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New Study Demonstrates Behavioural Biases Slow Investor Action on Climate Change

(Oct. 29, 2019) – San Francisco – Cognitive and behavioural biases are preventing industrywide action by investors on climate change, according to a new report released today. Most prior analyses have focused on informational barriers such as uncertain policy, lack of data, and insufficient investment grade opportunities, as core reasons for the slow progress to shift capital to the low carbon economy – but new findings demonstrate that a range of behavioural biases, cultural barriers, and attitudes, are at the root cause of the problem.

The report, commissioned by ClimateWorks Foundation in partnership with Climate Insight of Australia, examines why leading climate investors are rapidly outpacing their peers despite having access to the same information.

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"We knew instinctively that climate action was moving beyond a technical investment issue and that human factors were really at the centre of this difference," said Climate Insight's Danyelle Guyatt, the lead author on the report. "Solving these behavioural barriers will create new levels of climate leadership and unlock funds to better manage the risks and opportunities of climate change. Ultimately, addressing these human issues will create better long-term returns."

The report conducted and analysed extensive surveys and interviews with senior executives at major investment funds and found **short-termism** to be an important factor driving behavioural biases to not take action on climate change.

Other key findings in the report include:

- Leading climate investors were able to overcome all internal and external barriers in driving their fund to its position of leadership on climate friendly investments
- C-suite level executives are more reluctant to address climate change – mainly because of career and reputational risks
- Only executives in high performing funds feel as if they have the credibility to act on climate – "4th quartile funds don't take risks"
- Most respondents do not think their peers are taking strong action on this issue so there is a lack of motivation to act.
- There is general acknowledgment of climate change as a systemic risk, but in practice at the day-to-day level, there is a little action on the issue
- Desire by asset owners to outsource leadership to service providers such as asset managers

"Understanding the critical influence of behavioral biases, governance bodies need to take a closer look at their decision-making processes to ensure that their climate mitigation strategies do not fall victim to these barriers," said Ilmi Granoff, director of the Sustainable Finance Program at ClimateWorks Foundation. "Investors will need to look beyond the idea that mere data gaps are the barrier, and identify how governance and incentives can overcome the beliefs and attitudes that block prudent climate action."

The report also lays out the many benefits of addressing behavioural barriers. The authors note that solving these behavioural barriers will create new levels of climate leadership and generate investments to better manage the risks and opportunities of climate change. Ultimately, addressing these human issues will create better long-term financial returns.