

Klaas Knot: The role of central banks; the Netherlands Bank and sustainable finance

Opening speech by Mr Klaas Knot, President of the Netherlands Bank, at the Sustainable Finance Seminar, organized by the United Nations Environmental Program and the Sustainable Finance Lab, and hosted by the Netherlands Bank, Amsterdam, 27 November 2015.

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Ladies and gentlemen,

It is my great pleasure to welcome you to De Nederlandsche Bank at this seminar organised by the United Nations Environment Program and the Sustainable Finance Lab.

I am glad to see so many leaders from the banking, insurance and pension sector.

It tells me that sustainability is given the prominent attention it deserves.

And today's programme reflects that belief.

It features respected colleagues from around the world, who will argue in their own way that sustainable finance is crucial to our industry and the stakeholders we serve.

It has taken us a while.

We have been occupied by the global financial crisis and its consequences for financial stability and economic growth. Now that the worst seems to be over, we have to carefully consider the future.

It is evident to me that a stable financial industry and sustainable economic growth are only possible if we integrate sustainability into our operations and business models.

This is a complex discussion full of dilemmas and unanswered questions, and we are still in the early stages of charting a course.

My hope is that today's speakers and discussions will contribute to more clarity and action.

This morning Simon Zadek from the United Nations Environment Programme will summarise the UNEP's inquiry into the role of the financial system in achieving sustainable development.

Ma Jun, Chief Economist at the People's Bank of China, will join us via video link and share China's expertise in the area of sustainable finance.

And eminent economist Herman Wijffels will facilitate two roundtable discussions.

You are also invited to join this afternoon's session, which will be open to a broader audience. This will feature:

- Simon Zadek, Co-director of the UNEP Inquiry into the
- Design of a Sustainable Financial System;
- Professor Dirk Schoenmaker from the VU University;
- James Orr, Chief Actuary for General Insurance at the Prudential Regulation Authority, which is part of the Bank of England Group.
- In addition, my fellow Governing Board Member Frank Elderson will elaborate on De Nederlandsche Bank's vision on achieving sustainable development.

The role of central banks

De Nederlandsche Bank is hosting today's event because it shares the sense of urgency that is felt across industries and territories.

Global population growth, climate change and dwindling natural resources are threatening the wellbeing and welfare of every person on this planet over a period of many decades.

Furthermore, the financial crisis has awoken us to the fact that many existing approaches to business and finance are unsustainable. Economic development cannot be considered durable when:

- natural resources are being depleted;
- growth rates do not fully reflect potential long-run costs to society;
- - and short-term gains of a small group are achieved at the expense of the long-term health and stability of the system as a whole.

Now, originally, sustainability was driven by the climate debate and its many passionate stakeholders.

As a result of the recent crisis, however, the financial industry has become fully aware that sustainability is its responsibility, too.

After all, climate change, economic growth, financial stability and social wellbeing are inextricably and systemically linked.

The UNEP's inquiry comes to a similar conclusion.

As Simon Zadek will discuss later, central banks and regulators are considered key to achieving a financial system that contributes to sustainable development.

This potential is unfulfilled, however, in spite of many encouraging efforts by peers from around the world.

The Bank of England is one of them.

In a recent address, Governor Mark Carney spoke about the profound and long-term effects of climate change on issues such as property, migration, political stability and food and water security.

In spite of the threat this poses to our financial resilience and long-term prosperity, little is done to mitigate it.

This is because of short planning horizons related to short business cycles, short political cycles and the mandate of central banks.

Carney called this the Tragedy of the Horizon and he argued it could be broken by combining data, technology and expert judgment.

This, he said, can help us achieve:

- a better understanding of risks;
- better pricing for investors;
- better decisions by policymakers,
- - and a smoother transition to a lower-carbon economy.

These and other concerns are being shared by the Financial Stability Board, of which I am member and which Carney chairs.

In April, G20 Finance Ministers asked the Financial Stability Board to consider how the financial sector could take account of the risks climate change poses to our financial system.

In response, the FSB initiated the plan to set up an industry-led disclosure task force on climate-related risks in 2016. This initiative was welcomed by the G20.

De Nederlandsche Bank and sustainable finance

Now, as Frank Elderson will elaborate on this afternoon, De Nederlandsche Bank believes it can – and must – contribute to sustainable development. It follows from our legal mandate.

And it follows from our mission, which is to contribute to the sustainable prosperity of the Netherlands by safeguarding the financial stability.

To achieve this, we have begun to incorporate sustainability into our core business.

We are conducting research into the carbon bubble, the energy transition and sustainable investments in the pensions industry.

The outcomes will be used to advice policy makers and to guide financial institutions into incorporating sustainability more fully into their business.

And we are exploring ways to integrate sustainability more fully across our own range of instruments.

Over the coming period, we will define the exact scope and scale in close co-operation with all our stakeholders.

What we do know, however, is that we will increasingly take a forward-looking approach and assume the role of catalyst.

This way, we hope to ensure that:

- business models of financial institutions are sustainable over the long run;
- the interests of financial service clients are not subordinated to those of the industry's shareholders;
- the organisation of social welfare does not lead to an unintended distribution of wealth and income among generations or groups;
- solid government finances contribute to solid economic development;
- no financial or economic imbalances occur;
- and finally, that the external effects of the economy – including the generation and usage of energy – are adequately priced and regulated.

Closing remarks

Ladies and gentlemen,

We are at a crossroads.

The challenges to our system will have serious, long-term consequences unless we act now. And sustainable development is key to securing the wellbeing and welfare of this generation and the many that will follow.

De Nederlandse Bank is eager to play a catalysing role and use its instruments to promote sustainability. I challenge you to do the same.

Thank you.