3 decades of ESG: Joining the dots… to today's challenges

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Environment, Social and Governance are the three hooks from which regulations for the financial services industry hang. Before the three-letter catchcry abbreviations, and before we all joined the dots **between the G, the S and the E,** Verena Charvet's work as a funds industry solicitor and in various investment product senior roles, incorporated all three.

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In this interview, Verena Charvet chats with Leanne Mills, a previous colleague from Barclays Wealth, and takes a retrospective look at some of the events over the last 30 years that shaped today's ESG label and highlights some of the challenges small fund providers are facing.

JOINING THE DOTS

"If anyone had said to me then that this rather peculiar thing that I was doing with clients – to help them invest in a sustainable way – was going to be very normal and actually legislated for 30 years down the line, I would have been extremely surprised," said Verena.

"When I first started, sustainable investment funds were often referred to as 'specialist funds' or 'charitable funds', because they were seen as funds for people who did not want what the mainstream fund managers were investing in.

As a young trainee, I came across Islamic Finance funds for the very first time. This was the earliest indication I can remember of a Social aspect of investing, with regards to one's religious, moral and ethical compass. And as time went by, I found myself working with more individual clients who chose not to invest in companies whose product or activity of business impacted the Environment," Verena explained

Watershed moments galvanised investors and regulators.

“There was a clear shift in **1997 after Princess Diana** raised the profile of work being done to clear landmines around the world,” Verena explained. The United Nations Mine Ban Treaty (**the Ottowa Treaty**) became binding international law on 1 March 1999, and this was instrumental in helping shape the views of people who wanted to steer away from investments in companies connected to landmines.

“And this view gathered pace when investors decided to widen the net and specifically veto companies who dealt in arms, guns, tobacco, petrochemicals and other harmful practices.” said Verena.

“Around the time of this burgeoning sustainable investing concept **in the 90s, a spate of infamous bank and corporate failures** served as a series of catalysts that fuelled new corporate governance regulation.

“As the scandals unravelled, a toxic mix of unconstrained risk-taking, escalating debt, lack of due diligence, and auditors breaching their duty to exhibit reasonable care were identified, to name just a few of the issues.”

“I was working for the insurers of Barings at the time of **the Leeson scandal and the Barings collapse**,” said Verena “and what came to light was, **in my view, deep-seated governance-related issues** throughout the organisation.

This was a time before employees felt empowered to call out their employers’ actions and hold them to account. So although scores of people probably knew a great deal more than they admitted to in these scandal-hit organisations, no one felt compelled to blow the whistle.” said Verena.

More transparent governance.

The Barings collapse sent a shockwave through the banking and investment industry and an **important new era of regulation ensued**, where governance – and transparency around governance – became paramount.

As a consequence, investors were able to make more considered investment decisions based on more detailed information about how companies were being run, “This was the time when we saw the first hard-hitting reports on stewardship such as **the Cadbury Report** which identified issues with how organisations were running themselves and their people, and looked to create better quality transparent governance,” Verena said.

Good corporate governance automatically feeds good social governance.

“Greater transparency in governance has ensured companies now measure and report what harm they do to the **environment (E)** as part of their day-to-day business.

But the “G” has also influenced the **social [governance] (S**) aspects of the way a company’s board operates, how its directors are paid, how employees and clients are treated, and how a business’s activities affect the wider community.

These are all able to be seen and evaluated by shareholders, customers and potential investors.

“An organisation needs to treat people fairly to get the best out of them. So the broad impact that **Inclusion, Diversity & Culture** (ID&C) is having is very positive for employees and employers. A business that focuses on building effective gender equality mechanisms, processes and environments of support, enables them to hire people in all role levels, from all walks of life, and provides them opportunities to become a more diverse and inclusive place to work.” Verena said.

“This is good for everyone, and as research and corporate results prove, companies with more diverse boards are invariably more profitable than companies whose boards have less diversity,” she said.

G is the mast to which E and S are being fixed.

As she brings us back to 2022, Verena tells us “In over three decades, I’ve seen religious, personal, social, environmental concerns and charity requirements for sustainable and responsible investing become mainstream” adding…

“And Governance has become the mast to which the Social and Environment are being nailed!”

“It’s easy to see how governance is becoming the bedrock of ESG; it’s the impetus needed to marshall the financial services industry into behaving more responsibly with regards the environment, and sustainable investing.”

“ESG is just today’s label, albeit one that carries with it a great weight of responsibility,” Verena concluded. “Many people don’t like this label, which should be recognised, but it’s what we’re working with right now in financial services and the label is not the important issue: **what *is* important** is ensuring your business is complying with all of the relevant ESG regulations.”

Diving into the challenges.

With ESG funds, financial market participants

1. *need a solid understanding of the rules and regulations,*
2. *need to be clear about what products their target market wants, and*
3. *need to be realistic about how best to meet and deliver both 1 and 2.*

In the next instalment of this interview (to be published later this month) Verena looks at point 2. above.

Passionate about ESG.

Verena is passionate about ESG and supports a professional body undertaking research in this arena. She is especially interested in how S for Social scrutinises the important Inclusion, Diversity & Culture agenda. Verena is a former Committee member of Women in Banking & Finance.

Do you need help keeping on top of ESG regulatory requirements?

Currently, Verena is working with a number of clients who provide ESG funds. These clients either don’t have the manpower or their overstretched legal, compliance and product development people simply can’t keep on top of all the regulatory change or

reporting requirements. As a funds-sector regulation expert and consultant, who brings the added value of being a lawyer, Verena and a team of specialist consultants provide advice through to implementation of regulation at both a strategic and hands-on implementation level.

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