
Call to increase opportunities to make low carbon fixed income investments

As institutional investors collectively representing assets of more than US\$3 trillion, and investment advisors, we are seeking investment-grade opportunities to invest in bonds where revenues are specifically allocated to climate change solutions

As insurers and reinsurers we are conscious of the long term risks that climate change poses to society and how it will affect pricing of weather risk transfer solutions long term. We are also conscious of our role as large investors and see the importance of using our assets to mitigate this risk. With a large proportion of our assets dedicated to fixed income debt, we therefore see a need to bring more attention to linking these to climate adaptation and mitigation.

I. Scaling up

We call for a significant increase in global bond issuance to be dedicated to finance for an acceleration of the transition to low carbon growth.

A low carbon economy is needed if we are to avoid dangerous climate change and the consequent social, economic and environmental costs. The International Energy Agency (IEA) estimates that investment and spending in low carbon energy technology needs to increase from current levels of approximately US\$165bn per year to between US\$750bn – US\$1.6tr per year by 2050 in order to be on track with the UNFCCC 2 degree target.¹ This is at least an annual four-fold increase.

The outstanding value of the global bond market is in total approximately US\$95tr (2010 figures). Less than 0.1% - US\$100bn² - of this is positively identified by issuers or market observers as contributing to low carbon growth. The contribution to cumulative annual investment needs is therefore very small.

¹ 2010 IEA Energy Technology Perspectives <http://www.iea.org/techno/etp/etp10/English.pdf>

² Market overview through Carbon Bond Initiative tracking

Consideration of the link between sustainability and growth is important. Recent analysis³ has indicated that sovereign bonds from countries rated for sustainability have actually managed to achieve better risk-adjusted returns. However this is not reflected in current credit ratings.

Increasing bond issuance where revenues are specifically allocated to climate change solutions would be a vital contribution to the anticipated total required to accelerate the transition to low carbon growth.

II. Addressing barriers

We would like to see consideration of incentives for all market participants to consider long term climate risks in fixed income securities

The most significant limitations to our ability to make increased low carbon investments are: the current limited liquidity of the low carbon bond market; the lack of standardised due diligence regarding low carbon investments and how risk is rated regarding our capital requirements.

In order to increase low carbon investment we would like to see:

- An increase in sovereign bonds allocated to investments in climate change solutions
- Aggregation of low carbon themed product to increase the size of issuance
On average issuance under US\$300m makes trading costs too high.
- Policies and incentives which promote commercial issuance allocated to investments in climate change solutions
We recognise the pressures on public finances, however the IEA estimates that making the right investments now will generate cumulative efficiency savings equivalent to USD\$112 trillion.
- Standardisation of product that is reflected in ratings
We support the objectives of the Climate Bonds Initiative which aims to provide assurance for investors regarding the environmental integrity of climate bonds. This will help to address concerns around reputational risk.
- Consideration of how climate risk can become mainstreamed into rating agency assessments.

³ Sustainable Fulfilment of Sovereign Obligations - Bank Sarasin & Co. Ltd, Switzerland, July 2011

III. Avoiding unintended consequences in financial regulation

We would like to see financial regulation that supports objectives to make low carbon investments.

The links between financial regulation and green growth or low carbon innovation have not featured prominently in government thinking.

The insurance industry is heavily regulated. New regulation such as Solvency II will affect regulation on capital requirements,. Equivalence rules mean that regulation will impact globally. There is a risk that such regulation may prevent insurers from investing in climate themed bonds undermining objectives to develop a low carbon economy that is more resilient, more efficient and less vulnerable to global shocks.

Institutional Investors:



AVIVA



Swiss Re



Investment and Pension Advisors:

