

Jersey for Good

A Sustainable Future



Jersey Finance

Delivering Insight • Driving Innovation



**EQUILIBRIUM
FUTURES**

Foreword

I warmly welcome the publication of this strategy to develop Jersey as a global centre of sustainable finance.

Our Island's finance industry is demonstrating a real commitment to a greener future by presenting alternatives to current practice, detailing a strategy to change, and demonstrating that sustainable finance is key for both planet and people.

It has long been evident that the financial services industry has had, and will continue to have, a profound impact on the future of our life on this planet. However, until all too recently this responsibility has not been clearly articulated. A changing dialogue has emerged that spotlights the opportunity that the financial services industry has to accelerate a change to a healthier planet for all, and to move away from practices that exacerbate climate change and biodiversity loss. The growth in public awareness and sentiment about the climate crisis is now joined by the increasing clarity about the impact of loss of nature and the ecosystem services it provides. This improved understanding and awareness will mean that financial services will increasingly be under the microscope for both carbon and nature damage, alongside corporations and governments.

In parallel, financial services clients are changing and want their investments to protect nature, not damage it. Soon we may see institutional and national balance sheets that detail carbon and biodiversity alongside finance. The recently published [Dasgupta Report](#) on the economics of biodiversity called for a change from the crude measure of success that we call GDP to one of 'inclusive wealth', a truly balanced approach of how successful we are as a species. Currently, humanity's report card looks very poor indeed.

There is nothing to stop us from changing the way we practice business. At the Durrell Wildlife Conservation Trust we want to work with partners across all sectors who are looking at their practices, are motivated to be part of the global solutions we need and are adapting to the real world we are living in, a world that is facing system-level collapse if we cannot or will not change.

Darwin's often misinterpreted theory of survival of the fittest is pertinent here. It was not the strongest who survived, it was those who could adapt and change when the path they were on was leading to a poorer future. I am confident and excited about the path that Jersey's financial services industry will take, to become a leading global centre of sustainable finance, and I commend Andrew Mitchell and Equilibrium Futures for their insight and expertise in detailing the road to take, and Jersey Finance for enthusiastically taking this much needed and ambitious step. We look forward to working with Jersey Finance and the Island's financial services industry on this most important endeavour.



Dr Lesley Dickie
Chief Executive Officer
Durrell Wildlife Conservation Trust

Introduction

When you look at how our industry is changing, it's clear that sustainable finance is not only a force for good but also a catalyst for success.

The global shift towards a greener, more inclusive economy is gathering pace; investors are no longer focussed solely on returns, with growing demand for portfolios to reflect purpose, including improvements in environmental, social and governance standards.

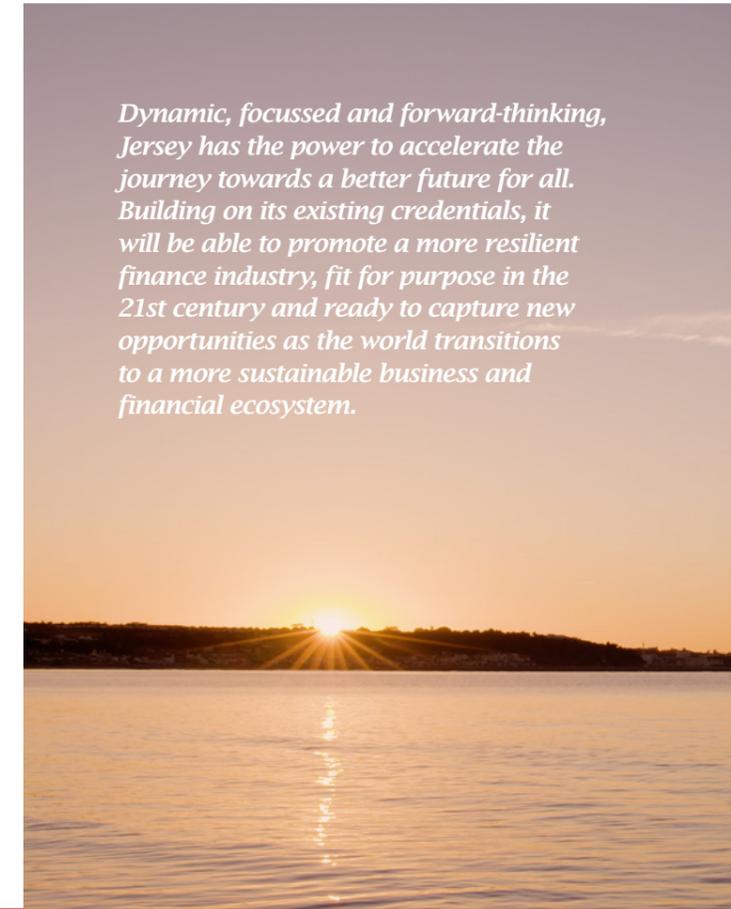
With an ambitious vision to inspire us and a detailed plan to guide us, I'm certain we can capitalise on Jersey's strengths as we work together to support the growth of sustainable finance and its contribution to environmental and social change.

The case for acting quickly is compelling. We have strong foundations, but we now need to increase our efforts to speed up the transition. Looking at the scale of the global challenges and opportunities that lie ahead of us, we simply can't afford to be left behind.



Joe Moynihan
Chief Executive
Jersey Finance

Dynamic, focussed and forward-thinking, Jersey has the power to accelerate the journey towards a better future for all. Building on its existing credentials, it will be able to promote a more resilient finance industry, fit for purpose in the 21st century and ready to capture new opportunities as the world transitions to a more sustainable business and financial ecosystem.



Andrew Mitchell
Founder and CEO
Equilibrium Futures

About Andrew Mitchell

An international thought leader on natural capital finance and environmental risk, Andrew Mitchell is the Founder and CEO of Equilibrium Futures, a Jersey-based consultancy that provides strategic advice on risks and opportunities related to the environment and sustainable finance. Andrew is also Senior Adviser to Oxford think-tank, Global Canopy, which he founded in 2001. He's Founder and Senior Adviser to the Natural Capital Finance Alliance, and through Equilibrium Futures, helps to design natural capital frameworks and tools for banks, investors and insurers. He's also Senior Adviser to Mirova Natural Capital, a global impact investment fund.



EQUILIBRIUM
FUTURES

About this Report

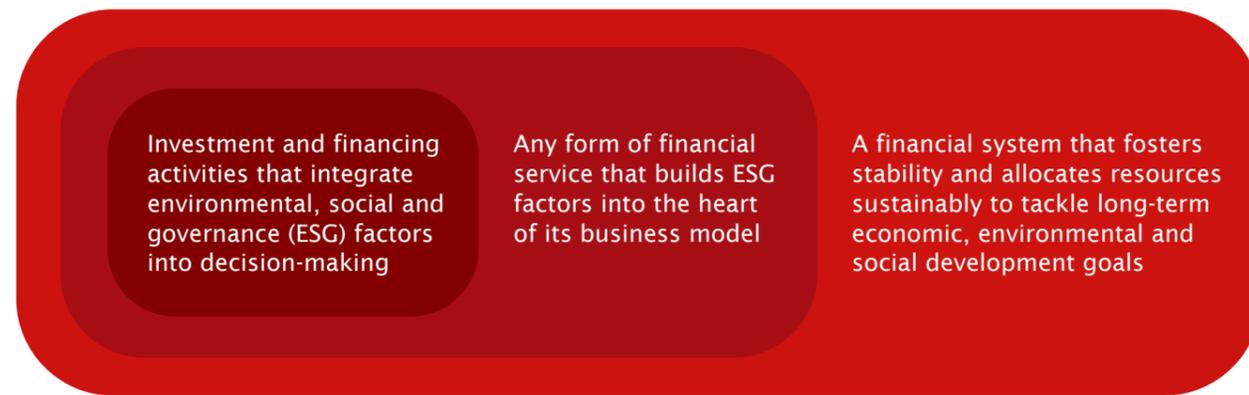
In July 2020, we asked Andrew Mitchell, Founder and CEO of Equilibrium Futures, to help us develop a vision and a two-year plan to build Jersey's reputation as a jurisdiction of choice for sustainable finance. Andrew and his team combined desk research with two virtual visioning workshops and 30 one-to-one interviews with leading stakeholders from Jersey's finance industry. Their feedback underpins Equilibrium Futures' report. In this summary we've captured the key findings of the report, along with a high-ambition vision for our industry. The strategy that will set us on the right path to achieving this vision is set out in [Jersey's Pathway to Success: a two-year plan to accelerate our journey towards a sustainable future.](#)

What do we Mean by Sustainable Finance?

Although there's no universal definition of sustainable finance, we've used the European Commission's definition as our guiding concept:

"Finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects."

A system-wide view of sustainable finance:



Sustainable Development Goals

Sustainable finance is about re-wiring the financial system to help accelerate solutions to a wide range of complex, interconnected global issues – from biodiversity loss and climate change to inequality and poverty. These challenges are best illustrated by the 17 United Nations Sustainable Development Goals (SDGs).

-  **1. No poverty**
-  **2. Zero hunger**
-  **3. Good health and well-being**
-  **4. Quality education**
-  **5. Gender equality**
-  **6. Clean water**
-  **7. Clean energy**
-  **8. Decent work and economic growth**
-  **9. Innovation and infrastructure**
-  **10. Reduced inequalities**
-  **11. Sustainable cities**
-  **12. Responsible consumption**
-  **13. Climate action**
-  **14. Life below water**
-  **15. Life on land**
-  **16. Peace and justice**
-  **17. Partnerships for the goals**

Trends Driving Sustainable Finance

From consumer demand to changes in legislation, a number of macro trends are behind the growth of sustainable finance – and these trends will continue to cause disruption within the financial system in the coming years.

A mounting tide

There's increasing awareness that finance must play its part in tackling the long-term environmental, social and governance challenges the world faces. Many people already recognise that the way the financial system has traditionally allocated resources has contributed to the climate emergency. And there's a greater focus on the role finance plays in depleting natural capital by funding activities that lead to the degradation of ecosystems and over-exploitation of resources. These global challenges are also giving rise to social issues such as inequality, conflict and insecurity that have the potential to destroy value, and the financial system is increasingly being asked to provide solutions.

This leads to growing pressure for the finance industry, along with the real economy it serves, to adapt in a way that allows us to live within our planetary boundaries while delivering a decent standard of living for all.

Alignment of value and values

With growing evidence that sustainability is a driver of long-term value, investor preferences are shifting and demand for transparent products and standard disclosures is increasing. Long-term ESG investment strategies can yield better returns for investors, so sustainable investing doesn't have to pose a headwind to their portfolios. This shift has resulted in greater scrutiny of ESG credentials, putting companies under pressure to align corporate purpose and values, while risk and return metrics are increasingly incorporating natural, social and human factors. How we see fiduciary duties is also changing on a global scale, with the [UN Environment Programme's Finance Initiative](#) noting that "investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge." The effect of this alignment is to bring sustainable finance into the mainstream.

A shift in political focus

Efforts to bring about transformational change in the global economy, including the UN's SDGs and the Paris Climate Agreement, are leading to policy interventions and regulatory change. Most significant from Jersey's perspective is the [European Union's action plan for financing sustainable growth](#), together with the UK's strong policy actions such as TCFD-aligned disclosures becoming mandatory across the UK economy by 2025. These extra regulatory measures, which are rapidly gathering pace, mean that compliance with sustainability standards is becoming part of the finance industry's licence to operate.

The global pandemic

COVID-19 has brought into sharp relief our reliance on natural systems and accelerated the pace of change. It has also focussed attention on corporate purpose and values, serving as "the first real proof-point for sustainability, underlining the fact that ESG investing [...] can future-proof investments and in some cases boost returns, all while helping to shape a better future." (*UN Principles for Responsible Investment*).

Increasing standardisation

In recent years we've seen a proliferation of standards for the finance industry in the field of sustainability. Some of these standards are now gaining real momentum, accelerated in some cases by regulatory changes that will increasingly make their uptake mandatory.

Many asset owners and managers have signed up to the [Principles for Responsible Investment \(PRI\)](#), which was created in 2006 with the backing of 100 signatories. It now has more than 3,000 signatories, managing more than US\$100 trillion of assets. Signatories are committed to integrating ESG considerations into their investment analysis and decision-making. Banks and insurers are also embracing sustainable finance. [The Principles for Responsible Banking \(PRB\)](#) were set up in 2019 and already have almost 200 signatories, representing over a third of the global banking industry. As of October 2020, more than 1,500 organisations representing every major type of financial market participant had expressed support for the recommendations of the [Taskforce on Climate-related Financial Disclosures \(TCFD\)](#).

Strong business signals

There are strong signals from the market that allocation of capital is undergoing a significant shift towards all forms of sustainable investing, from impact investing to ESG-thematic funds and specialist debt instruments.

Estimates of our total impact on nature suggest that we would require 1.6 earths to maintain the world's current living standards.

We need to reduce financial flows that directly harm and deplete natural assets.

The Economics of Biodiversity: The Dasgupta Review 2021

US\$30.7 trillion

sustainable investment AUM in major markets at the start of 2018



increase since 2016

Global Sustainable Investment Alliance's (GSIA's) Review 2018



1 in every 3 US dollars currently invested takes account of ESG factors

Forum for Sustainable and Responsible Investment (2020)



ESG assets predicted to exceed US\$100 trillion by 2028 + US\$150 trillion by 2034

Deutsche Bank and GSIA



27% of high net worth individuals (HNWIs) + **40%** of ultra-high net worth individuals (UHNWIs) express an interest in sustainable investment products

Capgemini World Wealth Report 2020

The Business Case for Action

The trend towards sustainable finance is giving rise to new products and services with associated income streams and potential for market share growth. Business as usual is not an option, as sustainability shifts further into the mainstream of financial services.

Jersey is well positioned to respond to these trends. In recent decades, our Island has built its reputation on outstanding governance, high-quality expertise and the ability to transact efficiently. In the decades to come, these qualities alone may no longer be sufficient to keep us among the world's leading international finance centres (IFCs). Emerging regulation and reporting on climate change and sustainability, along with increasing evidence of the profitability of ESG funds, are combining to deliver both risks and opportunities to which Jersey must react.

More aware of environmental, social and governance issues, a new generation of investors are looking to 'make their money matter' – so transparency and profitability will have to be coupled with purpose and impact.

Jersey has been active in this vital area for some time. Either individually or within wider global networks, many Jersey Finance Members have already started to integrate ESG standards into their business models and firms are adapting their client offering to respond to changing demands. We've also seen the emergence of a number of large Jersey-based alternative fund structures that have been deploying much-needed capital into areas such as renewable energy.

Other IFCs, such as Hong Kong, Singapore, Luxembourg and Ireland, are also moving to capture the emerging opportunity of sustainable finance by adopting a strategic, well-communicated approach with a clearly stated vision and set of ambitions. As a future-focussed finance centre, Jersey should be increasing its efforts to get in front of this wave. An ambitious sustainable finance strategy, starting now, could not only attract new business, but also give Jersey's finance industry a platform to showcase its values on both the local and global stage.



Key Recommendations

Our 2020 workshops and stakeholder interviews provided some vital insights from the finance industry.

These insights were used by Equilibrium Futures as the basis for their recommendations to develop a sustainable finance strategy for Jersey. It was clear from the feedback that there's a strong appetite for our Island's finance industry to accelerate the journey towards adopting sustainable finance goals and to see Jersey emerge as a leader in the sustainable finance sector. However, costs of compliance, divergent global standards and risks around greenwashing are among the barriers that must be addressed in any strategy we adopt.

Build strong stakeholder partnerships

We're confident that Jersey can build on its existing credentials and become a clear choice for sustainable finance in the future, as long as it accelerates efforts to roll out a bold strategy that catalyses action by its key stakeholders.

Engaging all of the stakeholders effectively and understanding their constraints and ambitions will be key. Uniting them behind a collective vision will help galvanise action, while putting in place a shared governance mechanism will make sure that each sector within Jersey's finance industry has the tools to integrate sustainability within a joined-up policy framework that delivers genuine progress.

Green finance on a green Island

For Jersey to become a globally recognised sustainable finance centre, the Island itself has to change. This will require supportive collaboration between the finance industry, the Jersey Financial Services Commission (JFSC), the Government of Jersey and, to an extent, the people of Jersey.

As wealth is transferred to the next generation and expectations of finance change, Jersey's finance industry must put in place positive actions on sustainability to enhance its appeal.

A consistent strategy and policy direction, with a strong government target for carbon neutrality and a finance industry focus on sustainable investment, would provide a powerful message that Jersey is tackling climate change and broader SDGs at local and international scales and would be attractive to a wide range of clients such as institutional investors and family offices.

It will be important that key stakeholders are aware of and adopt sustainable finance market and product standards. Jersey will need to monitor and align to emerging regulations to ensure that it eliminates the risk of greenwashing and retains access to key markets. Understanding and adhering to high-quality sustainable finance standards and regulations, such as the EU Taxonomy and other frameworks, will increasingly form part of the financial diet of advisory services and finance. We can help to build this understanding through guides, webinars and briefings, engaging in best-practice forums and passing on the knowledge we gain to our Members.

It will also be important for Jersey to consider whether it has the right incentives in place to encourage the transition to sustainability across all sectors of economic life, including the finance industry. Such incentives are already in place in some competing jurisdictions.



Improve perception and credibility

Effective communication of existing activities and credentials to external stakeholders will result in an improved perception of Jersey's sustainable finance capabilities. Strong performance in external rankings such as the Global Green Finance Index (GGFI) requires strong country ESG credentials as well as industry expertise. This requires Jersey to better demonstrate the credentials it already has, as well as clearly articulate the vision it's seeking to achieve.

Measuring performance against independent rankings and frameworks will help to build on and reinforce Jersey's reputation as a leading IFC and a good global actor.

Regular reporting on the current status of Jersey's sustainable finance market would help to position our Island as a leading sustainable IFC, communicating with key stakeholders to track progress against the delivery of a common strategy. Engagement with external bodies, such as the Network of Financial Centres for Sustainability, can help us evaluate Jersey's position and set measurable goals in line with global best practice.

Increase capacity

Jersey has a responsive regulator, a wide range of flexible structures and excellent legal, accounting and anti-money laundering (AML) service providers. This bedrock needs to be upskilled across the board to prepare for and take advantage of the global trends in ESG and sustainable finance.

A strategy to upskill and increase awareness will also drive innovation in Jersey in terms of new products and services that complement our ecosystem and leverage our existing specialisations in fields such as fintech, risk management and governance of alternative investment structures.

Each sector of Jersey's finance industry will have its own needs and face its own challenges. These sectoral differences must be clearly identified as part of any strategy. There's also a need to explore how external investment mandates support or impede progress towards sustainable finance, with a focus on upskilling those who administer and service assets to ensure that they can proactively engage their clients and advisers as we transition to our vision and the goals of our two-year plan.

At the same time, it's important to recognise that many Jersey Finance Members are already well advanced on the journey towards ESG integration. These firms will also need appropriate support and recognition.

A Collective Vision for Our Industry

We believe that by leveraging its expertise to support the global transition to a sustainable economy, Jersey's finance industry can build a more resilient and prosperous future for all. Achieving this requires a collective vision for our industry, taking us through to 2030. Considering the scale of the global challenges we face, we also believe that setting a high level of ambition for this vision in the long term is necessary. We're confident that this is achievable in a forward-thinking jurisdiction like Jersey.



Our Vision

By 2030, Jersey will be recognised by its clients, key stakeholders and other partners as the leading sustainable international finance centre in the markets it serves.

Guiding Principles to Support Our 2030 Vision

Sustainable finance is a new direction, unfamiliar to many, but it's a much-needed change that will continue to gain momentum with the backing of influential world leaders. To support Jersey's 2030 Vision, there needs to be education, evidence of value added and commitment to action. Implementation will be underpinned by a number of guiding principles:

1. Gain trust

Our 2030 Vision must act as a catalyst for action, with widespread commitment from all stakeholders. Jersey Finance will lead by example, going on the same journey as the industry we represent.

2. Be ambitious

We should align our ambition with Jersey's climate emergency declaration and the wider ESG standards emerging on the global stage.

3. Think long term

Our timeframe must track medium to long-term plans such as the UN's SDGs and Jersey's carbon-neutral strategy, allowing for incremental strategic change.

4. Encourage ESG integration

Our industry has to recognise that sustainable finance is no longer a niche product and requires deeper systemic adaptations to business in order to mitigate risk, capture value and deliver impact.

5. Get ahead of the wave

With a track record of leading on global best practice, we can build on the lessons learned by early movers to match and outperform our competitors.

6. Innovate action

With a clear vision, Jersey can focus on accelerating progress through carefully targeted innovation that enhances our offering, supported by incentives that help overcome transition risks and attract substantial new business, jobs and expertise.

Jersey's Pathway to Success:

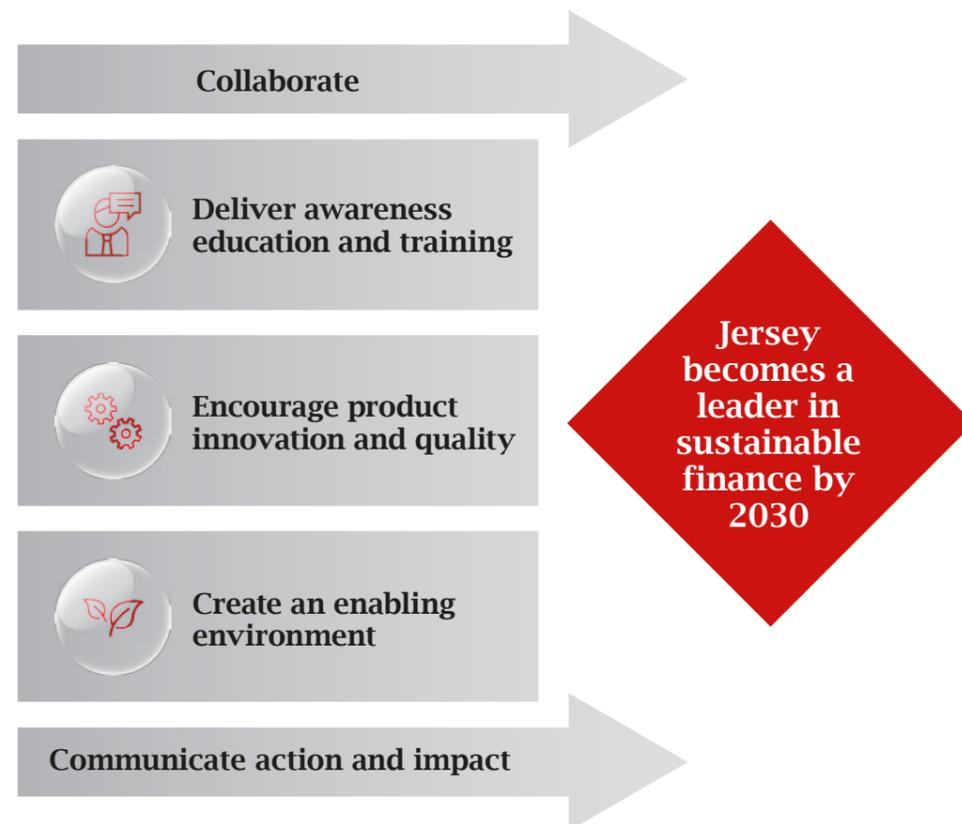
A two-year plan to accelerate our journey towards a sustainable future

To help us achieve our Vision, we've developed a Pathway to Success that will cover the first two years of a longer-term phased approach leading up to 2030.

It will focus initially on making sure that there's an appropriate level of knowledge and understanding within our finance industry, the JFSC and the Government of Jersey, and that the correct structures are in place to attract and retain sustainable capital. In the longer term, it will build on these foundations to deliver system-wide integration of sustainability in line with Jersey's 2030 Vision.

The two-year Pathway to Success has been designed around five core tasks for Jersey's finance industry and its key stakeholders.

[Jersey's Pathway to Success: a two-year plan to accelerate our journey towards a sustainable future](#) can be found on the Jersey Finance website.



Achieving our 2030 Vision

Jersey Finance will coordinate the delivery of Jersey's 2030 Vision through the two-year Pathway to Success. Drawing on the key findings and recommendations from Equilibrium Futures' report, we believe the successful delivery of a resilient and sustainable finance industry depends on a number of critical factors:

Governance and reporting structure:

We'll put in place a steering group that brings together the key stakeholders and allows for effective collaboration in delivering our Vision.

Detailed planning:

In the first quarter of 2021, we'll develop a full implementation schedule to deliver the actions in the two-year Pathway to Success, including an analysis of the potential risks to our strategy and a plan to mitigate them.

Review and adaptation:

Sustainable finance is a rapidly evolving space, so it's likely that our strategy will need to be reviewed and extended after two years.

Measuring and demonstrating success:

To build understanding of Jersey's credibility in the sustainable finance market, a series of industry-specific metrics will be aligned to the two-year Pathway to Success. We'll report on these metrics annually, giving our stakeholders a clear view of the progress we're making towards our 2030 Vision.

Closing Remarks

Numerous reports have made clear the challenge we all face to overcome the combined impacts of climate change, the degradation of nature and inequality across the globe. The finance industry's role in both financing the problem and innovating the solution is also under increasing scrutiny. This is catalysing opportunity.

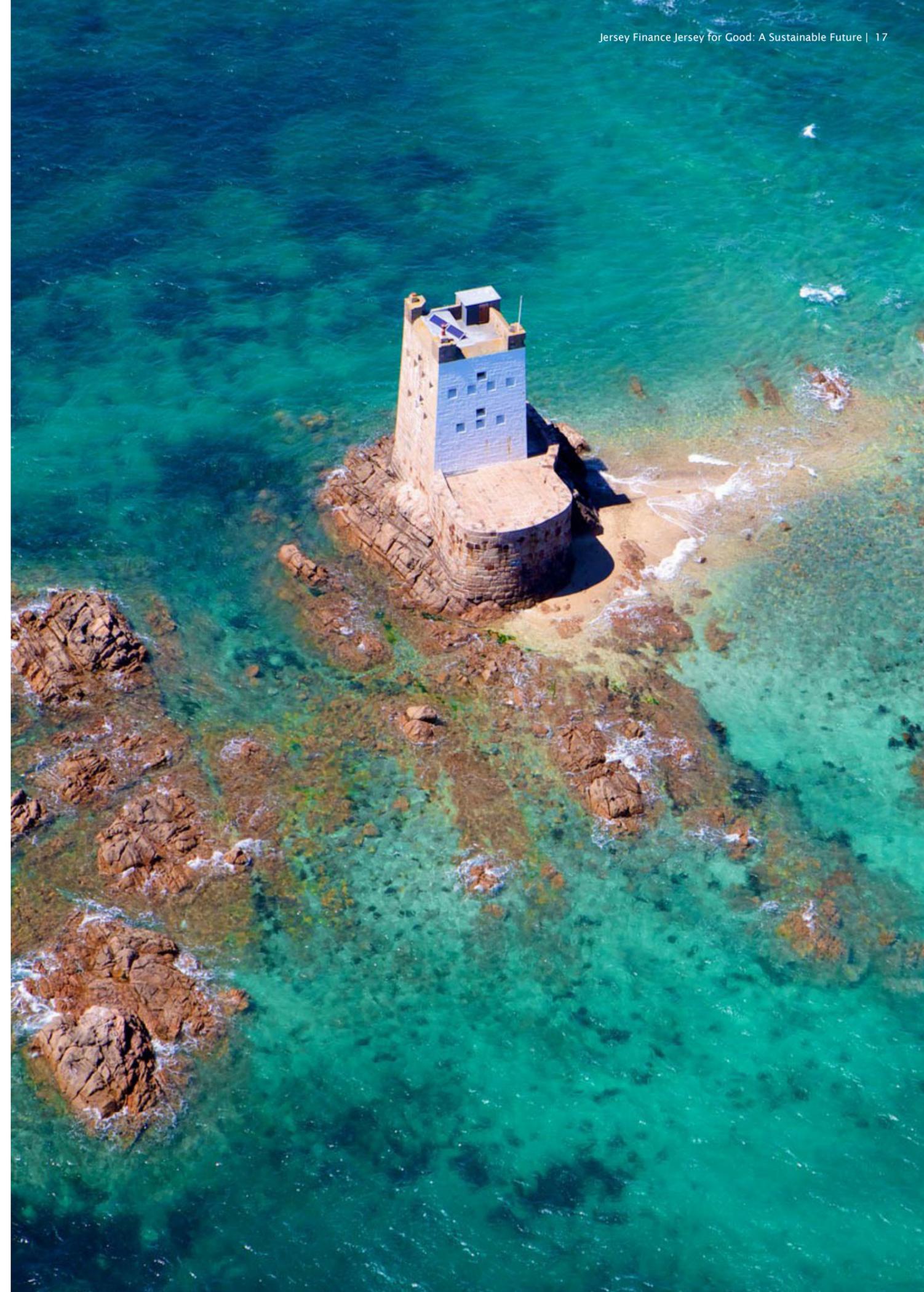
With its new sustainable finance vision and strategy, Jersey Finance has the opportunity to stimulate collaboration between government and the finance industry to create an infrastructure with expertise and strong regulation in the assessment, measurement, verification and promotion of ESG and impact investing. This will help Jersey cement its position today, as a leading and reputable jurisdiction, and tomorrow, where 'good' (sustainability-motivated) behaviours are the norm. As with improving governance in the past, in the medium to long term, this will attract more finance to the Island in the future, than some fear it might repel today.

The highest ambition would be for Jersey to be regarded as a preminent international financial centre for sustainable finance by 2030, with a reputation for regulating the finance industry so that a high proportion of capital held in and flowing through the Island, is in a form that upholds the highest ESG standards and supports coordinated international efforts to monitor, report and verify green credentials.

We are confident that Jersey can be seen as a clear choice for sustainable finance in the future provided it develops and implements a strong vision and strategy that is supported by, and implemented together with, key stakeholders.



Andrew Mitchell
Founder and CEO
Equilibrium Futures





Jersey Finance

Delivering Insight • Driving Innovation

Jersey Finance Limited, 4th Floor, Sir Walter Raleigh House, 48-50 Esplanade, Jersey JE2 3QB, Channel Islands

T: +44 (0)1534 836000 E: jersey@jerseyfinance.je

jerseyfinance.je