Nordic Financial Unions

NFU Policy Paper

Making headway to sustainable finance

the perspectives of trade unions and financial sector employees

Content

1. Rationale

Sustainable development, defined as development that meets the needs of the present without compromising the ability of the future generations to meet their own needs, has been a cornerstone of global policy discussions.

The adoption of the Sustainable Development Goals in 2015, and the signing of the Paris Agreement the year after spearheaded the efforts of countries to adjust their actions for the purpose of addressing poverty, climate change, biodiversity, inequalities, peace and justice worldwide. For the European Union, sustainability has been a fundamental value, with its social and environmental dimensions being reflected and recognized in the EU Treaties.

The Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) have a long-standing history of using sustainability as a basis for developing their societies. The Nordic region is a global pioneer in having its own sustainable development strategy and the Nordic countries are always a step ahead in their sustainability efforts. For example, the Nordic countries are among the top ten SDG-ready countries in the world[1]; their public opinion polls show preference for sustainable targets[2]; the Nordic Prime Ministers have pledged to making the Nordic region the most sustainable by 2030[3], committing to carbon neutrality and leading global climate efforts; and more. These commitments show a strong political will from the highest level of leadership to advance sustainability efforts. However, it is noteworthy to mention that **the Nordic approach to sustainability in its essence speaks about a holistic view to environmental, social and governance considerations (ESG)**. Therefore, any action aimed at advancing sustainability needs to advance all three considerations simultaneously.

Ultimately, the Nordic model, being the main pillar of labor relations in the Nordic countries by giving mandate to social partners to negotiate wages and other working conditions, grounds itself on sustainable values and traditions such as inclusion, democracy, freedom of collective bargaining, equality, participation and more. Well-kept economies powered by innovation, strong social system and growth are a clear sign that the Nordic model is fit for purpose, and beyond.

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[1] Nordic Council of Ministers, Sustainable Development Action – the Nordic Way, available here

[2] European Commission, Special Eurobarometer 479, available here

[3] Nordic Council of Ministers, Declaration: Our Vision 2030, available here

Sustainable finance beyond sustainable investments

Recently, the discussions on sustainable development have significantly shifted towards discussions on sustainable finance. One of the reasons for this shift was the realization that many of the politically vital sustainable targets and goals will not be realized unless a shift in public and private capital flows happens. The estimates are that an investment gap of 180 billion EUR annually needs to be closed for the achievement of EU´s climate and energy targets only[4], whereas 2.5 trillion USD is the amount needed for bridging the development investment gap[5].

This realization is what promoted the role of the financial sector in the sustainable transition, and **almost identified sustainable finance to sustainable investing**. Such an equation imposes limitations to the scope of sustainable finance and prevents stakeholders and decision makers to look at the issue beyond the concern of investments only, and diving into the traditional role of the financial sector in supporting job creation, motivating local growth, aiding development, pioneering innovation and financial infrastructure, driving inclusive digitalization, and ultimately contributing to wellbeing and prosperity in society.

The key role of trade unions and finance sector employees

Putting the finance sector at the core of the sustainable finance discussions by default means putting financial sector employees at the forefront. This is because the implementation of any regulation, including on sustainable finance, lands on the desks of employees. At the same time, finance sector employees provide views and visions for the financial sector, as well as experiences from meeting customers, which can then be used to develop corporate approach to sustainable finance and sustainable advice, improve customer service, internal procedures and processes, employees´ working environment and general corporate culture. Ultimately, by being directly included in all aspects of financial operations in the course of their daily work, finance sector employees are part of the sectors´ watchdog mechanism, thus strengthening the efforts against tax fraud and money laundering.

The majority of finance sector employees in the Nordic countries are organized in trade unions who, following the Nordic model, are an active stakeholder on national level as the most competent party to represent employees´ interests. Having this broad understanding of both national political realities and everyday work realities of employees´ positions **trade**

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[4] European Commission, Action Plan: Financing Sustainable Growth, available here
[5] UNCTAD, World Investment Report 2014: Investing in SDGS: An Action Plan, available here

unions are a unique and logical partner in sustainable finance policy discussions on European level, as well. Trade unions can provide a holistic view on sectoral and cross-sectoral basis, present the magnitude of a particular issue in connection to labor rights and broader social implications, give the wider societal context and impact of a proposed measure, including in connection to financial inclusion and consumer protection.

Some of the main objectives of NFU over the years, as a platform representing financial sector trade unions, are to enhance the views and experiences of finance sector employees and trade unions in the Nordic countries, to bring these views and experiences to the attention of the European decision makers, and constructively contribute to the creation of regulation that can serve its purpose of safeguarding the financial market and ensuring consumer protection.

In the wake of the financial crisis, the EU rolled out a record number of new financial legislation in order to stabilize the financial market, strengthen consumer protection and (re)build trust. However, **the effects of the new requirements on employees remained largely unconsidered.** Finance sector employees found themselves in extreme pressure of compliance and new regulatory requirements, and even more, in the middle of the dilemma of providing good customer service and following rules and regulations[6].

It is not only the creation, but also the implementation that is needed for regulation and legislation to reach its final purpose. **If the new requirements within the sustainable finance agenda are to be successfully created and implemented, then now more than ever the employee perspective and impact, need to be among ´top of mind´ considerations.** Therefore, finance sector employees and trade unions are a key partner for a successful transition to sustainability.

2. Defining sustainable finance

Currently, there are **varying ways of defining sustainable finance and sustainable investing**, frequently with little or no difference in their respective scopes. A common thread between all definitions is that they acknowledge the Environmental, Social and Governance considerations (ESG) as factors in defining sustainable finance / deeming an investment to

[6] Nordic Financial Unions, Coping with Compliance, available here

be sustainable.

EU´s Action Plan on Financing for Sustainable growth states that *´Sustainable finance generally refers to the process of taking due account of environmental and social considerations in investment-decision making, leading to increased investments in longer-term and sustainable activities´*.

At the same time, the Regulation on disclosures relating to sustainable investments and sustainability risks, which derives from the Action Plan, in its current form states that *'sustainable investments' mean any of the following or a combination of any of the following:*

(i) investments in an economic activity that contributes to an environmental objective, including an environmentally sustainable investment as defined in Article 2 (NB: of the Taxonomy Regulation)

(ii) investments in an economic activity that contributes to a social objective, and in particular an investment that contributes to tackling inequality, an investment fostering social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities;

(iii) investments in companies following good governance practices, and in particular companies with sound management structures, employee relations, remuneration of relevant staff and tax compliance.

While the latter definition touches upon broader reflections, the underlying notion is that sustainable finance and sustainable investment are similarly defined, with sustainable finance relating to a process, and sustainable investment to an action in investment decision-making.

To be able to fully live up to the notion of sustainability itself, it is necessary that the understanding of sustainable finance goes beyond assessing the profitability of a 'green investment´. Surely, the financial sector has a demonstrated infrastructure and power to channel such an orientation, but sustainability and sustainable finance need to be based on **a wider approach** and on **a shift in perspective**.

The wider approach involves expanding the definition and understanding of sustainable finance and aligning it, in a broader way, to the present and future needs of society, the traditional role of the finance sector, and to the Sustainable Development Goals and indicators.

Sustainable finance, in that context, is an orientation to holistically use the ESG approach in making people and community-centered decisions, and to tailor all societal aspects to meet the present and future needs of citizens in a flexible, inclusive and self-sufficient way.

In that sense, sustainable finance relates to:

- **Supporting job creation and sustainable workplaces**: supporting initiatives for up-skilling, re-skilling and life-long learning of employees, making them confident in their abilities for the future; as well as creating healthy, balanced, and safe workplaces where employees thrive;
- **Redefining formal, non-formal and informal education:** in institutions, industry and society; through incorporating sustainable finance as a school subject for all students at business schools and universities; creating efforts to improve financial literacy of citizens; empowering trade unions to act as catalyzers and educators; and ensuring that finance sector employees have ongoing access to competence development on sustainable finance;
- **Strengthening social dialogue**: strengthened collective bargaining and unionization reduces inequalities, improves the position of employees (and companies) and enables a culture of dialogue and mutual development;
- **Promoting local growth**: resilience building and serving smaller communities and small and medium businesses to mitigate environmental, social and other challenges;
- **Increasing efforts towards gender equality and diversity**: creating equal playing field for participation, personal and career development, equal pay and ensuring everyone is an active stakeholder at their community, workplace and society;
- **Fostering innovation that serves society**: supporting the creation of new technologies that are human-centered while bringing added value to customers, employees and communities;
- **Advancing consumer protection:** ensuring that consumer rights and consumer data protection are given highest attention, including through the possibility to obtain personalized financial advice, accurate and relevant information, possibilities to advance financial literacy, and building relations based on trust, ethics and transparency;
- **Enabling digital inclusion**: ensuring effective digital financial inclusion policies are in place, thus allowing all European citizens to have access to fair, value-adding and sustainable financial products and services; and that citizens are using these financial products and services by making informed decisions;
- **Ensuring financial inclusion**: safeguarding the right of all European citizens to receive sound, personal financial advice and suitable financial product(s), and for the financial sector employees to provide them.

The shift in perspective means that the financial sector and all involved stakeholders need to change their profit, short-term orientation to an orientation in line with sustainable finance, which is based on transparency, long-termism and trust-building. Finance sector employees and trade unions can play a significant role in helping to shape this organizational culture and carry it throughout their relations with customers and other stakeholders.

3. The ESG Approach

The prioritization of sustainable finance on EU level in recent years is a positive development, stemming from both the core values of the EU and the potential for the region to take a leading role globally, thus motivating further political action. For this purpose, the EU Action Plan on Financing Sustainable Growth is an ambitious step in defining the sustainable finance strategy on EU level, deriving from the ESG approach – the consideration of Environmental, Social and Governance factors in investment decision-making. The first priority with the Action Plan was to set up a Taxonomy focusing on climate change mitigation activities (E considerations), while postponing any further steps for encompassing the social considerations (S) and reflecting on the governance considerations (G).

NFU finds that the scope of the discussion needs to be extended to allow for an all-inclusive, holistic ESG approach. This approach would be fully aligned with the Nordic model and the way in which the Nordic countries have been working with sustainable development. Any discussion and political action on the environmental considerations should not exclude the same on the social considerations**. A strong social base needs to be the pre-condition behind any action that aims to help and advance our environment and planet**. It is important to remember that **sustainability is always about the people,** and therefore putting the social factor aside, and taking action without ensuring proper governance elements are in place, is an unnecessary delay in addressing the concerns of people and their communities.

E in ESG

The consequences of climate change and resource depletion have become particularly evident in recent years, and as such are increasingly in the public eye.

The insurance sector is particularly affected with the developments in climate change, having in mind the sector´s traditional role in helping to manage risks in our societies. Climate change, including severe weather disruption, creates bigger uncertainties for the practices of insurance and reinsurance, as previously insurable assets are becoming uninsurable and/or their risk profiles change, especially for assets in vulnerable locations. This further affects customers, and society as a whole, while opening possibilities for the sector to use its expertise in risk management for motivating further action in climate change adaptation and mitigation. As a response to the increased focus on climate change, a plethora of efforts, financial programmes and projects, channeled through local activists, national programmes, regional responses or global initiatives are now frequently marked as ´green´ or ´environmental´. The current work with the Taxonomy regulation is aiming to provide clarity to the economic activities by providing a common classification and terminology, for the benefit of the single market, consumer protection, transparency and the planet.

While, as mentioned above, NFU sees that the work with the ESG considerations should be done in parallel and not step-by-step, within the E-focused discussion, we highlight the need to better address the only social reference – the minimum safeguards that economic activities need to adhere to. Therefore, our main considerations involve:

- expanding the minimum safeguards beyond the ILO Core Conventions, in order to ensure that human rights concerns that go beyond labor rights are considered in the discussion;

- clearly defining procedures and standards that will answer to the application and reporting on the minimum safeguards in a uniformed way, as failing to do so will influence the correct depiction of social standards and potential breaches.

S in ESG

NFU finds that efforts to address the social impact of investments need to go hand in hand with the assessment of the environmental impact. While the development of an E-focused Taxonomy is complex and not without its challenges, the development of a S-focused Taxonomy would additionally complement efforts from investors looking to contribute to a positive societal change.

However, the processes of developing such Taxonomies would be fundamentally different from each other, due to the different components that E and S entail. These differences also relate to the gap between the measurement of *efforts* and delayed measurement of *effects* from the S factor; the often vague definition of the various components comprising S; and the potentially bigger costs for investors due to uncertainty and delayed effect. Although the approach is different, with the right framework and stakeholders, it is possible to pursue it.

The social performance can be defined as the effects of a company/institution on the labor, human and children´s rights of the communities and societies it interacts with. While there are various elements that can constitute the social factors, of particular importance are:

- *freedom of association and collective bargaining*
- *occupational health and safety*
- *diversity and equality*
- *compensation and benefits*
- *working conditions (beyond compensation and benefits)*
- *quality work environment, including stress and burnout prevention, physical and mental health promotion, and ensuring the right to disconnect*
- *employee representation in decision-making bodies*
- *democracy at work, including the setup of whistleblowing mechanisms*
- *safe workplace free of violence and harassment, including effective mechanisms for awareness, prevention, and support, in line with the (ILO) Violence and Harassment Convention 2019*
- *impact on local communities*
- *sustainable supply chains, including ethical value chains and export practices*
- *impactful CSR policies; and more.*

All these components, and more, need to be part of a *clear, measurable, comparable, and informative way of reporting* on the social factors.

NFU sees the increased focus on the social factors and considerations as a necessary step in the developments on sustainable finance. Trade unions can particularly contribute in the assessment and definition of a future social taxonomy and should be given a standing spot in the preparations of these developments and all associated political discussions.

G in ESG

The financial sector has continuously been one of society´s backbones, having a pivotal role in enabling growth, development and welfare on all levels. The sectors´ role has changed and evolved over time, from traditional, to technological and now to sustainability-focused.

Traditionally, the sector has had a standing role in providing and managing payment infrastructure, supporting job creation and entrepreneurship, aiding local communities´ growth and contributing to their development. In recent years, the role of the sector spread further as its readiness and capacity to fight cyber risks and threats, prevent and combat financial crimes including money laundering, and supporting innovation was strengthened.

Today, NFU sees the sector in the centre of the efforts to just transition, thus experiencing the next role expansion and change. This change now incurs both externally and internally.

Externally, the sector faces increased responsibility to attune its activities to the interests of people and communities, in view to environmental and social concerns. This means conducting business operations that at the same time are advancing environmental and social efforts, providing accessibility and inclusion for all customers, striking the right balance between using new technologies and fostering a social model, maintaining consumer trust and protection, and installing value-based approach and involvement in all communities and societies it affects with its operations.

Internally, the governance of public and private institutions plays a crucial role in ensuring that environmental and social concerns, and the wider interests of people and communities in view to sustainability are given due attention. This also means anchoring sustainability, transparency, democracy, and long-termism as crucial components of corporate culture, business models and work environments. These ambitions can only be realized with the support and participation of trade unions and finance sector employees.

While there are many components constituting the governance factor, of particular importance are the following considerations:

- enabling diversity and balanced structure of decision-making bodies

- implementing fair tax strategies and tax compliance

- pursuing sound business integrity, including efforts to fight bribery, corruption and tax evasion

- fostering employee relations grounded on participation, dialogue and long-term development

- ensuring democracy at work, including the setup of whistleblowing mechanisms

- safe workplace free of violence and harassment, including effective mechanisms for awareness, prevention, and support, in line with the (ILO) Violence and Harassment Convention 2019

4. Policy recommendations

By acknowledging the important role of trade unions and finance sector employees, changing the definition and the underlying values behind sustainable finance and giving the social factor an equal footing as the environmental one, the EU would be accelerating the transition to sustainability and a holistic approach to ESG.

Therefore, given these considerations, and the current legislative developments on EU level, NFU finds that a regulatory system that enables sustainable financial sector, communities and societies, would need to deliver on the following:

- **Ensure that new regulation is aligned with the sustainable development goals and indicators** by specifying that alignment and effect in regulations´ impact assessments. This is in order to ensure that sustainable development and sustainable finance in a wider context are being addressed by regulatory efforts in an impactful way;
- **Provide stakeholder-focused impact assessments for all financial regulation**, **including on finance sector employees**, in order to qualitatively assess the effects of proposed financial regulation on those who are involved in its implementation;
- **Strengthen the role of trade unions as stakeholders** including through ensuring that they are represented in the Platform overseeing the developments with the sustainable finance agenda, as well as any other relevant fora;
- Without delay, **integrate a wider consideration for the social factors in the sustainable finance discussions**, and establish the needed preconditions for developing a S-focused Taxonomy;
- **Ensure citizens have the right to receive sound, personal financial advice**, and that employees have an ensured right to provide it;

- **Ensure employees have the right to provide advice reflecting the sustainability-related preferences of their clients,** instead of advice leading to the selling of products linked to maximized profits;
- **Ensure that all financial sector employees working in advisory functions have received adequate training on sustainability**, including specialized dilemma training;
- **Protect the right of employees to ´blow the whistle´** on violations and discrepancies regarding the sustainability-related suitability of financial products.

5. About NFU

NFU – Nordic Financial Unions is an organization that promotes the interests of the Nordic financial trade unions in Europe. Through a high level of competence and dialogue, NFU contributes to shaping a sustainable financial sector, fundamental for job creation. Currently, NFU represents seven trade unions in the bank, finance and insurance sector in Denmark, Finland, Iceland, Norway and Sweden.

Mission

NFU – Nordic Financial Unions builds cooperation among Nordic financial trade unions and promotes their interests in Europe.

- Through a high level of competence and dialogue, NFU contributes to a sustainable financial sector, fundamental for job creation and long-term economic development.
- NFU creates value for the affiliates by acting as a knowledge hub among trade unions in the Nordic financial sectors, strengthening their cooperation and expertise.

Vision

NFU strives to make the financial sectors prosper in a way that is sustainable for employees, companies, consumers and societies.

- This is done through influencing regulation, framework conditions and business strategies that support job creation and economic growth.

For more information, please visit www.nordicfinancialunions.org