**Sustainable Finance in Corona Times**

Timo Busch, Research Group on Sustainable Finance/Uni. of Hamburg; Center for Sustainable Finance and Private Wealth/Uni. of Zurich

Sabine Döbeli, Swiss Sustainable Finance

While we see exciting developments in sustainable finance – e.g., the increasing amounts of sustainable investments – the world is currently facing an unprecedented crisis. At the time of writing, the outbreak of the novel coronavirus (SARS-CoV-2) causing the Covid-19-pandemic has resulted in global gridlock with untold health, economic and social effects. The real economy has been hit hard, the consequences of which cannot yet be gauged, but will certainly influence our society in the long-term. What can we learn from the evolution and reactions to the coronavirus crisis and other grand challenges the world is facing?

First, we need to acknowledge that the pace and severity of a crisis depends on the human reaction to it. In the case of the Covid-19-pandemic, our international interconnectedness has fueled the quick spread. At the same time, strict adherence to social distancing measures has been an effective measure to reduce infection rates. The same holds for most grand challenges in the ecological and social domain: collectively we can be part of the cause of the problem, but we also have the ability to find the solution collectively.

Second, it is a misconception to assume that (scientific) knowledge about an emerging crisis is enough to trigger an immediate response. Although early-warning signs were there, there was no push to change individual behaviour in the US or EU. Collectively we remained in “business-as-usual” mode until we experienced the consequences first-hand in our own backyard. Climate change poses a similar dilemma, and although it took a long time for a response to take shape, there has been a rapid surge in activity now that we are experiencing concrete effects.

Third, the pandemic has taught us that time is of the essence, demonstrating that radical measures are an effective solution, if implemented quickly. Scientific studies corroborate that we are exceeding the planetary boundaries in many regards and the negative consequences will eventually endanger our livelihoods. While the problems materialize more slowly, responses take longer to be effective. In the case of ecological challenges, however, it is essential to avoid reaching tipping points, after which a remedy is no longer possible.

Lastly, economic effects are key drivers. After all, it is the fear of economic depression that motivates governments around the world to identify step-by-step plans to ease the lockdown as fast as reasonable and possible. In the case of other challenges, financial effects are also major drivers of change, be it for the adoption of renewable energy or for water-saving technologies. Therefore, creating the right frameworks that lead to pricing signals – which in turn accelerate change – is in the interest of not just the financial sector, but society as a whole.

These learnings are central for financial markets and the emerging field of sustainable finance. Investors, banks, and insurance companies play a fundamental role for the economy; whatever form economic development takes, the financial services sector through its financing function always has a close connection to the allocation of capital. Thus, the decision-making processes of investors and financial institutions are crucial in determining whether we are on a sustainable path or not. While the Covid-19-pandemic is still ongoing, other grand challenges have not gone away and still need to be addressed. Even if the pace, severity, and reversibility may be different and still uncertain, we can be sure they will change the way we do business. For investors and insurers it therefore makes sense to look at emerging risks systematically and react to them.

But managing risks alone is not enough. Investors also have to be aware that they can create a positive impact, thereby being part of the solution. We have seen such positive examples of innovative investor action to address the coronavirus crisis, e.g. the issuance of Covid-19 response bonds. Sustainable investors are at the forefront when it comes to incorporating solutions to grand challenges. One example is the growth in investments supporting the Sustainable Development Goals (SDGs). We are convinced they can play an even bigger role in future by making long-term goals a clear element of all investor action.