

Nature works for us: it is our business to protect it

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Biodiversity loss endangers ecosystemic services, which threatens both society and businesses that depend on them, and in turn investors and insurers that rely on a well-functioning economy. We view the biodiversity challenge as a natural extension of our climate efforts. Indeed, climate change is severely compounding the destruction of ecosystems all around the world, adding pressures related to drought, ocean acidification, more intense natural catastrophes, etc. This is why in 2018 we publicly decided to investigate how biodiversity loss is impacting society and how we can act both as an insurer and an investor. We have made progress since then. We encourage public-private collaboration as well as a strong “Kunming Agreement” in 2021 to “mainstream” biodiversity action.

One may wonder why a large insurance company, which is also a large institutional investor, is involved in biodiversity loss and nature protection. AXA does not produce plastic waste, pollute soil, or significantly deplete natural resources. Our direct environmental footprint is rather light. Nonetheless we have committed to act on biodiversity loss in 2018 and have made progress since. Before we develop these initiatives, it is important to explain current concerns with biodiversity loss, and its potential connections to AXA's business.

The biodiversity crisis

When we talk about biodiversity these days, unfortunately it is because it is being undermined. There is an alarming decline in species number: according to the WWF Living Planet Index, biodiversity has decreased by 60% in four decades. Renowned scientists even speak of the sixth extinction event, the last one being the period when the dinosaurs disappeared.

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), the drivers of biodiversity loss are climate change, invasive species, overexploitation of natural resources (intensive agriculture, overfishing), soil pollution and urbanization.

Species are disappearing at a fast rate, endangering these services and threatening human integrity. Whilst this situation has not yet attracted as much political and media attention as the equally challenging concerns related to climate change, more and more analyses are starting to highlight the rate of species decline and its inherent threat to human welfare.

So what's the connection to AXA's business?

Nature produces elements essential to human activity and to our very survival, from food and shelter to medicines' active ingredients. Moreover, diverse ecosystems are key to tackling climate change, as flourishing forests and well-preserved oceans absorb carbon emissions. Conversely, climate change accelerates biodiversity loss, creating a vicious circle. Our dependence on diverse ecosystems to thrive, if not survive, is therefore not to be doubted. The implicit contributions of each species in our economies are also far-reaching: their roles can be seen as “services” provided free of charge by nature – **nature truly “works” for us**. For example, artificial pollination would cost an estimated 153 billion euros per year, generating labour and technological costs far exceeding any economic viability.

The potential loss of key ecological services endangers not only populations but also certain businesses that depend on them and can therefore become a concern for investors. Investors' ability to understand and map these potential risks would enable them to identify opportunities and in doing so, help support solutions rather than environmentally unsustainable business practices. In short, **biodiversity loss endangers ecosystemic services, which threatens both society and businesses that depend on them, and in turn investors and insurers that rely on a well-functioning economy.**

Finally, it appears that the destruction of natural habitats may have been the starting point of the Covid-19 crisis which will make it into history books. That alone should warrant our full attention.

A natural extension of our climate strategy

We view the biodiversity challenge as a natural extension of our climate efforts and the next frontier of sustainable finance. As a company which, over the past 5 years, took important decisions in the fight against climate change, we are convinced that the preservation of biodiversity requires an equally broad collective commitment from all stakeholders: from private sector actors, including financial institutions, to governments, NGOs and civil society.

What have done about it?

In 2018, we publicly decided to investigate how biodiversity loss is impacting society and how we can act both as an insurer and an investor.

We started by publicly committing to strong action by signing up to a French initiative in July 2018, called Act4Nature. This demanding initiative has recently evolved into Act4Nature International, with ramped up commitments.

In May 2019, during the G7 Ministerial meetings, AXA launched recommendations co-developed with the WWF, emphasizing how biodiversity loss may be tackled by investors through new forms of public-private collaborations. The report "Into the Wild – Integrating nature into investment strategies" is designed to raise awareness on biodiversity loss and its economic and financial impacts. It presents several recommendations, including the launch of a broad-based taskforce to promote the protection and restoration of biodiversity: the creation of a dedicated taskforce modelled against the climate-related TCFD (Taskforce on Climate-related Financial Disclosures), which we also helped launch in 2016.

If created, the main task of the Taskforce on Nature-related Financial Disclosures (TNFD) would be to construct a framework, from existing tools, methodologies and initiatives worldwide, enabling financial institutions to identify and analyze economic activities that have a direct and indirect material impact on biodiversity. By providing a reporting framework on nature impacts for financial institutions, the TNFD will hopefully help provide incentives for and a reduction of impacts on nature. As with the TCFD, the TNFD needs to be an industry-lead initiative, which national or regional policymakers may in due course choose to leverage.

Since last year, AXA and the WWF have engaged stakeholders on the TNFD proposal and multiple financial institutions and "real economy" corporations have shown some interest. In addition to AXA's implication, some of the contacted organizations have already agreed to be part of the task force. These include notably several insurers, corporates, asset managers, commercial banks, development banks and central banks. In addition to this interest from financial institutions and corporates, we support working on the elaboration of a mandate from Governments to publicly support and ask for the launch of a TNFD. As of today, five European Governments have

expressed an interest to make a public call for a TNFD, and there is further interest in Asia and Latin America as well.

It is our hope that the launch of the TNFD may become a reality by the January 2021 IUCN (International Union for the Conservation of Nature) congress, which was initially scheduled for June 2020 – but ironically pushed back because of a global pandemic possibly caused by the destruction of wild species habitats.

Another recommendation from our report was to develop biodiversity risk metrics adapted to investor needs. We have thus supported a collective public call for proposals to create or help generate the creation of a player capable of providing an indicator of the impact of our investments on natural capital. The four initiators of this call (AXA, BNP Paribas AM, Mirova and Sycomore AM) announced that they have gathered around 30 signatures from leading investors from around the world, representing over € 64 trillion in assets under management, to support a public statement launched last March calling for the creation of biodiversity impact metrics. This public statement was relayed by the UN PRI (Principles for Responsible Investment) platform, on which it was also met with strong support. Clearly, many investors are asking for the creation of sound biodiversity-related impact metrics to complement increasingly robust climate-related impact metrics.

AXA launched its third "Impact Investment" fund during the 2019 G7 meetings, with a strong focus on biodiversity protection. It invests to protect natural capital, promote resource efficiency and improve the resilience of vulnerable communities to the effects of climate change and biodiversity loss. The Fund was awarded the "Best Impact" initiative for ESG in the 2019 Sustainable Investment Awards. The Fund is making good on its promise to support credible and investable solutions that deliver positive environmental outcomes alongside market-rate financial returns. Examples include investments in sustainable agroforestry and cocoa production in Madagascar with strict biodiversity protection criteria, or supporting projects that address the effect that extreme weather due to climate change is having on the availability of water, critical habitats and biodiversity.

AXA, through its investments, owns over 250 forests, with half of these classified as protected areas. We have committed to establish a sustainable strategy for the management of our forest assets as well as to monitor and alert in case of destruction of insured areas. We will identify natural habitats and monitor their evolution, devote 3% of the exploitable area to natural development, limit clear-cutting to 4 hectares, and open some forests to nature protection organizations. We will leverage parametric insurance (such as AXA Climate's CYMO product) to reduce wildfire risk.

Marine stewardship is another area where progress can be done. As insurers of fishing activities, we perform a due diligence on the fishing practices to make sure they comply with minimum standards. AXA joined the world's first insurance industry statement on sustainable marine

insurance, banning so-called “illegal, unreported and unregulated (IUU) fishing”, and co-developed by the UN Principles for Sustainable Insurance and the NGO Oceana. Thanks to AXA XL’s work, we may soon be able to insure mangroves, which act as powerful natural protection for coastal areas in case of storms, but are currently unprotected by market-based mechanisms. AXA XL, our division dealing with specialty risks, proposes products which protect such ecosystems to allow for resilience of local communities affected. AXA XL also actively contributes to the Ocean Risk and Resilience Action Alliance (ORRAA), an alliance focused on developing risk management strategies using the experience and expertise of the insurance and broader finance community, to address ocean risk and build resilience in the regions and communities that need it most.

Finally, as of 2019, the AXA Research Fund has committed 250€ million to support science. It has funded over 650 research projects in 36 countries, including more than 220 projects in the area of climate and environment. The ARF actively supports academic research on biodiversity risks. The Fund also published a research paper, “Biodiversity at Risk”, which highlights the interdependencies between nature, climate change, the economy and security, to help raise public awareness and support enlightened decision making.

Finally, for us to refine and extend these initiatives together with renowned experts in this field, we have recently signed a 3 years partnership with the WWF to tackle biodiversity risks. The partnership is expected notably to include support on crafting the TNFD as well as biodiversity impact metrics.

A call to COP15 action

Insurers, in their capacity as risk carriers, can leverage their expertise to provide solutions. Insurance mechanisms are for example a relevant answer when there is a need to remediate polluted areas, via environmental liability covers. We also have a strong role to play by engaging with the investment community, not least in sectors and companies that are committed to “transition” towards more sustainable activities.

Having been among the first large institutional investors engaged in the fight against climate change, we know that the financial sector cannot drive sustainable change on its own. The voluntary initiatives we took over the last years, together with new commitments, can only go as far as a competitive market environment will allow us to go. Adequate incentives and guidance is needed for pioneering issues where the playing field is not level. Voluntary efforts disappear when the volunteer moves on or when this proactive mindset weakens. A structural approach is required to guarantee long-term efforts.

The adoption by governments of international science-based biodiversity targets in CBD COP15 (“Conference of the Parties” to the UN Convention on Biological Diversity, 2021, Kunming, China) is the surest way to provide this much needed clarity. General aspirations will not be sufficient to generate tangible outcomes. Only then, provided these targets are clear enough, may companies, financial institutions, and civil society organizations attempt to translate these nature conservation objectives into robust long-term business strategies.

We need a “science-based” Kunming Agreement in COP15 that carries the same transformative influence for governments and businesses worldwide that the Paris Agreement imprinted 5 years ago. In particular, CBD COP participants ought to develop a clear roadmap for investor action towards biodiversity protection, much in the spirit of the Paris Agreement’s article 2C which helped to reorient financial flows in line with climate neutrality. While all sectors and companies have a responsibility to evolve, finance is a key enabler provided it can operate with clear long-term incentives.

Next year, it is essential to achieve the adoption of a “Kunming Agreement” which will support investor action towards biodiversity protection, which will help regulators and policymakers catalyze these efforts, and which will meet the expectations of citizens today and future generations worldwide. A “Kunming Agreement” that will reverse biodiversity loss through resolute public-private collaboration to align business models with nature-based solutions.