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# UN's finance climate action pathway 2021: Key expectations

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The United Nations Framework Convention on Climate Change’s (UNFCCC) new Finance Climate Action Pathway 2021 provides an ambitious and detailed roadmap for the financial markets to support the transition to a net-zero future.

Launched in 2019, the Climate Action Pathways set out sectoral visions for achieving a 1.5° C resilient world by 2050, with transformational milestones and key actions that need to be achieved to realize them.

For the financial sector, the goal is that by 2050, markets are placed to fund a zero-carbon world. The pathway’s targets, proposed transition process, and deadlines are outlined in this global insight report.

# PRINCIPAL OBJECTIVES

As wide-ranging as it is far-reaching, the UN’s action plan envisages the following by 2050:

Implementation of the vision that “every financial decision takes climate change into account.” Accordingly, the finance system has complied with Article 2.1 of the Paris Agreement — that finance flows are consistent with a pathway towards low-emission and climate-resilient development.

A shift in society’s expectations of the financial system to the degree that people now expect it to support sustainable growth. As a result, the system has responded, supporting the needs of today’s society without compromising the ability of future generations to do the same.

A change in the long-term investment horizons of the system, so now only those whose purpose has people and the planet at its heart are rewarded.

Commitment on the part of businesses and their financiers to a resilient, net-zero transition resulting in them thriving, avoiding the increasing costs and risks of the high-carbon economy.

A furthering of public and private sector collaboration to develop zero-emission infrastructure to the extent that such cooperation is now “business-as-usual.”

The avoidance of a “Minsky moment” of financial collapse after over a century of emissions-intensive growth, due to the focus of market participants and regulators on stewarding a smooth transition.

Greater trust in the financial system based on a foundation of circular economies supporting a fair and just increase in living standards across the world’s communities.

# KEY ACTIONS

The pathway maintains that if finance transitions in line with an under -1.5 °C resilient future, the result will be that the financial system will be able to fund the transition to that future. The following topics are considered.


## Valuation gaps

The blueprint identifies the need to correct market failures and unpriced externalities — that is, activities which affect others without this being reflected in market prices. Mechanisms include:

- Ending fossil fuel subsidies.
- Accounting for the cost of climate-related physical, transition, and liability risks.
- Advancing a circular economy.

## Short-termism

The pathway advocates for the shifting of finance and investment onto a long-term path aligned with the Paris Agreement and beyond. For example, investment horizons should be in line with the long-term needs of customers and society.

## Systemic transformation tools

The pathway calls for governance to promote accountability and standards across financial systems.

While education, training, and tools are used to integrate climate-related risks, digital currency technologies monitor climate impact through transaction data.

## Risk management

The necessity of relevant and material climate-related data is highlighted, as well as prudential risk management. The UNFCCC is calling for alignment of executive and board remuneration with net-zero goals and physical risks posed by climate change.

## Zero-carbon infrastructure

The report recommends the financial sector ensures capital flows:

- Foster an equitable and just transition away from high-carbon resources, infrastructure, products, and services.
- Unlock finance for zero-carbon and resilient infrastructure, access to clean energy, and climate solutions for all, with a focus on the most vulnerable communities.

# MILESTONES

The pathway provides a comprehensive timeline in order for the 2050 deadline to be met. Here are some of the targets.

## 2021

- Fossil fuel subsidies end.
- Progress is made on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

## 2025

- Accounting for climate risk and resilience is standardized.
- Carbon pricing becomes widespread globally.
- Stranded asset risks are incorporated in valuations.
- Climate risk is fully integrated into broader financial education and best practices are widely shared.
- Climate risk and increasing resilience is embedded in risk management frameworks.
- Capital flows to climate solutions increase.

## 2030

- Digital currencies, blockchains, and payment platforms are integrated with climate-related emissions data.
- Investment horizons are lengthened.
- Board, executive, and client-facing staff remuneration is aligned with net-zero targets and climate risk management and resilience.
- Carbon removal technologies are better integrated into business models.

## 2040

- Markets are realigned so as to drive all sectors, including hard-to-abate sectors, to achieve net-zero emissions in this decade.
- A transformed financial system is now harmonized with a net-zero emissions and climate-resilient future.

# INSURERS AND UNDERWRITING

In the first phase, insurers are urged to integrate the TCFD recommendations. As the transition gets underway, they are called upon to engage insureds to assess and report all climate-related risk. By 2040, the aspiration is to have insurers' underwriting and investment portfolios aligned with achieving net-zero emissions, while supporting resilience to climate-related impacts.

# PROGRESS SO FAR

Not all markets are moving at the same speed to achieve these non-binding goals, and at present European markets appear to be taking the lead. A number of European bodies are already working on the pathway's objectives, including ClimateWise, the Sustainable Markets Initiative, and the Net-Zero Insurance Alliance.

The UNFCCC advocates for continued and increased mandating of climate reporting (for example, via the TCFD's recommendations) as key to realizing the ambition of net-zero underwriting in the timeframes the pathway has laid out.  Underwriters will ultimately seek more information from insureds on both their current status regarding net-zero objectives and transition commitments.

For more information, please contact your Marsh advisor.

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