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Sustainable Finance Unit
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Response to the Sustainable Finance Strategy Consultation Paper

Thank you for the opportunity and invitation to the industry to provide feedback on the Sustainable Finance Strategy Consultation Paper.

By way of introduction, I am the Managing Director of Climate Insight and have over 25 years' international experience in leading complex projects and providing advice to financial institutions and multilateral investor groups on sustainable finance. I specialise in climate change with a focus on asset allocation, behaviour change, culture and mindset shift to close the gap between aspirations and outcomes. I completed my PhD on this topic in the UK and have recently published a book on Cultivating a Sustainable Mindset in Finance, to mobilise the capital needed to combat climate change.

May I start by applauding the Treasury and the people involved in preparing the Strategy paper. It is a very welcome development and an important step in helping to build the architecture that will put Australia on the pathway to achieve its Net Zero by 2050 goal.

In the interests of brevity and being respectful of people's time in reviewing the many submissions that I am sure you will receive; my feedback is presented in alignment with the 3 Pillars of the proposed Strategy and focuses on the gaps identified for specific Priorities within each Pillar, with some potential issues to consider also provided to help address those gaps.

The overarching feedback that I offer is to stress the importance of culture as part of achieving and sustaining net zero by 2050 goals. The transition to net zero and the challenges that climate change presents is as much about behaviour change and shifting mindsets as it is about data and analysis, although the latter tends to garner most of the industry and regulators' attention.



As the Sustainable Finance strategy evolves, it would be beneficial to review and reflect on the recommendations from the Hayne Royal Commission (in particular Recommendations 5.6 and 5.7) as well as the AFSI recommendations (in particular Recommendations 1-4) related to culture and people such that the mindsets and behaviour of the people that make up the corporate and financial sector are aligned with achieving and enabling a net zero by 2050 outcome.

A focus on industry culture also brings the opportunity to learn from the perspective of First Nation's people into what a mindset shift and deeper connection to Country might look like in how the corporate and financial sector functions and works towards achieving a net zero outcome. Australia is uniquely positioned to learn from the oldest living civilisation on this planet about living in harmony with nature as we face the unprecedented sustainability challenges of our time.

Thank you for your time and all the best with the next stages of the Strategy process.

Regards

A handwritten signature in black ink, appearing to read 'Danyelle Guyatt', with a stylized flourish at the end.

Danyelle Guyatt
Climate Insight

More Specific Feedback
Prepared by Danyelle Guyatt, Climate Insight

Pillar 1

Priority 3: Support credible net zero transition planning

Gaps:

- To reduce the risk of greenwashing and move towards the attainment of credible net zero outcomes, greater focus is needed in the Strategy on the culture of the industry and the mindsets of the people who lead and work inside the corporate and financial sectors.
- Behaviour and decision-making processes are not only influenced by information needs or analysis but are also influenced by culture, mindsets, mental models, assumptions, investment horizon, industry norms, beliefs and worldview (to name a few).
- Many of the barriers to credible net zero planning are 'mind-made' and are not related to information needs or data. The Strategy would thus benefit from also considering how people that work inside the large firms and financial institutions of Australia think, their assumptions, biases, automatic patterns and how these influences impact on their willingness and ability to make decisions that enable (or indeed slow down) the attainment of a net zero by 2050 future.

Potential questions / issues to consider:

- What are the cultural and behavioural conditions that will best support and enable the attainment of credible net zero planning?
- To what extent has the corporate and financial sector and the people responsible for developing and implementing net zero transition planning explored how their own biases, assumptions and mindsets might be influencing (and undermining) how they evaluate, plan and enable a net zero future?
- What actions can the supervisors and the people leading and working inside the largest firms and financial institutions in Australia take to build the right culture that will reduce their own inherent biases that slow down progress, and shift the collective mindset of the industry towards one of enabling the attainment of net zero by 2050 in a pro-active way?

Pillar 2

Priority 5: Enhancing market supervision and enforcement

Gaps:

- ASIC's guidance and legal action to discourage greenwashing as part of enhancing market supervision and enforcement is a welcome development as one way to achieve more genuine action on climate change from Australia's largest firms and financial institutions. However, there are additional approaches that also need to be considered.

- There is strong evidence to suggest that the role of intrinsic motivation as a driver of behaviour change is key. It can lead to more authentic action than extrinsic motivation, as the driver for behaviour change comes from a place of inspiration and inner connection (rather than being externally imposed through punitive measures).
- More specifically, the Strategy could consider the role that supervisors could play in reviewing the role of incentives, industry culture, defining a broader sense of purpose, a vision for the future, incorporation of these into strategy and how this could support a more desired behaviour and outcome across the corporate and financial sector.

Potential issues / questions for market supervisors to ask the largest firms and financial institutions to encourage greater focus on culture, mindsets and behaviour:

- Can you demonstrate how the organisation has considered and articulated its purpose, vision and role to *enable* net zero by 2050 (not just align with)?
- Can you articulate how the net zero goal and plan has been formulated and the steps that are being taken to ensure that the culture and people inside the organisations are enabling that goal through their behaviour and day-to-day decisions?
- What steps have been taken to reflect on the alignment of short-term decisions and incentives with the long-term vision and net zero by 2050 goal?

Pillar 2

Priority 6: *Identifying and responding to potential systemic financial risks*

Gaps:

- Reference to the NGFS and APRA work in the Strategy paper does not explicitly refer to the role of narrative based storylines as part of the scenario building process.
- More specifically, consideration needs to be given as part of the scenario analysis process to the inter-relationship between how the decisions made by large firms and financial institutions will *impact on* real-world and climate change outcomes.
- The scenario modelling approaches are primarily based on ex-poste 'reaction to' and assessing the implications of certain pathways. It would be beneficial to normalize a more pro-active approach, recognizing that large firms and financial institutions can and do, help to *determine* the emissions and climate trajectory through the financing decisions that they make. So, it is not simply preparing for, but how they can shape the outcomes.
- Greater attention on the 'so what' and interpretation of the meaning of the scenario pathways for the organisations and what specific actions they are taking to address these are also needed, which will encourage better sense making of the data and narrative based storylines.

Potential issues / questions for the largest firms and financial institutions to ask themselves to shift their mindset from 'aligning' with net zero, to 'enabling' that outcome:

- Have I/we considered what the climate change scenarios mean for us, at the organisational level, reflecting on our individual role and agency within the organisation?

- Can I/we summarise the 'so what' implications in a straightforward way (interpreting the data) and explain what actions I/we are taking to respond in a pro-active way?
- More specific questions in regard to enabling a net zero future might include considerations such as can I/we phase out the expansion and financing of thermal coal and fossil fuel assets?
- Can I/we play a role in building energy security by investing in the technologies and infrastructure that we identify as being needed?
- Can I/we explore ways to invest in more pre-commercial technologies to accelerate the change process and underpin innovation?
- Can I/we explore options for allocating more capital to green infrastructure assets in emerging market regions?
- Can I/we consider what role I/we could play in financing the adaptation needs of the global and local communities in which we are based?

Pillar 2

Priority 7: Addressing data and analytical challenges

Gaps:

- The Strategy paper focuses primarily on the data and resource needs of the firms and financial institutions to undertake their analysis.
- The gaps in data have been used as the dominant rationale for inaction by the private sector for many years now. If we have any hope of achieving net zero by 2050 then we need to encourage people in the industry to shift their focus towards how they will (and do) actually use the data that they have available today, to identify what is essential (and what is nice to have).
- We also need the industry to acknowledge that there are data gaps and imperfect information in all aspects of financial analysis, that is what makes markets work. We must not use data challenges as a reason for continued delay on climate change.

Potential issues / questions for the supervisors and the largest firms and financial institutions to ask themselves:

- What information is essential and what information is 'nice to have' such that I/we can undertake considered and informed analysis to support and enable the attainment of our net zero by 2050 goals?
- Is there a risk of information overload?
- What specific questions am I/we trying to answer with the information?
- How will I use this information?
- Is the quest for more information an unintentional delay tactic, an avoidance strategy – or at best, an admission that there could be a need to build a deeper understanding of climate change?

Pillar 2

Priority 8: Ensuring fit for purpose regulatory frameworks

Gaps:

- The existing regulatory frameworks do not adequately address or consider the underlying causes of the sustainability challenges that we face today, and hence do not provide space to consider at a deeper level how the system needs to change to put us on a more sustainable trajectory.
- The focus of the regulatory frameworks when considering the corporate and financial sector's 'purpose' is largely centered around goals of maximizing financial returns on investment. While there are wider interpretations becoming more normalized such as the stakeholder model (replacing shareholder supremacy) and acknowledgement of ESG issues as financially material, a deeper review and definition of the fundamental purpose of the corporate and financial sector 'to serve the needs of others' needs to be discussed and reflected into regulatory frameworks in the context of urgently redressing the climate change challenge that we face. Too often the corporate and investor duties that emphasise financial returns above all else are used as a rationale by the corporate and financial sector to slow down action on climate change, with little thought or challenge to the misplaced assumptions that might be embedded within that flawed logic.

Potential issues / questions for the Supervisors and more specifically the people leading and working inside the largest firms and financial institutions to ask themselves about Purpose:

- A broader sense of purpose needs to explore not only the goal of maximising financial returns, as that is the outcome of *what* you do, not *why* you do it.
- *Why* do you do what you do, what is your broader purpose, the legacy you want to leave, the imprint you make on how the capital market functions and your ability to serve the needs of others and allocate capital to where it is most needed?
- Can I/we cultivate a deeper understanding and connection between our knowledge about climate change and the financing needs to achieve net zero, with our beliefs and broader sense of purpose?
- Can I/we pause to consider what assumptions we might be making when considering the linkage between financial returns and action on climate change as a rationale for slowing down our response?
- Have I/we considered our purpose through a wider systems thinking lens, envisaging the broader connections between our purpose, our actions and the real world outcomes, specifically in relation to the attainment of net zero by 2050 and achieving stability for the system as a whole?

Pillar 3

Priority 12: Position Australia as a global sustainability leader

Gaps:

- The Strategy document rightly highlights Australia's unique position to lead, as a resource intensive advanced economy with wider responsibilities to provide a safe and fair future across the ASEAN region.
- However, there is another important feature of our unique perspective that warrants attention, and that is the insights that we can gather from engaging with our First Nations and Torres Strait Islander people on living in harmony with nature. The mindset shift that is needed across the corporate and financial sector to put Australia (and all nations) onto a sustainable footing needs to reconsider how we view nature, as we are part of nature and must live in harmony with it.
- First Nations people have this unique perspective and mindset, and the rest of Australia has the opportunity to learn from the oldest civilization on this planet and share those insights with others.

Potential issues / questions for the Government, corporate and financial sectors to ask about how they can lead on the sustainability challenges of our time, learning from the mindset of First Nation's people:

- What can Australia learn from our First Nation's people about living in harmony with nature and a deeper connection to country, as part of how we achieve and enable the attainment of net zero goals?
- Can this mindset shift be reflected in how Australia interacts with its international peers, and how the country conducts its business and financing decisions on a day-to-day basis?
- Can this deeper connection to Country become normalized internationally and reflected in the core purpose, vision and net zero transition plans of the corporate and financial sector?