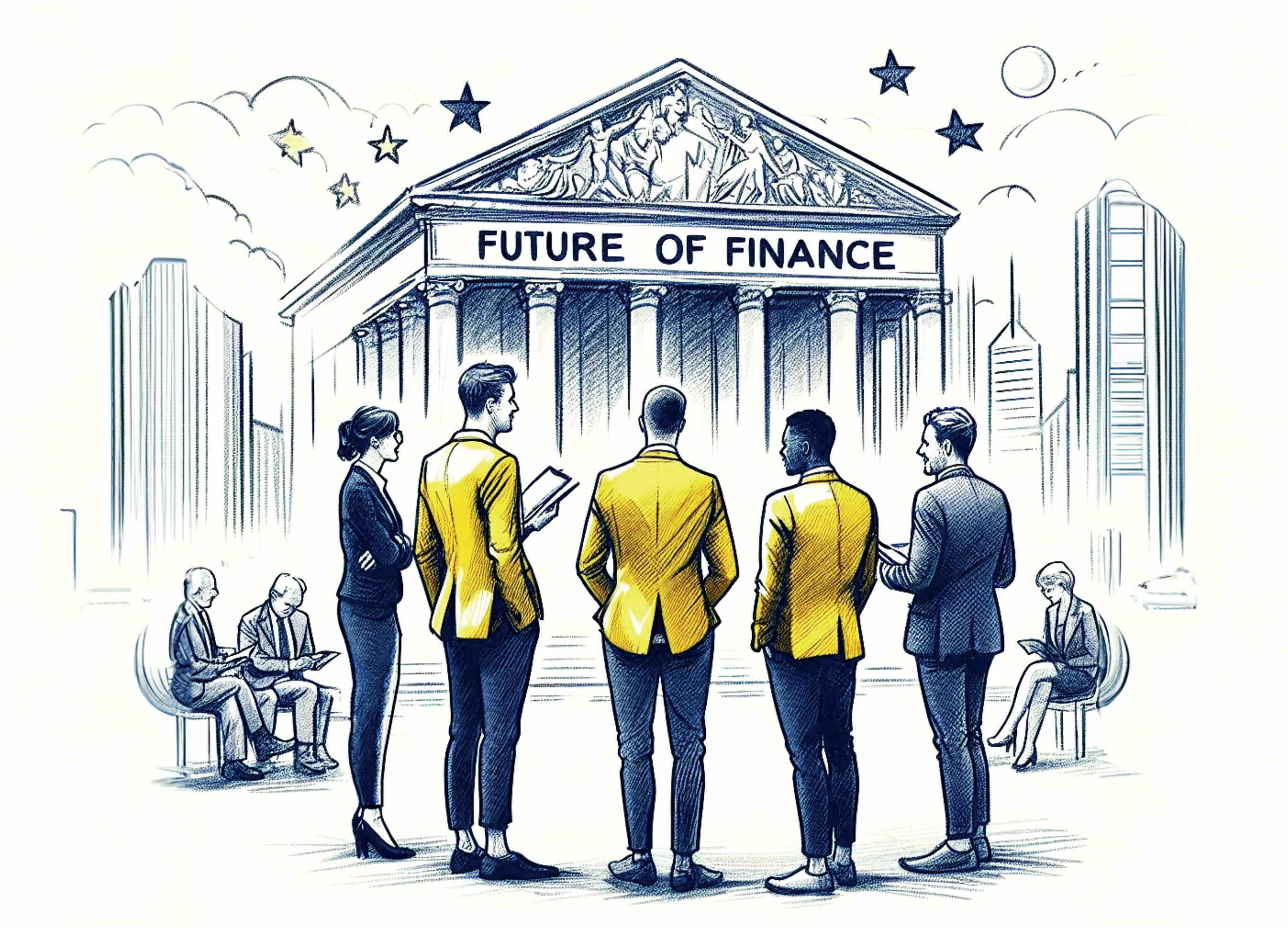
FINANCE FOR THE FUTURE



INTRODUCTION

In this publication, we present the barriers and enablers to the transition from short-term financial profit maximisation to long-term value creation in the Dutch financial system. We discuss the need to transition, the barriers to transition, and the potential transition enablers that could serve as levers for change. The contents of this report are based on the results from two Future Design masterclasses organised with ASN Bank and ABN AMRO. We hope this report inspires financial actors to take a proactive role in the acceleration of the finance transition for sustainability.

FINANCIAL UNSUSTAINABILITY

As of 2024, six out of nine planetary boundaries have been crossed, global warming has reached 1.5 degrees, and global biodiversity is rapidly declining. This **unsustainability** is inextricably linked to the global economic system, and the financial system driving this economy. The financial system externalises its social and environmental impacts, thereby causing environmental degradation and rising social inequalities and pressure. These (unintended) negative consequences are, in turn, an existential threat to the long-term viability of the current financial system. For example, global warming has been signalled as one of the largest risks to the existence of the financial system. Inevitably, these **rising pressures** will force a transition.

This transition could be shock-wise, disruptive, and chaotic, resulting in more negative consequences. This can be prevented if we proactively respond and engage in transition management. We need a finance transition from a system focused on short-term financial profit toward **long-term value creation** to avoid further unsustainability. Financial actors across the entire financial system are already working on this transition. Still, the system remains focused on the short term, slowing down the transition. So, what are the barriers to the finance transition?

Future Design session at ABN AMRO Bank

BARRIERS TO LONG-TERM VALUE CREATION

The financial system is designed for short-term profit and risk management, and this **short-termism** is reinforced through common practices, such as quarterly reporting, complicated investment chains, supervisory regulations, and the short political time horizon, which all reward short-term financial results and undermine long-term thinking. On top of these internal practices, financial actors face **pressure from shareholders and regulators** to increase financial returns.

Financial actors struggle to embrace the urgency to transition. Risk modelling is based on **quantifiable, backward-looking data**, which underestimates future environmental risks. Dominant practices **avoid uncertainty**, inherently excluding uncertain predictions for the future. Additionally, **optimism bias** leads actors to discount undesirable but realistic future scenarios.

System actors also experience a perceived **lack of individual agency**, as they feel they do not have the decision-making power to implement changes. Actors also experience a **collective action problem**, which delays action until all actors are willing to act in unison.

Future Design session at ASN Bank

MOVING TOWARDS LONG-TERM VALUE CREATION

The barriers to long-term value creation are deeply embedded in the financial system. There is no one simple solution to overcome these barriers. Instead, we have identified four potential transition enablers that could be used as levers for change.

- **Capacity building for long-term thinking**
  The finance transition requires financial actors to shift their horizons from the short to the long-term. Capacity building includes increasing skills, knowledge, and networks to facilitate long-term thinking. Financial actors can nurture long-term thinking by facilitating the use of transformative methods, such as backcasting, scenario development, and Future Design.

CASE STUDY: FUTURE DESIGN

Future Design is a new method, developed in Japan, inspired by the Seventh Generation Principle of the Haudenosaunee Confederacy. The method encourages long-term thinking by asking participants to take on the perspective of future generations. Participants time-travel to the future and advise current generations on contemporary dilemmas as imaginary future generations. Future Design enables critical reflection on current practices and policies by relieving participants from short-term concerns. The future perspective can be eye-opening and give room for creative, radical, and solution-oriented thinking. As a result, Future Design can create an empowering environment to address the barriers to long-term value creation.

- **Advocacy and campaigning**
  Financial actors can promote transformative change by lobbying and campaigning regulators (governments and supervisors). These actions should aim to encourage regulators to alter policies to enable transformative decision-making. Additionally, actors can create space for long-term value creation by challenging their shareholders' perception of organisational priorities, and by communicating about the urgency to transition to their customers and the wider public.

- **Pre-competitive collaboration**
  Financial actors can collaborate on strategies for long-term value creation in pre-competitive coalitions. These coalitions could occur within existing structures or could be newly established. Coalitions should at least 1) consist of a wide range of actors, including regulators and incumbent and alternative financial organisations, 2) create a shared vision on the financial transition, and 3) aim toward tangible commitments from coalition partners. Regulators could nurture these transformative coalitions by loosening anti-competitive regulations for sustainability.

- **Space for transformative innovation**
The finance transition requires new policies and practices. Financial actors could create space to experiment with transformative new ideas for long-term value creation. For example, organisations could broaden their viability assessments from just financial value to include environmental and social considerations. These spaces could be created within organisations, but also sector-wide. If space is not created, organisations and actors may also need to 'colour outside the lines,' meaning that they could be proactive in creating the necessary space.

TRANSITION BARRIERS	TRANSITION ENABLERS
Shareholder pressure	Capacity building
Narrow fiduciary duty	Advocacy
Backward-looking risk management	Pre-competitive collaboration
Uncertainty avoidance	Space for transformative innovation
Optimism bias	
Lack of individual agency	
Collective action problem	

CALL TO ACTION

The persistent focus on short-termism poses an existential threat to the current financial system and the barriers to transition are substantive. Still, we draw hope from the devotion and commitment of many individuals who aim to change the system. Transition enablers, such as pre-competitive collaboration, advocacy for change, transformative experimentation, and capacity building for long-term thinking, can serve as levers for change. This will require more urgent, bold, and transformative action from all actors in the financial system, as well as a willingness to let go of the familiar. We hope this report inspires everyone in the financial system to take a proactive role in accelerating the finance transition for sustainability and to be good ancestors for future generations.

Future Design session in Japan

LEARN FROM THE PAST, ACT IN THE PRESENT, DESIGN FOR THE FUTURE.

COLOPHON

This publication is presented by students from the Master Societal Transitions at the Erasmus University Rotterdam as part of their Graduation Project on the barriers to long-term value creation in the financial system.

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