

In conversation with Cheuk Wan Fan, Chief Investment Officer, Asia, HSBC Global Private Banking and Wealth

Financing biodiversity action

Britt Clennett:

Welcome. I'm here with Asia Chief Investment Officer of HSBC Global Private Banking and Wealth Cheuk Wan Fan to discuss investment in biodiversity. Cheuk Wan Fan, thank you for joining us.

Cheuk Wan Fan:

Thank you very much for having me here.

Britt:

Why should investors care about investing in biodiversity?

Fan:

So, according to the latest report on global risk 2022, published by the World Economic Forum, biodiversity loss has been ranked as the third most severe global risk, even above the risk from the global pandemic.

So I think this is reflecting that biodiversity loss is now posing a systemic risk to the global economy.

Indeed, over 50% of the global economy is moderately or highly dependent on nature, and this is equivalent to a staggering USD44tn in economic size. So biodiversity preservation is closely related to our global economy.

And, interestingly, we have financial value attached to so many assets in the world. However, we always overlook the value of natural capital that our economic activities and our health and our wellbeing are dependent upon.

So I think it is an important time for investors to focus on biodiversity investing because that is closely related to capital allocation to preserve our world.

Britt:

And what do you think is driving this increasing awareness and action when it comes to biodiversity?

Cheuk Wan Fan:

To be honest, comparing it with climate risk, which has been so widely discussed,



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Opening up a world of opportunity

we think biodiversity is a relatively underestimated risk in investors' portfolios, and this is also an overlooked investment opportunity.

In fact, biodiversity loss is closely related to climate change because 20% of global carbon emissions are attributable to deforestation. And this is going to underpin increasing actions and regulatory change targeting biodiversity preservation in alignment with the net zero transition.

And looking at the impact of biodiversity loss on the global economy, including our day-to-day economic activity and wellbeing, do you know that 75% of global food crops actually rely on animal pollination? And when we talk about medical innovation, you know, 70% of cancer drugs are actually originated from organic products, so they actually rely on nature.

If we continue with our current consumption pattern, eventually it will result in a major degradation of the ecosystem, and in the risk scenario of a collapse in the global ecosystem, this will cause a loss of USD2.7tn of global GDP.

Britt:

What kind of innovations are you seeing that are exciting you, Fan, in terms of solutions?

Fan

The biodiversity innovations are going to create many new growth industries. I would identify four key areas that we see as promising investment opportunities.

At HSBC Global Private Banking, we have a global high conviction theme called 'financing biodiversity action' surrounding the building of a circular economy, solutions that help control the pollution issue. We also see opportunities from green tech and innovative products that can preserve marine life and the oceans.

And we also identify the preservation of forestry and development of sustainable food as another exciting area.

And all these innovative solutions to address the biodiversity loss challenge will actually underpin new growth drivers in the natural capital investing space.

Britt:

What kind of financial mechanisms are in place to encourage the sensible use
– sustainable use – of biodiversity?

Fan:

After the COP26 UN climate summit, the sustainability agenda is now shifting to the biodiversity discussion, as we will have COP15 taking place later this year.

Public

So everyone is now expecting the agreement on the global biodiversity framework, and this is going to set out an important legal framework to underline policy change and biodiversity conservation action in the years to come.

And we also expect the Taskforce on Nature-based Financial Disclosures to agree on the draft framework. And this is really important, because we are now having the climate-related financial reporting requirement, and this is going to extend to biodiversity risk.

So, this also requires more and more companies to take action, including investment in biodiversity preservation action, so as to mitigate this new regulatory risk associated with the protection of our ecosystems.

So this is going to bring new growth opportunities.

Britt:

Ahead of COP15 later this year, what's your message?

Fan:

It is crucial for us to commit capital in our natural resources so that our children and our grandchildren will be able to continue to benefit from the ecosystem in the generations to come.

I think everyone has a role to play, and the time to act is now – and don't wait. It is crucial for us to participate in this global effort to save the world and to preserve our planet.

Britt:

Cheuk Wan Fan, thank you very much.

Fan:

Thank you very much for having me.