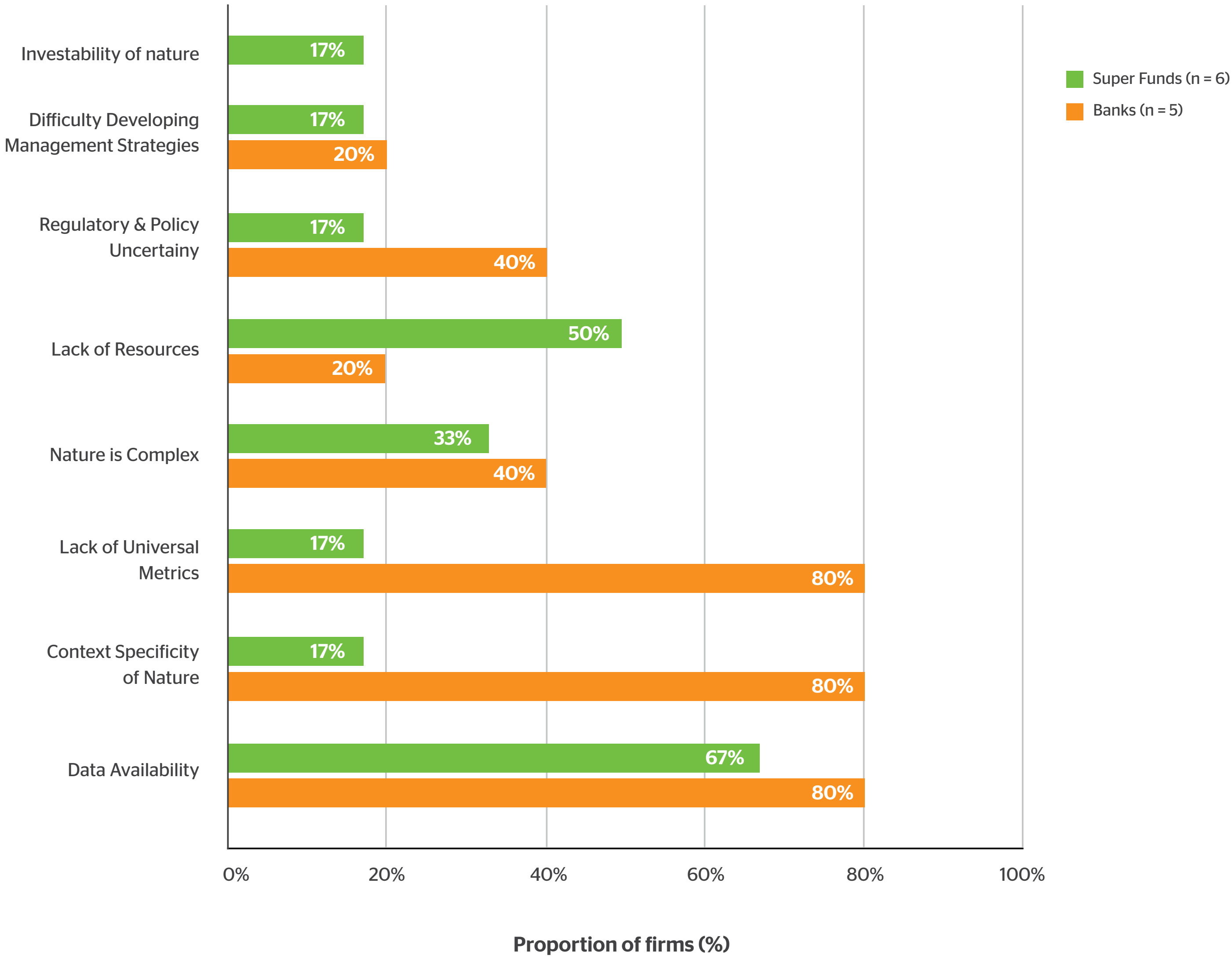


Critically, both banks and super funds report feeling a decrease in pressure from Australian regulators since 2022, while pressure from international regulators has almost doubled. This change is in line with recent policy escalation in the European Union, including the introduction of the European Union Corporate Sustainability Reporting Directive (CSRD) and the European Union Deforestation Regulation (EUDR).[13] Banks and super funds with portfolios exposed to companies exporting goods to the European Union will be impacted by nature-related transition risks due to the EU's progressive ban on imports of deforestation or forest degradation linked products under the EUDR.[14] Furthermore, companies covered by the CSRD will be required to report on material impacts, dependencies, risks and opportunities in relation to environmental issues including climate change, pollution, water and marine resources, biodiversity and ecosystems and resource use and circular economy.[15] The CSRD seeks to capture an extended scope of non-EU entities, which may have potential reporting implications for many Australian entities.

Whilst the Australian Treasury has indicated that nature-related risk disclosures will ultimately be introduced as part of Australia's new sustainability reporting requirements, there remains a clear lack of regulatory momentum locally compared to other OCED jurisdictions in this area. As a result, some banks and super funds report that 'uncertainty from Commonwealth Government regulators,' as well as a 'lack of enabling policy environment' are negatively impacting their abilities to integrate nature into financial decision making.[16]

It isn't just unclear signals and shifting pressure from regulators locally and abroad that is impacting the way banks and super funds respond to nature. Of the six super funds that responded, 50% identified a lack of internal resources as a key challenge to integrating nature into financial decision making (Figure 4). As a result of these resource constraints, two super funds indicated that nature is being outcompeted for attention by other ESG issues that are deemed more financially material like climate change and human rights. These findings may further explain why more banks have been able to make nature a Board level issue than super funds, given that just 20% of banks (n = 5) report internal resourcing constraints to be a challenge within their organisations.

Figure 4: Key challenges to integrating nature into financial decision making



Overall, data gaps were identified by both banks and super funds to be one of the most significant barriers to integrating nature into financial decision making, with 80% of banks and 67% of super funds identifying data availability to be a challenge. On par with data gaps, banks further identified a lack of universal metrics for nature (comparable to CO2 for climate change) and difficulty with measuring nature due to its context specificity as barriers.

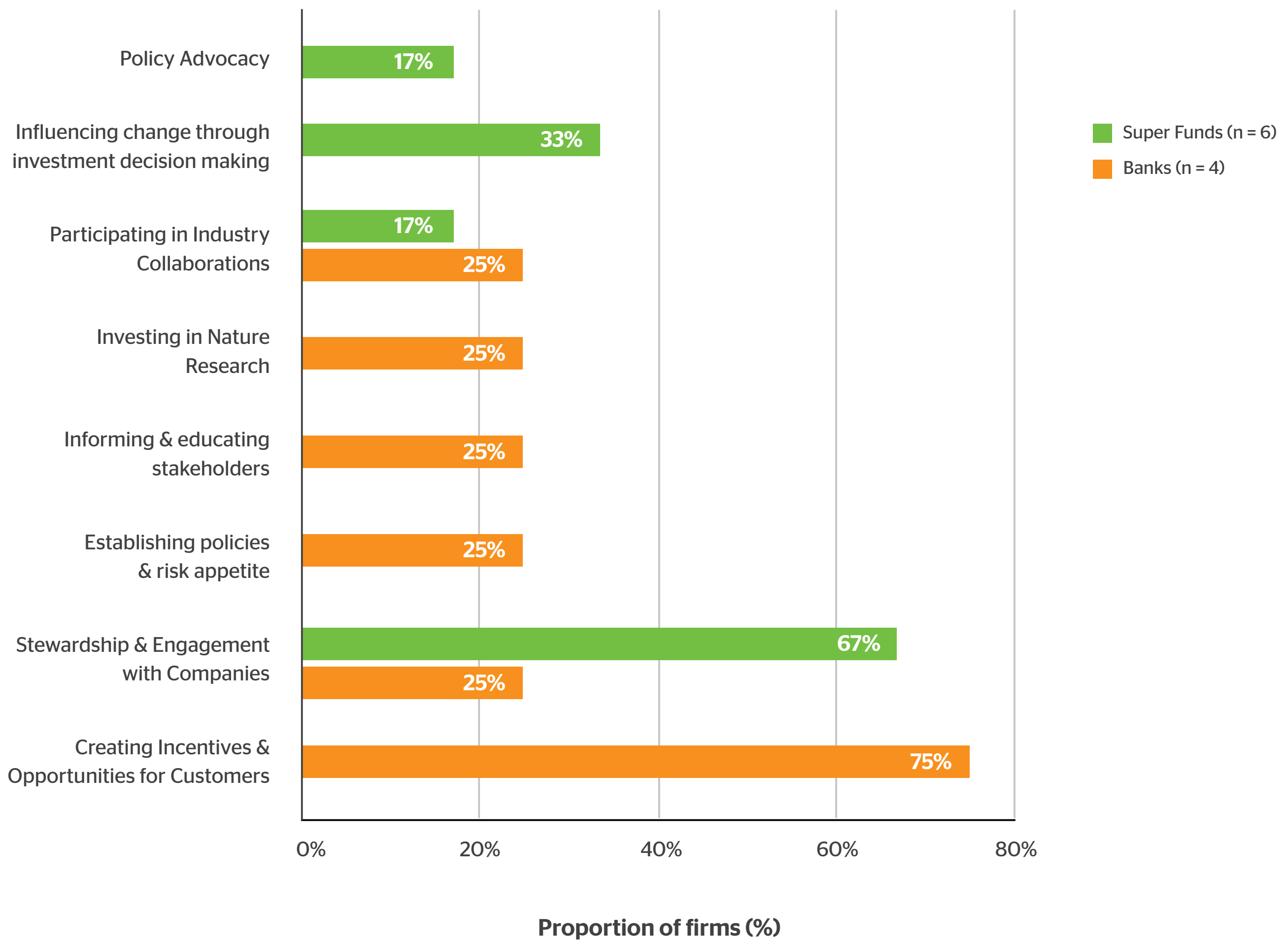
These findings align closely with broader finance industry sentiment. Nature-related data is widely perceived as difficult to obtain and interpret, while the fact that nature is unique and not spatially confined conflicts with the accounting rules of comparability and standardisation that govern reporting of financial information.[17,18,19] In response to data gaps, the CDP states that financial institutions must advocate for comprehensive and credible data on nature.[20] However, there are existing data sets that are both accessible and of good quality,[21] which investors and lenders can use to get started on assessing and managing nature risks today.

Case study – Bridging data gaps through strategic partnerships

In 2020, AXA Investment Managers, BNP Paribas Asset Management, Sycomore Asset Management, and Mirova partnered with Iceberg Data Lab and I Care & Consult to provide data on corporate biodiversity impacts tailored to meet their needs as global investors.[22] The impact data covers key nature-loss pressures such as Land Use Change, Air Pollution, Water Pollution, and Climate Change. Such partnerships demonstrate how strategic cross-sector collaborations with data providers can be leveraged to address data availability issues.

To better understand the key leverage points available to financial institutions, we asked banks and super funds to tell us how they plan to use their power and influence as capital allocators to effect change. Results revealed that 75% of the banks (n = 4) identify creating incentives for customers through lending conditions and financial products as critical tools (Figure 5), while 67% of super funds (n = 6) identify stewardship and engagement activities with investee companies as central to their approach (as seen in Figure 5).

Figure 5: Leverage points exploited by banks and super funds to effectuate change



2. Strategy

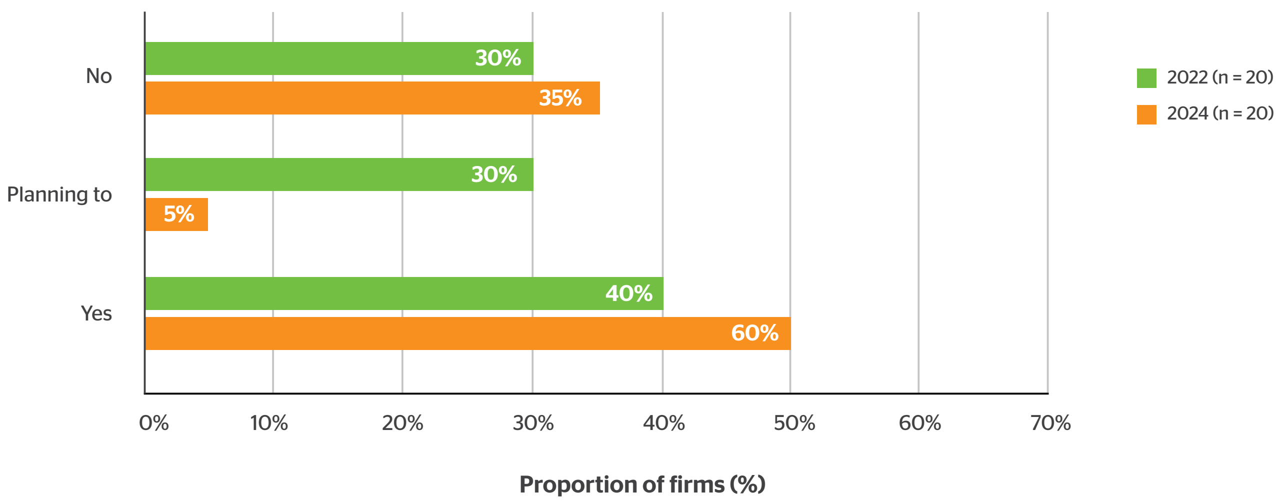
Findings

- Banks and super funds have made clear progress, with more institutions having performed nature-related assessments in 2024, compared to 2022.
- While most banks and super funds have policies or position statements that are broadly relevant to nature, more nature-specific policy and position statements are still underdeveloped.
- Roughly half of financial institutions provide publicly available information on how material nature-related issues are considered in their investment strategies, advice, and services.
- When it comes to more advanced nature-risk management processes, one financial institution has assessed the resilience of part of their portfolio to nature-related issues, while none are yet to implement nature-related transition plans.

Integrating nature into financial decision-making requires financial institutions to assess their impacts and dependencies on nature, including how nature loss impacts the business (outside-in) and how financial decision-making impacts nature (inside-out) – an approach known as ‘double materiality’. The results of these assessments inform which sectors, companies and nature-related issues are prioritised by the institution, which in turn informs the development of internal policies, transition plans, and ultimately investment and lending decision making.

The ‘strategy’ pillar of the TNFD recommends that financial institutions describe their nature-related dependencies, impacts, risks and opportunities and their relevant time horizons. These four concepts are interrelated, with the TNFD stating that nature-related impacts and dependencies give rise to nature-related risks and opportunities. In 2022, 40% of respondents (n = 20) had performed nature-related assessments of either impacts, dependencies, risks or opportunities. This year, that percentage has increased to 60% (n = 20) (as seen in Figure 6).

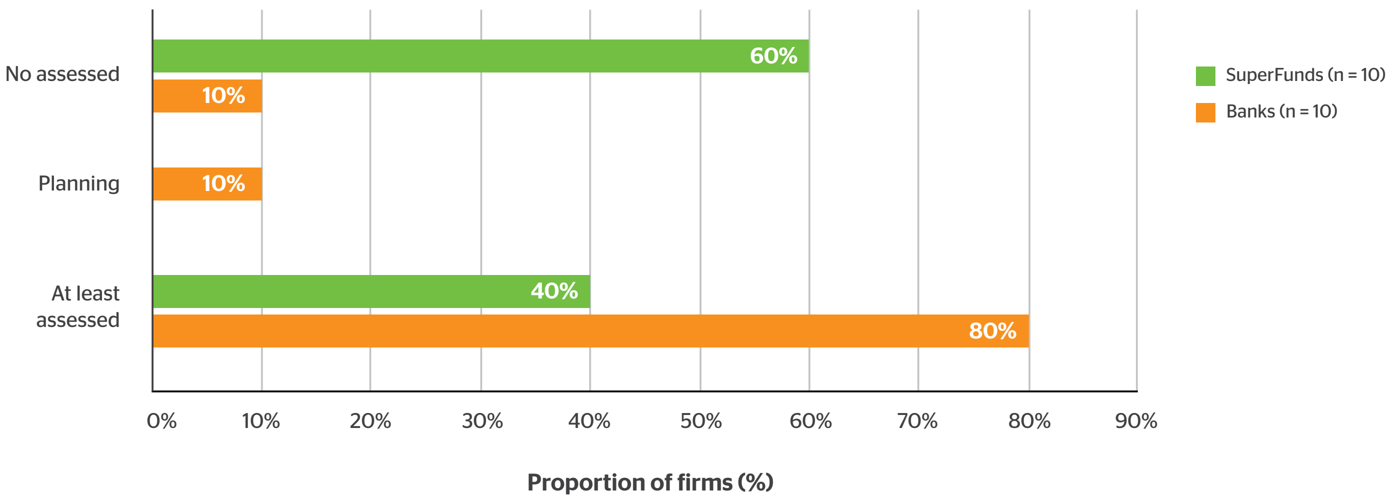
Figure 6: Change in the proportion of banks and super funds that have assessed their nature-related impacts and dependencies since 2022 (aggregate of banks and funds)



At the institution level, banks have progressed faster than super funds, with 80% of respondents stating they have at least screened their loan books for nature-related impacts and dependencies (n = 10), up from 50% in 2022 (n =10) (as seen in Figure 7). 40% of super funds indicated that they have performed nature-related assessments in 2024, up from 30% in 2022 (n = 10). Nature-related assessments by banks primarily focus on assessments of their impacts and dependencies, with only Bendigo having described how these impacts and dependencies give rise to risks and opportunities for the business, as well as how identified risks inform the bank's lending conditions.

Progress by banks on conducting nature-related assessments was driven by Bendigo, Commonwealth Bank, and ANZ, who all progressed from a 'No' or 'Planning to' response in 2022 to a 'Yes' response in 2024. Rest Super and HESTA have also progressed their plans to conduct nature-related assessments, with both having now conducted assessments of nature impacts and dependencies, though these are not yet publicly disclosed.

Figure 7: Proportion of banks that have conducted nature-related assessments compared to super funds



As intermediaries, banks have a more direct relationship with the companies and projects they finance than super funds. Through this relationship, banks have access to spatial and operational data sets that super funds do not (e.g., all banks must know where their loans are located to manage concentration risk), which may explain why some banks are more progressed with their assessments of nature-related impacts and dependencies.[23]

Furthermore, as lenders, banks are highly leveraged, which means they face downside risk (e.g. credit risk from loan default), while super funds are predominantly exposed to upside risk (risk of making below expected returns). Because the financial losses associated with downside risk are of higher magnitude compared to upside risk, failing to account for nature can come at a greater financial cost for banks should unpriced nature risks materialise.

Challenges of interoperability and applicability of the TNFD were raised by some super funds in their survey responses. Whilst not without its limitations, the TNFD serves as a non-prescriptive framework that can guide super funds to integrate nature-related risks into decision making. We find that super funds are prioritising engagement with investee companies with the greatest nature-related risks, before, or in place of, assessing their financed impacts and dependencies. While investee engagement is aligned with TNFD recommendations under the 'risk and impact management' pillar, super funds should seek to better understand the nature-related risks and opportunities of investee companies over time. Mandatory nature-related reporting would aid super funds in their assessment of nature-related issues in their portfolio and guide their subsequent stewardship practices.

Together, these factors may explain the disparity in progress on assessing nature between banks and super funds.

Robeco's position on deforestation

To address biodiversity loss linked to deforestation, asset manager Robeco signed the COP26 Finance Sector Commitment on Eliminating Commodity-Driven Deforestation in 2021. As part of their commitment to end agricultural driven deforestation risk in their investment portfolio by 2025, deforestation has been integrated into their biodiversity policy and Robeco has also established a Palm Oil Policy and Deforestation Position Statement.

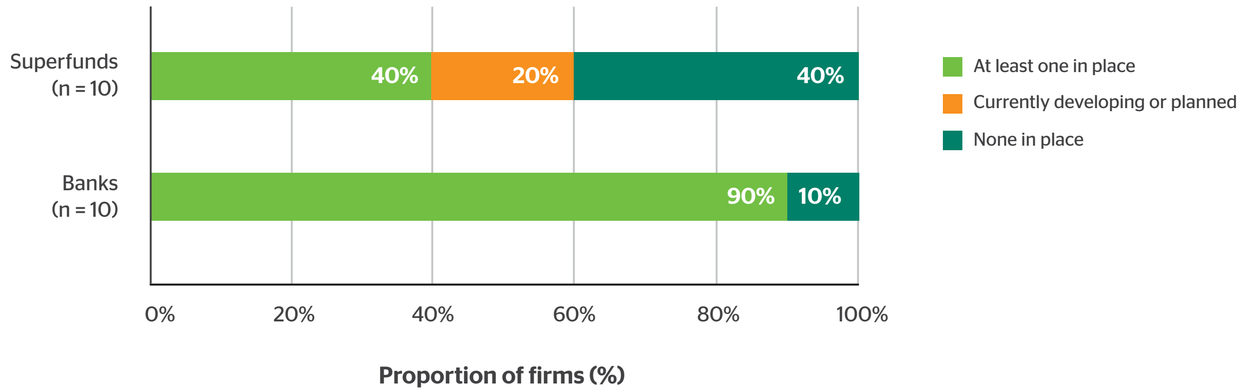
In this position statement, Robeco discusses how it has integrated deforestation risk into its investment processes, the data sets used to conduct portfolio level deforestation exposure mapping and importantly outlines its corporate engagement strategy, which has included deforestation-driven biodiversity loss since 2020. The scope of engagement on deforestation has expanded over time to focus on other biodiversity loss drivers, proxy voting policies, collaborative engagement and more.[24]

Below. EasternGreyKangaroo *Photo.* pen_ash / pixabay

To determine how the identification of nature-related issues has influenced both organisational practices and expectations for customers and investees, we asked banks and funds to share details of any nature-related policies and position statements in place. Overall, 90% of banks (n = 10) and 40% of super funds (n = 10) report having policies and position statements broadly relevant to nature in place (Figure 8). However, only 40% of banks and 30% of super funds have nature specific policies and position statements in place.

These results highlight a discrepancy in the adoption of generalised versus specific nature-related policies, suggesting that while many financial institutions recognise the importance of nature in a broad sense, fewer have taken steps to address specific nature-related concerns in their policies.

Figure 8: Proportion of banks that have nature policies in place compared to super funds



Despite progress on nature-related assessments and policies, just half of the financial institutions surveyed provide information on how material nature-related issues are considered in their investment strategies, advice, and services (n = 20). None of the super funds and banks surveyed have developed nature-related transition plans, while there is limited explanation of the institutions' overall nature-related ambitions. Only HSBC and NAB indicated they are currently making progress on assessing the resilience of their lending and investment strategies to nature-related issues.

Assessing resilience to nature-loss: HSBC

Among all financial institutions, HSBC has made the most progress in assessing the resilience of their lending strategy to nature-related issues. The bank is currently conducting stress-testing on a sample of Asia-based heavy industry clients to water shortage, using a nature-related stress scenario defined by CISL3 to measure financial resilience.

3. Risk management

Findings

- ENCORE is the preferred tool for conducting sector-based impact and dependency screens amongst banks.
- Most banks have adopted a double materiality lens, while most super funds are yet to define their approach to materiality.
- A failure to conduct nature-related assessments by super funds has affected progress on managing and monitoring nature risks.
- No bank has mapped its lending portfolio against material nature loss drivers at the site level.

Strategy and Risk Management are inextricably linked. Strategy informs how risk management is executed and is a central component of the risk management process. In the previous section, we determined that banks were more progressed than super funds on developing their nature strategies, both in terms of assessing nature impacts and dependencies, as well as integrating nature into policies, positions, and frameworks. In this section, we take a closer look at the broader nature risk management processes in place, including how nature-related assessments have been conducted, and how banks and super funds are monitoring nature-related issues.

Of the eight banks that have conducted nature-related assessments, 75% report the methods used. Within this subset of survey participants, ENCORE is used by four-out-of-six banks, making it the most popular screening and assessment tool deployed. ENCORE has been recommended for use by the TNFD, which may explain its popularity.

Double materiality

Double materiality comprises two dimensions: the risks that nature-loss poses to the company (outside-in), as well as the risk that the company poses to nature (inside-out). The consideration of both nature impacts and dependencies represents a double materiality approach.[8]

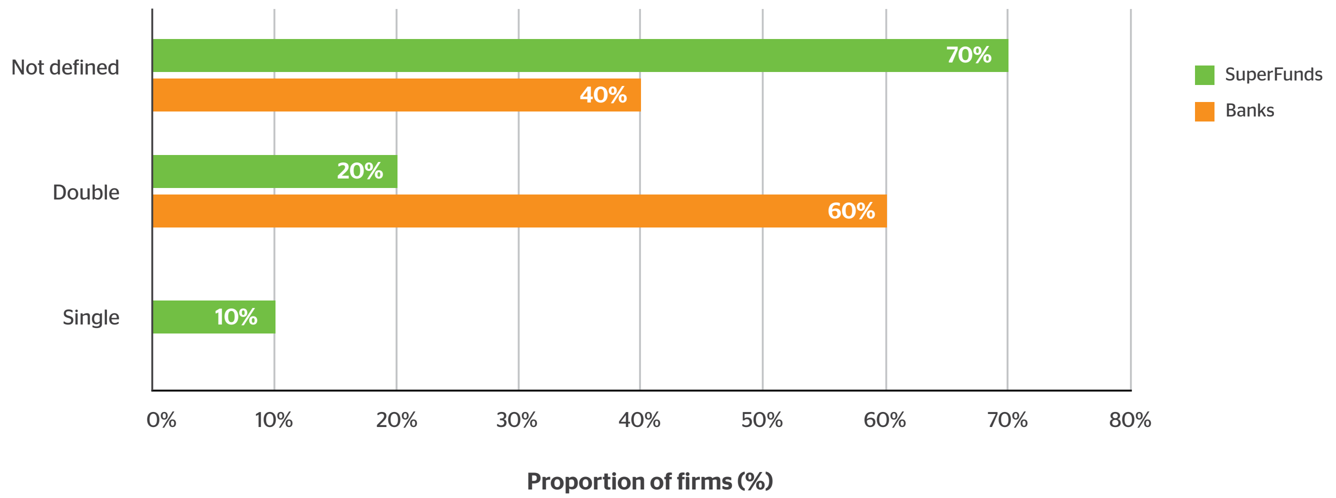
ENCORE

ENCORE, which stands for Evaluating Natural Capital Risks, Opportunities and Exposures, is a popular impact and dependency screening tool that provides high-level insights into the materiality of production processes. The materiality of each production process for a given GICS sector is assessed across the five key direct drivers of nature loss identified by the IPBES, which are further underpinned by 12 pressure groups. The result is a materiality intensity rating for each production process of 'Very low' to 'Very High' across all 12 pressure groups (where data is available). These ratings can be aggregated to form a high-level snapshot of material issues for each sector. While ENCORE is an ideal screening tool to support the prioritisation of material sectors and issues, the tool's limitations6 mean it is not suitable for in depth assessments and evaluations of nature-related risk.

Furthermore, ENCORE is compatible with a double materiality lens, given that it enables users to screen both impacts and dependencies. This is ideal, as the GRI recommends organisations adopt a double materiality lens. The GRI notes that organisations cannot develop a complete understanding of the risks they face without considering both impacts and dependencies.[25]

In contrast to banks, of the four super funds that have conducted nature-related assessments, just 10% disclosed the methods used in their assessments. When asked whether super funds take a double or single materiality approach, just 20% of the 10 super funds surveyed said they did, while 70% have not yet defined their approach (as seen in Figure 9). Responses revealed that not having conducted nature-related assessments was the primary reason for this.

Figure 9: Application of a double or single materiality lens when conducting nature-related assessments



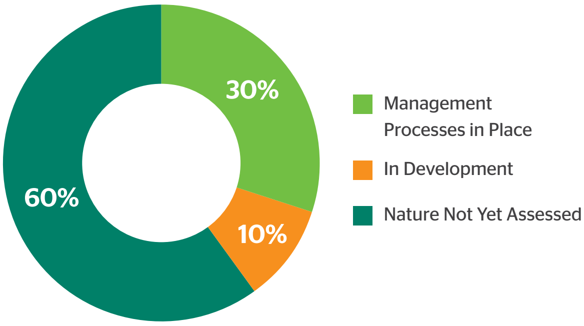
Not yet having conducted nature-related assessments has affected progress on managing and monitoring nature risks as well. Of the 10 super funds surveyed, just 30% described processes in place for managing and monitoring nature-related issues, with 60% indicating that management and monitoring processes had not yet been developed due to pending nature-related assessments (Figure 10).

These results are likely driven by perceived data gaps. As touched on in the Introductory Questions, the data gap narrative is problematic as it perpetuates the perception that there is not enough data to get started on assessing and managing nature-related risks. As reinforced by Global Canopy Engagement Specialist and TNFD Data Lead James D'ath, this perception misrepresents the true issue: that organisations lack the skills and knowledge to *find and use existing data*.[27] Asset Manager First Sentier Investors reinforce this counter narrative by D'ath in their recent investor toolkit, casting a spotlight on key data sets investors can use to perform portfolio level assessments of water and deforestation risk.[28]

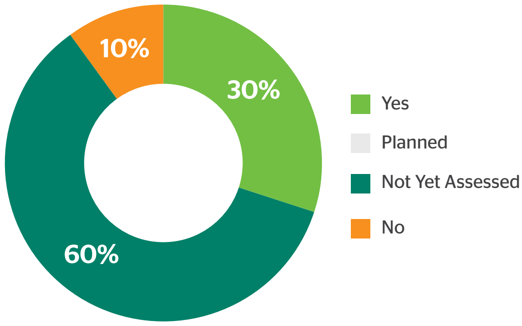
Below. Sugar glider in a tree *Photo.* DikkyOesin / iStock

Figure 10: Proportion of super funds with nature-related management and/or monitoring processes in place

Management Processes (n = 10)



Monitoring Processes (n = 10)



Rabobank's Biodiversity Monitor

Rabobank, in partnership with WWF Netherlands and other dairy industry stakeholders, has developed a Biodiversity Monitor, which uses a range of Key Performance Indicators to measure how farming practices of borrowers influences on-site biodiversity. Data collected by farmers and uploaded onto the monitoring system can be used to gain access to more favourable lending conditions and lower interest rates, thus incentivising the protection and restoration of biodiversity, whilst allowing Rabobank to monitor the biodiversity impacts of its agricultural lending.[26]

Internal skill and knowledge gaps are impairing the ability of banks to find and utilise existing data may also explain why no bank has spatially mapped their loan books against their material nature loss drivers (n = 10). Although banks have access to location data on their loans and a range of satellite and remote sensing data,[30] much of which is open access, exploiting these tools and data sets may require skills that banks simply do not have in-house.

The institutions that have made most progress in this area are Bendigo, ANZ and NAB. ANZ reports that it has already piloted the TNFD LEAP assessment, which includes locating the organisation's interface with nature, evaluating dependencies and impacts, assessing material risks and opportunities and preparing to respond and report. Furthermore, NAB indicated that is has plans to develop geo-locating capabilities in its agriculture portfolio through a proprietary FarmID database.

BNP Paribas – Impact and dependency assessments

Using ENCORE, Iceberg Data Labs Biodiversity Data and a range of other tools, BNP Paribas Asset Mangement has conducted an analysis of its global assets under management to understand their exposure to both water and deforestation risk. As part of their assessments, BNP Paribas has developed a rating system for corporate deforestation policies and traceability systems to score the quality of company policies on deforestation. These policy scores serve as a proxy for deforestation risk management in the absence of performance data on deforestation.[29]

4. Target setting

Findings

- Progress on nature-related target setting is slow.
- Four institutions have a nature-related target or commitment in place, yet only one of those includes a commitment to no financed deforestation.
- Almost half of the financial institutions surveyed plan to set new or additional nature-related targets in the next one-to-two years.

Scientific consensus confirms that limiting global warming to 1.5°C cannot be achieved without preventing, and reversing, nature loss. Nature plays a crucial role in stabilising our climate, absorbing roughly half of our carbon emissions per year.[31] Therefore, building science-based targets into business strategies will not only be vital for securing a healthy, resilient, and equitable world, but to driving long-term resilience for businesses.[32]

Setting nature targets not only supports the monitoring of progress – which is an important part of risk management - it also demonstrates commitment to managing these risks. Setting targets demonstrates this by communicating the institution's ambitions to reduce the negative impacts and dependencies of its financing activities on nature, ideally in alignment with global ambitions to halt and reverse nature destruction, as articulated in the Kunming-Montreal Global Biodiversity Framework.

Results show that only 20% of financial institutions have a nature-related target or commitment in place (n = 20). Recognising the need for both climate change and nature loss to be addressed together, Westpac has made a commitment to no deforestation as part of its emissions reduction target for the agricultural sector (see Table 2 below). Westpac set this commitment as part of its annual reporting in November 2023 and is the only financial institution in Australia to have set such a target. However, to meet best practice standards, deforestation targets must require a 2020 cut-off date, rather than a future date, as required by SBTN and AFi. Setting a deforestation target with a future cut-off date, could result in perverse incentives including panic clearing, as land holders have a specified window of time to clear land before being potentially penalised.

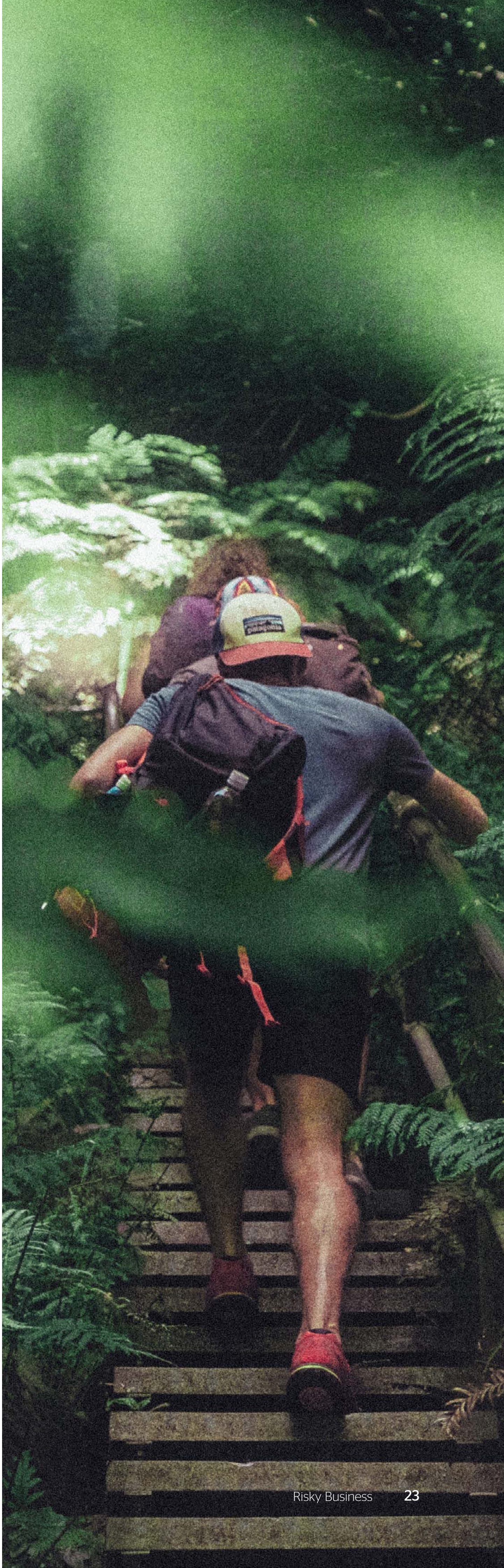


Table 2: Overview of current nature-related targets or commitments

Company	Target	New Target?
Westpac	Westpac has set a 2030 emissions reduction target for the agriculture sector (dairy, and beef and sheep). The target includes a commitment to no deforestation, which provides for no further conversion of natural forest to agricultural land use within farm systems from 31 December 2025 for customers in scope of the targets.	Yes
Rabobank	Rabobank has a target to help 50,000 farmers apply regenerative farming practices and to have removed and reduced 1 gigaton of CO_2e by 2030.	No
Bendigo and Adelaide Bank	Within its 'climate change policy statement' Bendigo and Adelaide Bank state: Our Bank does not and will not provide finance directly to projects or large-scale electricity generation in the following sectors: 'native forest logging'. In its survey response, the bank states that it has introduced reporting on breaches against the nature forest logging exclusions policy.	No
Australian Ethical	The superfund is a signatory to Race to Zero's financial sector commitment letter on eliminating commodity-driven deforestation.	No

Progress on target setting is slow. Results revealed that 35% of institutions, (n = 20) have made progress towards target setting since 2022. In 2022, Bendigo, Rabobank and Australian Ethical were the only institutions surveyed to have set at least one nature target (as seen in Table 2). This year, Westpac has also set a nature-related target, while Rabobank and Bendigo both indicated that they plan to set additional nature targets in the next two years. HSBC, Australian Retirement Trust, and Aware Super also have plans to set targets or commitments in the next two years, representing a shift in attitudes towards target setting from 2022 (as seen in Table 3) and signalling that momentum will begin to rapidly increase.

Overall, qualitative responses to questions on target setting indicate that, despite mixed progress, nature is fast becoming a target setting priority for some banks and super funds. **In the next two years we can expect at least 40% of the banks and funds surveyed to have set targets on nature.**

Table 3: Progress on target setting (2022-2024)

Company	2022	2024	Progress
Westpac	Planned, Unsure	Yes	✓
HSBC	No	Planned 1-2 years	✓
Bendigo and Adelaide Bank	Yes	Additional Targets Planned 1-2 years	✓
Rabobank	Yes	Additional Targets Planned 1-2 years	✓
Australian Retirement Trust	No	Planned 1-2 years	✓
Aware Super	No	Planned 1-2 years	✓
Rest Super	Planned, Unsure	Planned 1-2 years	✓

5. Stakeholder engagement

Findings

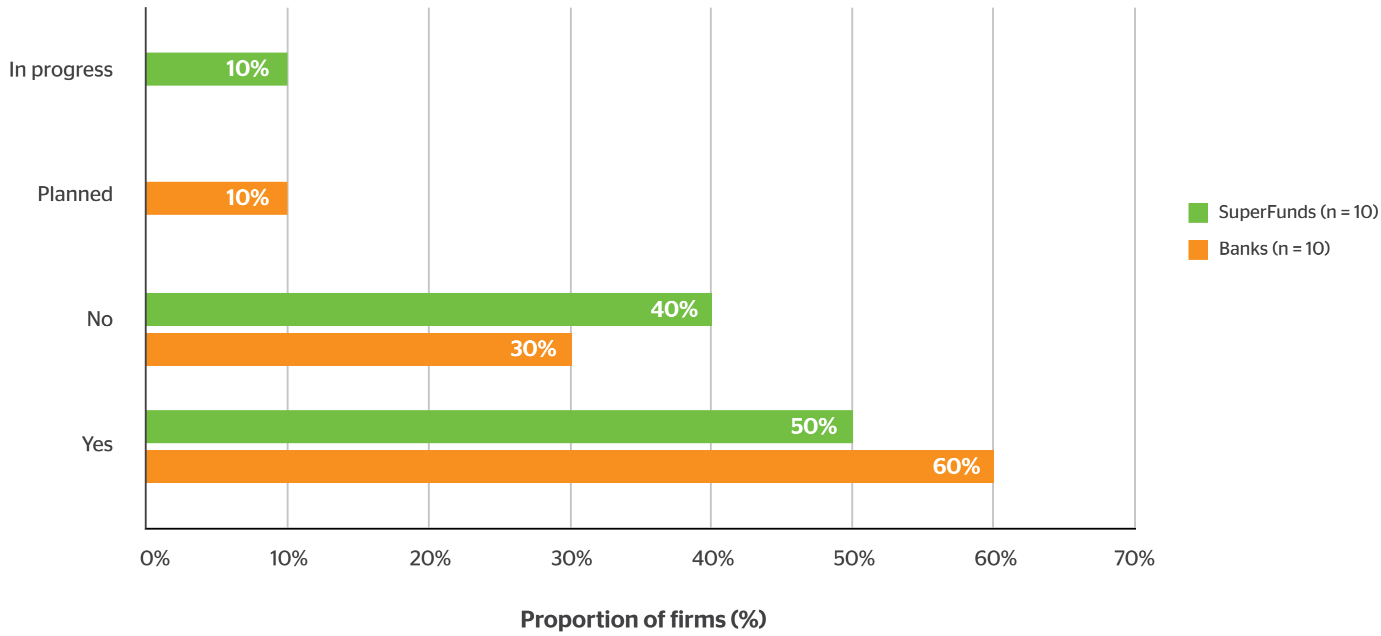
- The majority of banks and super funds are already engaging companies on nature-related issues, whilst a small, but significant number of financial institutions have not and do not have plans to engage companies on these issues.
- A small number of super funds have developed polices that outline their engagement with companies that have been identified as having the most significant nature-related issues.
- The majority of banks and super funds do not have processes, policies, or plans in place focused on engagement with Indigenous Peoples, local communities and affected stakeholders on nature-related issues.

Stakeholder engagement was consistently identified as a critical tool used by super funds and banks in their efforts to manage and mitigate nature-related issues. As discussed in the Introductory Questions, super funds in particular firmly believe that they have more power to influence company behaviour through ownership over divestment. To justify maintaining a financial interest in companies with high nature impacts and dependencies, super funds should evidence that they are leveraging engagement as a tool to effect change, as part of a collective (i.e. through proxy voting), as well as individually.

We find that 60% of banks (n = 10) and 50% of super funds (n = 10) are engaging companies on nature-related issues (Figure 11). These results show super funds are yet again lagging behind banks, and that half of the super funds analysed are still yet to engage companies on nature. However, compared to their performance in areas like strategy, risk management, and target setting, super funds are relatively more progressed in stakeholder engagement. This is likely because super funds can engage companies on nature-related issues without having completed assessments of nature-related impacts and dependencies, hence data gaps and resourcing constraints are less prohibitive.

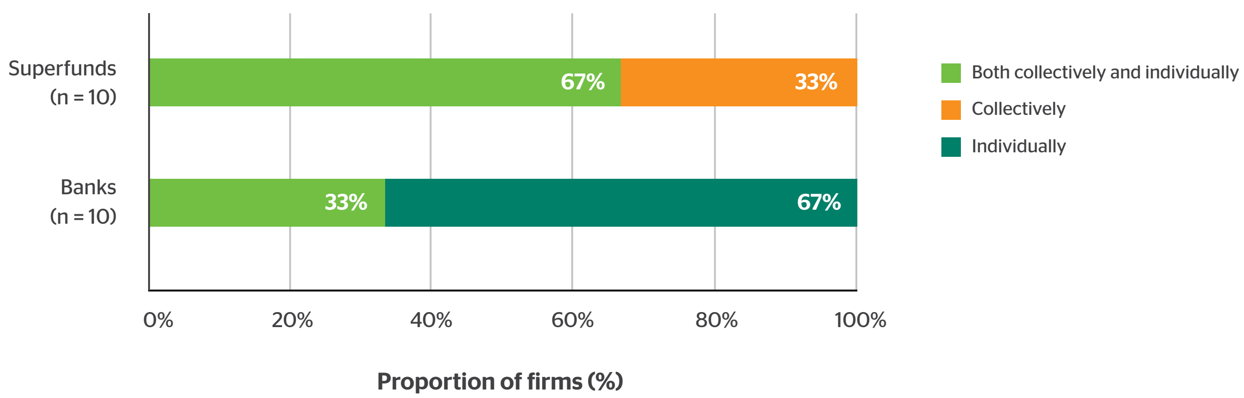
While most financial institutions have focused their engagement on companies with the most material nature-related impacts and dependencies, some financial institutions have only prioritised engagement with their largest emitters. While the drivers of nature risks and climate risks are interrelated, the prioritisation of engagement should occur separately.

Figure 11: % of banks and super funds that are engaging investees and/or borrowers on nature



For the 33% of funds that only conduct engagement collectively (as seen in Figure 12 below), bodies such as the TNFD, the Principles for Responsible Investment (PRI) and the Australian Council of Superannuation Investors (ACSI) still stress the importance of transparent reporting on individual contributions to stewardship activities and where possible, stewardship outcomes. As highlighted by the PRI, despite challenges with reporting on the effectiveness of stewardship activities, investors must move past reporting process and activities to reporting outcomes.[33] Without a clear indication of engagement outcomes, the impact of stewardship activities can be overstated and can detract from measurable progress.

Figure 12: How super funds and banks are conducting their engagements



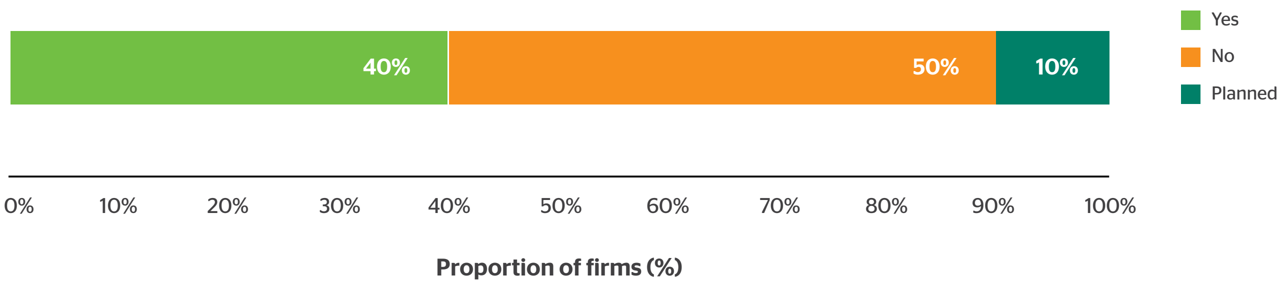
Collaborative engagement via Nature Action 100+

Representing US$28 trillion in assets under management, Nature Action 100+ (NA100) is a global investor initiative that is playing a leading role in catalysing collective engagement on nature. Through NA100, 190 institutional investors (including ACSI) are calling on 100 companies from eight priority sectors to take urgent and necessary action to protect and restore nature, in alignment with global goals to halt and reverse biodiversity loss by 2030.[34]

Building on engagement that is being undertaken, we specifically asked super funds to indicate if they have any policies or strategies in place that outline the engagement approach taken with companies that have been identified as having the most significant nature-related dependencies, impacts, risks or opportunities. Many super funds have a responsible investment policy in place or similar, yet only a few lists nature-related issues as a priority issue and only 40% say they have developed a strategy for their engagement with priority companies (as seen in Figure 13 below). Aware Super, HESTA, Australian Ethical and Future Super have developed such policies, while Rest Super indicated they plan to.

Above. Yellow Robin *Photo.* Brendan Sydes

Figure 13: Proportion of super funds with nature-related engagement and/or escalation policies in place (n = 10)



Engagement on nature-related issues should extend to local communities and Indigenous Peoples affected by the institutions' financing activities. Overall, 70% of banks (n = 10) and 70% of super funds (n = 10) do not have processes, policies, or plans in place targeted at engagement with Indigenous Peoples, local communities and affected stakeholders. Among the banks, Westpac advocates for free, prior, and informed consent (FPIC), while CBA explicitly enforces it. Both Australian Ethical and Aware Super have also set expectations for investees regarding FPIC, which are said to escalate into engagement on a case-by-case basis. Additionally, in their reconciliation action plans, Rest Super outlines how it engages investee companies on impacts to Indigenous Peoples and Australian Ethical outlines how it incorporates First Nations Peoples' interests in key investment areas.

These results are concerning given that Indigenous Peoples safeguard 80% of the world's biodiversity,[35] and company impacts to Indigenous Peoples, including their land, communities and cultural heritage, presents an increasingly visible investment risk. This risk can stem from legal costs and loss of access to resources resulting from the destruction of cultural heritage.[36] To ensure nature-related risks are being fully integrated into financial decision making, it will therefore be critical for both banks and super funds to establish clear expectations for customers and investees to demonstrate how engagement with Indigenous Peoples and local communities is being integrated into the assessment and management of nature-related issues. These expectations are already established for companies by the TNFD.

Dhawura Ngilan Business and Investor Guides

Both HESTA and Australian Retirement Trust have been involved in the development of the Dhawura Ngilan Business and Investor Guides through the Responsible Investment Association Australasia's (RIAA) First Nations Peoples' Rights Working Group.[37] According to the First Nations Heritage Protection Alliance, these documents provide authoritative advice on engaging with First Nations communities in a way that upholds the right to self-determination and free, prior and informed consent (FPIC) enshrined under the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).

Conclusion

Our society and thereby our economy operate within natural world and are directly dependent on nature and the ecosystem services it provides. Due to the rapid and unprecedented rate at which the natural environment is being degraded, Australia's dependence on nature is of increasing concern.

Nature loss becomes a financial risk to financial institutions when they are exposed to companies who are adversely impacted by nature-related physical or transition risks. As a result, financial institutions have begun integrating nature-related issues into their financial decision making.

Overall, financial institutions are increasingly recognising the risks associated with nature loss, and are under mounting pressure from international regulators, employees, and environmental advocacy groups to respond to the nature crisis. Banks in particular, have progressed significantly in areas such as assessing nature-related impacts and dependencies, and target setting. Simultaneously, super funds are prioritising engagement with investee companies, before having assessed their financed nature-related impacts and dependencies or assigning board level accountability to nature-related strategy. Problematic perceptions of data gaps, as well as internal resourcing constraints (including skill gaps) are holding financial institutions back from fully integrating nature into financial decision making.

The financial system has an influential role to play in the transition to a nature positive world as facilitators of finance to companies driving nature loss. While there are clear signs of progress, momentum must accelerate.

Next steps

This report demonstrates some progress is being made, particularly in areas including assessing nature-related risks (impacts and dependencies), and publishing nature-related policies. However, super funds are lagging in all areas and both banks and super funds must increase momentum when it comes to target setting on nature, engagement with Indigenous Peoples and local communities, as well as advocating for public policy reform. Considering these gaps, we established the following 'Next Steps' for banks and super funds.

As priority actions we expect all banks and super funds to:

1. Set science-based targets for nature, covering the most material financed issues. Super funds should complement these targets by setting public expectations of the companies they invest in.

2. Transparently disclose nature-related impact and dependency assessments, using a double materiality approach. This should be expanded on to understand how identified impacts and dependencies give rise to nature-related risks and opportunities.

3. Have a clear nature-related risk management process in place that integrates the assessment and identification of nature-related issues into the development of management strategies and monitoring.

To demonstrate sector leadership, a financial institution would:

1. Ensure clear board-level accountability for nature-related strategy and targets.

2. Identify and engage high-risk customers and investee companies around targets or expectations set by the financial institution on nature-related issues.

3. Banks should incorporate natural capital into land valuation and credit risk assessments.

4. Collect environmental data held by counterparties and invest in upgrading the organisation's capacity and capabilities on nature.

5. Commit to developing policies for engaging with Indigenous Peoples and local communities on nature-related issues.

6. Engage with regulators to support mandatory nature-related disclosures and play an active role in advocacy initiatives to facilitate accelerated nature-aligned financial practices.

Footnotes

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Koala with Joey *Photo.* markuskessler/ iStock

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