mailock

WHITEPAPER

Sustainability in the Financial Services Industry: What Comes After COP26?

CONTENTS

An Overview

The United Nations' Framework Convention on Climate Change (UNFCCC) defines climate change as 'a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.'

So far, this human activity has caused the average temperature of the earth's surface to rise by 1°C, with the UK seeing an average temperature rise of 0.8°C over the past decade. The main contributor to this is considered to be carbon dioxide, with levels increasing by 45% since the industrial revolution.

This may not sound dangerous out of context; however, drastic changes can be seen across the planet, especially within:

- Oceans- Sea levels have risen by 20cm in the past 10 years, with ocean temperatures also steadily rising.
- Melting polar ice- Sea ice has stopped growing and is now decreasing rapidly, especially noticeable in the ice sheets found in Greenland and the Antarctic.
- Extreme weather- Frequent storms, longer-lasting heat waves and heavier rainfalls have been observed across the globe. 370,000 deaths in the past decade can be attributed to extreme weather, alongside an estimated $660 (£450) billion of economic damage.

(Source: GOV.uk)

FINANCIAL SERVICES AND CLIMATE CHANGE

When considering the financial services' impact on global warming, there are two areas we must look at – indirect and direct.

Indirect:
Loans and Investments

Direct:
Printed Documents

CLIMATE CHANGE AND THE FINANCIAL SERVICES

Indirect Causes

805 million tonnes of carbon

UK banks alone were responsible for financing 805 million tonnes of carbon in 2019. This is 1.8x the annual net emissions of the entirety of the UK.

£2.7 trillion in finance

Since the Paris Agreement, the 60 largest banks in the world have provided £2.7 trillion in finance to sectors producing high emissions through fossil fuel projects such as oil and coal.

Less than one percent

In 2018, less than 1% of the assets found within the world's largest pension funds were invested in low-carbon solutions.

CLIMATE CHANGE AND

THE FINANCIAL SERVICES

Direct Causes

$10.5 billion a year on printing

Banking and insurance companies spend $10.5 (£7.8) billion a year on printing.

20 pages a day

The average worker within the finance industry prints 20 pages a day.

507 million documents

An estimated 507 million documents are sent to FS customers annually.

When you consider that the average tree provides 10,000 sheets of paper, the financial services are responsible for the deforestation of over 50,000 trees a year.

WHAT HAS BEEN DONE TO COUNTERACT CLIMATE CHANGE SO FAR?

To try and counteract the harmful effects of climate change, several key agreements and pieces of legislation have been put in place by the UK government and other key players:

The Climate Change Act 2008

The first legally binding target drawn up by the UK, this legislation initially required the government to reduce greenhouse gas emissions by 80% before 2050. After achieving a 42% reduction in emissions, the government amended the act in 2018, now stipulating the need to achieve net zero by 2050 instead.

Paris Agreement

Created in 2015 during COP21, the Paris agreement was an international, legally binding treaty between 196 parties. The agreement aimed to prevent further climate change, ensuring global warming remains below 2°C and ideally below 1.5°C. COP26 has now been carried out to extend on and finalise the strategy laid out within the original agreement.

Green Finance Strategy

Formed shortly after the Paris agreement, this strategy was approved with a joint declaration from the Financial Conduct Authority (FCA), Financial Reporting Council (FRC), The Pensions Regulator (TPR) and Prudential Regulation Authority (PRA). It outlines the role of the financial services industry in securing climate change goals going forward.

Mandatory Climate Disclosures

In the months before COP26, the UK government committed itself to making the financial system the greenest in the world, declaring that all large financial institutions must create and reveal climate-related risks and targets by 2023, with the expectation that these businesses will then adapt their offering to meet these goals.

WHAT IS COP26?

An Overview

COP26 was an international summit involving discussions amongst 25,000 delegates including world leaders, opinion formers and top businesses, regarding worldwide climate change and the next steps needed to achieve the original Paris agreement.

Held in partnership with Italy and hosted in Glasgow, the event ran from the 31st of October to the 13th of November and resulted in a number of new agreements.

(Source: The Glasgow Climate Pact)

Some key goals on the agenda to negotiate were:

- SECURE GLOBAL NET ZERO BY MID-CENTURY AND KEEP 1.5°C WITHIN REACH
- ADAPT TO PROTECT COMMUNITIES AND NATURAL HABITATS
- MOBILISE FINANCE
- WORK TOGETHER TO DELIVER

What Were the Main Outcomes?

Mitigation

During the summit, 153 countries put forward new or updated emissions targets, otherwise known as Nationally Determined Contributions (NDCs). This means that 90% of world GDP is now covered by net zero commitments, which will result in an estimated reduction of 5 billion tonnes in greenhouse gas emissions by 2030. These contributions involve:

- The continuous journey to global net zero by mid-century, further ensuring that global warming does not rise above 1.5C, as laid out in the Paris agreement.
- 190 countries agreeing to phase down their coal power, as it currently remains responsible for an estimated 40% of annual CO2 emissions.
- 137 countries committing to end and reverse deforestation by 2030, with 30 large financial companies, such as Schroders Aviva and Axa, promising to end investments for deforestation-related activities.
- Increasing the pace of transition to zero-emission vehicles, as road transport accounts for over 10% of global greenhouse gas emissions, with General Motors, Jaguar, Fiat, Volvo, Audi, Ford and Volkswagen declaring that they will produce zero-emission vehicles by 2035.
- Over 100 countries have declared they will cut methane emissions by 30% for the year 2030, as it remains responsible for 1/3 of current global warming, with reductions potentially preventing a further 0.3°C of warming by 2040.

What Were the Main Outcomes?

Adaption

COP26 was host to the launch of the Adaptation Research Alliance (ARA), a global network of 60 organisations from 30 different countries, all dedicated to protecting vulnerable countries from the harmful effects of climate change. $12.7 billion was pledged to the cause, with large funds including:

$350 million

to the UNFCCC adaptation fund

$600 million

to the Least Developed Countries fund

$27 million

to the Coalition for Disaster Resilient Infrastructure adaptation fund

(Source: The Glasgow Climate Pact)

Finance

According to studies, the global shift to net zero will require an estimated $5-7 trillion per year to ensure full decarbonisation. To contribute towards this, a commitment was made by all developed countries in 2009 to raise an accumulative $100 billion a year.

As of 2021, we have raised $88bn, with the $100bn goal set to be achieved by 2023. Roughly $500 billion of the total saved so far will be mobilised between 2021-2025, contributing towards costs for 'renewable energy, flood defences, drought resilient crops and the development of green technology'.

COP26

What Were the Main Outcomes?

Collaboration

COP26 acted as the platform for underpinning and finalising specific details and rules from the Paris agreement, the majority of which were agreed during COP24. Additionally, the Breakthrough Agenda was also endorsed by 40 countries, leading to several collaborative goals to be completed by 2030, including:

- Making clean power the most affordable and reliable solution
- Making zero-emission vehicles the new normal
- Making near-zero-emission steel the preferred choice
- Ensuring affordable, renewable, and low carbon hydrogen is available

(Source: The Glasgow Climate Pact)

Good COP Bad COP?

REACTIONS TO THE SUMMIT

Mixed reactions to the outcomes of COP26 have been voiced. However, there has been a common thread of negativity around a feeling of ‘diplomacy over substance’. Several spokespersons have stated that the event and its outputs focused on the rich, ignoring the smaller communities that are in need of assistance urgently and immediately.

The pledges made at the summit, even if they are carried out to their target timelines, are thought not to be enough to maintain the 1.5°C goal for global temperature by many. This sentiment was exacerbated by a last-minute wording alteration from the ‘phasing out’ to ‘phasing down’ of fossil fuels, with individuals stating that the ‘watering down’ of the commitment could have damaging consequences.

1.5°C

Goal for global temperature

How Do the COP26 Outcomes Affect Financial Services?

The minds behind COP26 have specifically stated that ‘to achieve our climate goals, every company, every financial firm, every bank, insurer and investor will need to change.’ It is clear that a global effort by FS companies is needed to ensure that pledges are carried out within their specific time limits. Official guidance suggests that the financial industry needs to:

- Utilise and unleash private finance.
- Consider the effect on climate with every financial decision undertaken.
- Remain transparent about the risks and opportunities that climate change and a net zero economy pose.
- Reinforce the financial system to withstand the transition to net zero.
- Align investments and lending with net zero aims.

Apart from the wider aims of financial mobilisation and economic stabilisation, firms will need to create and carry out a carbon-conscious strategy in preparation for the mandatory disclosure of climate-action plans coming into force in 2023. Businesses will need to think bigger than the bare minimum, going above and beyond to ensure the necessary time and effort is put in place to ensure plans turn into actioned pledges.

(Source: COP26 Explained)

'To achieve our climate goals, every company, every financial firm, every bank, insurer and investor will need to change.’

THE BENEFITS

What Are the Benefits for Financial Organisations?

Financial institutions that take sustainability seriously will do more than support the larger picture of net zero; they will reap rewards for their efforts. According to pre-existing studies: →

Customers are starting to hold businesses accountable, choosing services based on sustainability and ethical considerations.

To continue attracting new customers and to retain a loyal customer base, financial services must put in the work to make their propositions greener.

51%

of consumers feel that financial services organisations should be doing more to help the environment.

71%

are more likely to choose a bank with a positive social and environmental impact.

61%

would leave their bank if it was linked to any social or environmental harm – even if they provided the best offers.

40%

of banks that implement sustainability initiatives report an increase in cost savings, customer retention and business growth.

What Are the Next Steps for FS?

Environmental, Social and Governance (ESG) considerations will be incredibly important going forward, with organisations needing to take the time to get to the heart of their sustainability issues. The Cambridge Institute for Sustainability Leadership states that an 'active mindset' is needed, with a priority on fostering financial leadership that sees the future as inevitably low carbon.

This may mean financial service companies will need to juggle pressure from various stakeholders, including regulators and asset owners, in order to deliver and communicate commitments both effectively and accurately.

For banks and investors, the creation of green finance will be key, with stricter policies and increased scrutiny regarding potential financing for businesses. However, this mobilisation of capital will not exclude these companies from cleaning house; FS organisations have their own substantial operational footprints that need to be addressed.

Digitisation to Prevent Deforestation

Digitisation is one way in which businesses can target the key COP26 outcome of reducing deforestation. Statistics show that in the past 40 years, a forest area the size of Europe has been cut down, with 42% of all global wood harvested to make paper.

This unsustainable consumption can be significantly attributed to business use. Studies reveal that 422 million metric tons of paper are consumed globally each year, with the average office worker using 10,000 sheets of paper annually. Within financial services specifically, 70% of the processes in banks and insurance companies still remain paper related.

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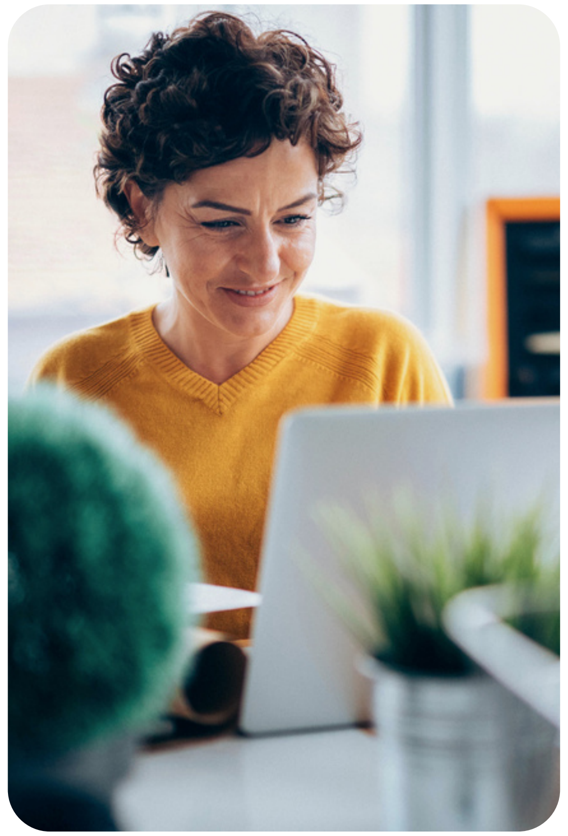
COP26

Digitisation to Prevent Deforestation



When considering the outbound communications within financial services, shifting paper statements to a digital format could reduce greenhouse gas emissions by 37,000 metric tons, alongside water consumption by 136 million gallons.

If the green benefits were not enough, the investment in paper-eliminating technology could cut 25% of operational expenses, with the UK set to achieve industry savings of £1.3bn if just 80% of their customers were to go paperless. Consumer appetite for sustainable practices is also high, with 45% choosing paperless billing purely because it is a greener alternative.

An estimated 72% of UK banks are already embracing digital technology to make their business operations greener. By continuing to deploy technology solutions, the FS industry can utilise transformation and innovation to proactively combat climate-related challenges.

Introducing Mailock

OUTBOUND SECURE EMAIL

Mailock is Beyond Encryption's secure email solution, acting as a sustainable alternative to traditional mail. The software digitises sensitive business communications safely and seamlessly, providing authentication and encryption capabilities to ensure the security of documents and messages.

Already used by thousands of financial service businesses across the UK, along with global institutions such as Origo and Paragon Customer Communications (PCC), Mailock helps firms keep ESG goals front of mind and contribute to the protection of our planet's resources.

UK financial services provider, Aegon, is one such company that has utilised Mailock to digitise their communications. A bespoke carbon calculator has revealed that Aegon has achieved 270 tonnes of CO2 savings since adopting Mailock.

It's part of Beyond Encryption's mission to guide financial organisations like Aegon on their journey to becoming more carbon-conscious, starting with their communications. Mailock is the prime initiative to turn the financial services industry into a frictionless ecosystem, helping each business play their part in digitising communications, cutting carbon outputs, and delivering a meaningful contribution to the COP26 targets.

To find out more about Mailock, get in touch.

Supporting your business.

MAILOCK ENABLES YOU TO...

MEET ESG GOALS

Strengthen your environmental, social, and governance proposition. Businesses with strong ESG goals achieve higher equity returns and reductions in bottom-line risk.

CUT OPERATIONAL COSTS

Over 9.5 billion* documents are sent in the UK each year, the vast majority by businesses. In the UK financial services industry alone, digitising print and post operations could save £1.3 billion**

PROTECT DATA

The most common cause of data exposure is sending an email to the wrong person. Protect your staff and any sensitive information you send with identity authentication and full revoke.

Sources:
*https://www.statista.com/statistics/1006816/royal-mail-volume-of-parcels-and-letters-delivered-uk/
**https://www.ns-businesshub.com/science/going-paperless-cost-savings-uk-financial/

MAILOCK HELPS YOU...

KNOW YOUR CUSTOMER

Digitise friction-inducing KYC, anti-money laundering, and ID Verification.

STRENGTHEN YOUR BRAND

Add company logos to secure emails. Show your business as a leader in data protection.

CUT POSTAGE BUDGETS

The financial services sector alone could save up to £1.3 billion by reducing its' paper output.

REDUCE DATA RISK

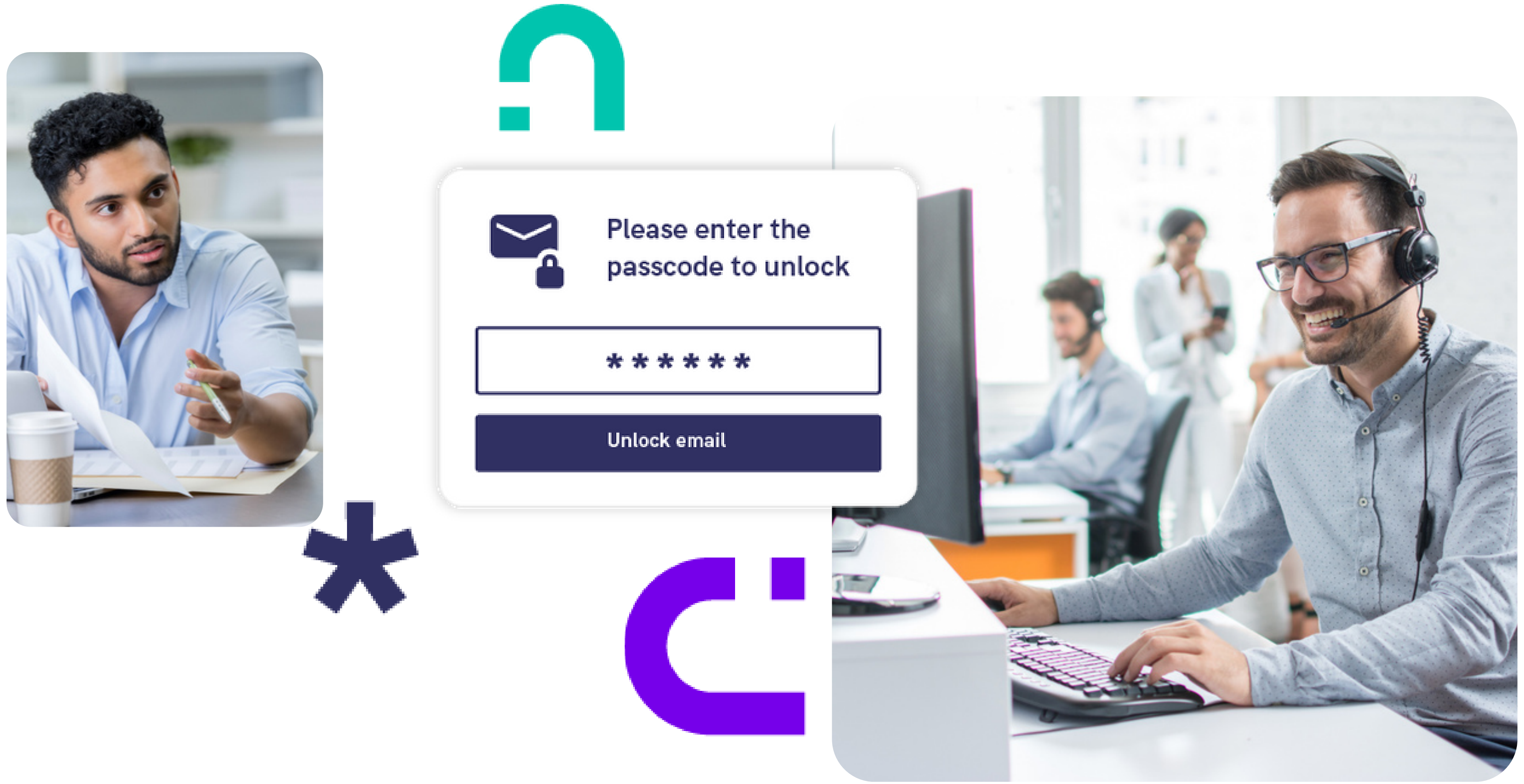
Emails sent to the wrong person are the #1 cause of data exposure. Prevent misfires.

BUILT TO COMPLY WITH LEGISLATION

- GDPR
- MIFID II
- ISO 27001

About Beyond Encryption

Beyond Encryption is a SaaS company based in Fareham, Hampshire. We are passionate about helping companies and individuals secure their data and online identity, all while remaining compliant, reducing costs, and improving operational efficiencies.



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