Climate Change and the Financial Services Industry

prepared by Innovest Strategic Value Advisors with guidance from Andlug Consulting
Context

- Climate change threatens economic stability
- Kyoto targets are insufficient
- Kyoto mechanisms are valuable tools
- Mitigation market potential is BIG
Finance Sector View

Threats
- Damage to property (own and customers)
- Climate disasters undermine markets
- Returns on assets affected by mitigation policies
- Compounding of risks across sectors

Opportunities
- More demand for risk transfer
- Finance for mitigation projects
- New markets in emissions permits etc
- Public/private approach to unviable markets

Activity
- Modest, mainly in Europe eg reinsurers.
- Low awareness (senior levels and advisors)
Barriers to Progress

- **Cognitive** - sceptical / unaware of economics

- **Political** - delays in creating framework

- **Analytical** - few data or tools to quantify

- **Operational** - cumbersome, unclear rules
Policymaker Agenda

• Long-term GHG targets for precaution and equity (eg Contraction and Convergence)

• Policies and measures to create carbon value (see diagram)

• Awareness-raising

• Support for LDC's

• Public/private collaboration
Carbon as a Value-driver

COMMITMENT TO REDUCING EMISSIONS

Mitigation Regulation

Trading Infrastructure

Carbon Light Technologies, R&D

Implementation of New Systems

CARBON PRICE/VALUE DISCOVERY

GHG Assets/Liabilities in Corp. Accounts

Carbon Factor in Project Activity

Equity, Debt Analysis

Corporate Risk Management

CARBON AS DETERMINANT OF CORPORATE VALUE

Source: Innovest
Financial Sector Agenda

- Awareness-raising
- CC methodologies for asset management, project finance, and other functions
- Automatic inclusion of CC in processes/products
- Collaboration with public sector to develop fair, efficient markets
- Provision of services for mitigation and adaptation projects
- In-house sustainability