

173 SHADES OF REPORTING – SEASON II

The climate risk culture is improving among French institutional investors

Paris, le 10 November 2018. For the second consecutive year, Novethic analyses responses from 100 leading French institutional investors owning €2450 billion in assets on the Energy Transition Law. From exclusions and divestment practices, to climate risk management strategies, this study qualifies and quantifies the extent to which environmental, social and governance (ESG) dimensions are integrated in the asset management of the main French investors.



Novethic provides an exclusive overview of the level of engagement of these key actors in financing the transition to a low-carbon and inclusive economy. Although the analysis of the 2017 shows reveals a progressive development in the understanding of the financial risks related to climate change, it does not yet result in a reorientation of their investments. **The volumes of green investments remain modest: 1.07% of Green assets were reported under Article 173 for the year 2017, compared with 1.05% for the previous year (2016).**

The consideration of climate risks is progressing

Initially, Article 173 was intended to stimulate the development of climate risk analysis scenarios. However, only 24 investors do so, covering less than €500 billion assets. On the other hand, Article 173 has generalized the measurement of the carbon footprint of portfolios (60 investors practice it on €1,380 billion). Finally, estimating climate-related financial risks requires trajectory logics aligned with the 2°C objective of the Paris Agreement. Only 13 investors carried out this exercise and six of them even calculated and published the carbon trajectory on which their portfolios are based.

The most visible approach to preventing climate risks remains the exclusion of coal, since it is practiced by 26 investors out of €1,873 billion in assets.

The mobilization of French savings is still low

Novethic's exclusive study measures the extent to which article 173 has raised awareness among French savers of green and sustainable finance. If we look at the figures for Units of Account (UA) (i.e. funds offered as part of life insurance), the proportion of products incorporating ESG criteria does not reach 5%. The mobilization of French households' savings through labelled SRI or TEEC funds clearly remains to be built. Between them, they raised €5.46 billion in 2017, or 0.3% of the €1,676 billion invested in life insurance policies.

(Volumes as of Dec. 31, 2017)	€bn	Number of investors
Total volume of unit-linked products	347,4	19
Unit-linked products «managed with SRI criteria»	17,3	17
Unit-linked products with the French SRI label	5,1	16
Unit-linked products with the French TEEC label	0,36	4
Unit-linked products with other labels (Finansol, FNG, LuxFlag...)	1,64	9

Source: Novethic

173 nuances of reporting - Season II presents a mixed assessment of the first two years of application of Article 173. It calls for a probable improvement of the system suggested by its implementing decree after this test phase of the first two years.

« While there is still room for improvement in the application of Article 173 and on the standardization of regulations at international level, this regulatory framework remains a unique attempt to include institutional investors in the active fight against climate change and the achievement of the Sustainable Development Goals. » Anne-Catherine Husson-Traore, CEO of Novethic.

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