Does Sustainability matter (to FL’s)?

Turkey – January 2013

Robert Tacon
A Global Perspective –

The “Risks” they are a changing!

With thanks to Bob Dylon
Changing Weather Patterns

Istanbul 2009

Turkey

Turkey rations water as cities hit by drought

Floods in Europe

UK Floods
Man-made Environmental Disasters
Do You Finance This?
Coffee threatened by climate change
The External Pressure

In the future, there will be no forests left.

Tell Bank of America: STOP FUNDING DIRTY COAL

Bank of America

COAL

Sign the petition

Dirty Money
U.S. BANKS AT THE BOTTOM OF THE CLASS
Coal Finance Report Card 2012
What does this mean for Banks?
Should Bankers be the tree huggers or the financiers?

Could they be both?
Credit Risks!!!

- industry risks – which are the polluters, which have poor social records?
- management risks – do they understand the issues?
- collateral risks – what is its real value?
- regulatory risks – how will they impact my customer?

Credit Opportunities!!!

- new products – “green” products
- new markets – clean tech

Reputational Risks!!!

- NGO activity – creates bad publicity
- loss of customers – move to banks that care
- share price – impacted by bad publicity
“A successful bank can no longer just look at the commercial performance of a customer. It has to consider its broader performance in environmental and social issues.”

Roberto Dumas Damas
*Banco BBA Creditanstalt, Brazil*

1. Taken from the IFC report: Beyond Risk – Sustainability and the Emerging Markets Financial Sector
IFC’s Beyond Risk Survey: Risks for an FI’s Clients

Significant sources of environmental risks for FI clients

- Government – e.g. Fines and shutdowns
- Regulations in your export markets
- Media – reputational risk
- Community, Financiers and customers
- Supply chain
- Insurers
- NGO’s
- Employees

Taken from the IFC report: Beyond Risk – Sustainability and the Emerging Markets Financial Sector
IFC’s Beyond Risk Survey: Risks for an FI

Significant sources of environmental risks for FIs

- Non-performing loans
- Devalued collateral
- Reputational risk
- Loss of IFI funding
- Reduced access to private/international funding
- Liability for clean-up
- Increased Central and MOF regulation
- Loss of depositors

Taken from the IFC report: Beyond Risk – Sustainability and the Emerging Markets Financial Sector
So, Have the Banks Responded?
What some of the Banks say

We will aim for continual improvement in mitigating our direct Environmental Impacts, reducing use of natural resources and preventing pollution. We will also work with clients, customers and other stakeholders to identify ways of managing our Indirect Impacts and to develop financial services that Promote Environmental Sustainability.

We believe that working to promote sustainability — both for our firm and our client base — is good business practice. This belief, reflected in our dedication to reducing our operational footprint, actively managing environmental and social risks, and financing environmental business opportunities, is aligned with and contributes to Citi’s goal to create the best outcomes for our clients and customers with financial solutions that are simple, creative and responsible.
For HSBC, being sustainable means managing our business across the world for the long term. That means achieving sustainable profits for our shareholders, building long-lasting relationships with customers, valuing our highly committed employees, respecting environmental limits and investing in communities.

‘At Nedbank Group we strive to be a leader in sustainability, because it makes excellent business sense and is simply the right thing to do. Our focus is on balancing economic, environmental, social and cultural issues to ensure long-term sustainable value creation for all our stakeholders.’

Motivated by the current global environmental challenges and development, Access Bank supports global sustainability efforts at making the environment conducive for business and operations.
The Road for Stanchart
- the early years

Why?
- Seen as a risk issue and a need to understand these risks
- UK and European environmental laws were tightening.
- Customers in Asia are the manufacturers to major brands who set the standards
The Road for Stanchart
- the early years

How?

- Joined the British Banker’s Association Environmental Risk Task Force
- Initially used Consultants but their lack of banking experience meant we developed in-house
- Developed Environmental Policy
- Developed Environmental due diligence processes
  - but Bankers are not environmentalists
- Developed in-house workshop training programme
- Recognised that social issues were equally important so incorporated this into policy
The Road for Stanchart - the early years

The Challenges?

- Senior Management buy-in
- Business buy-in - “the competitor banks are not doing it”
- Training – thousands of staff across all geographies
- Small team in London
The Road for StanChart
- the early years

The Way Ahead

- Membership of UNEP FI – work with like-minded Bankers to develop best practice
- Engagement with other bodies e.g. Global Compact, Carbon Disclosure, etc.
- Adopted The Equator Principles for Project Finance
- Get your own house in order – Environmental Policies covering your buildings, your waste, your power usage, your supply chain management, your staff.
- Sector specific Policy to provide more guidance
- Products – e.g. Renewable Energy projects
- TRAIN, TRAIN, TRAIN
BUT, it’s not all about Risk

“Risk Management can help you seize opportunity, not just avoid danger”

Dan Borge, former MD of Bankers Trust
A Great Opportunity for Smart FI’s—the Green Economy

- Going forward will banks be more critically judged for their:
  - investment in old polluting technology?
  - commitment of funds that cause the loss of biodiversity and ecosystems?
- UNEP’s “Toward a Green Economy” estimates that the investment required will be USD1.3 trillion per year from 2010 to 2050.1
- The WEF and Bloomberg calculate that clean energy investment must rise to USD500bn by 2020 to restrict global warming to 2 deg.1
- HSBC estimates a USD10 trillion growth in cumulative capital investments between 2010 and 2020.2
- It is estimated that more than 80% of this financing needs to come from the private sector.

1. Towards a Green Economy, UNEP (2011)
2. Sizing the Climate Economy, HSB Global Research 2010
So does sustainability matter (to Fl’s)?

I believe that the answer is YES

Thank You