

## Speech by Frank Elderson, at the 'Climate is Big Business' conference – San Francisco, 24 May 2017

I have a confession to make. I'm a banker. Not just a banker, but a supervisor of banks. A central banker. So what on earth is someone like me doing at a conference about sustainability? After all, my industry has a reputation for being grey, not green. Concerned with greenbacks, rather than green banks. Pinstripes, not pine trees. But today I'd like to talk to you about why the smart money is on green finance. Why we have to take on the challenges together. Why we need to make the sustainable development goals work.

### Why bankers should act

Today I want to reach out and share with you some of the insights we have learned as a central bank. Because most of these issues are not just confined to the financial sector. First I'd like to explain why you should focus on sustainability.

Twenty years ago a company often would only 'go green' for reputational reasons. But today there are other reasons why you cannot afford to ignore sustainability. Sound risk management means the financial sector needs to worry about sustainability risks. We simply cannot sit back.

Because we have reached the stage where the cost of inaction is greater than the cost of action. Suppose you have major investments in high-carbon assets. These assets have retained their value for many years in the past. But can we just assume that these assets will retain their value in the years to come as well?

Of course not. During the transition to a low-carbon economy, these assets could become unwanted or obsolete, as new, cleaner and cheaper energy replaces them. This audience is full of disrupters that work day and night to bring about that very transition. Under new laws limiting the use of fossil fuels, 'old' forms of energy may even need to stay in the ground. These valuable assets could become stranded. In the financial sector we call this the carbon bubble. And we must make sure that the big green bang does not cause this carbon bubble to burst.

So be aware of the risks and manage them properly. But besides risks, a more sustainable economy also offers us opportunities. We are seeing this happening right now in the financial sector, where the issuance of green bonds is growing fast, but it is of course evolving across all sectors in all continents.

## How – and where to start

While it is clear that the business community needs to take on the risks and opportunities related to sustainability, it is less clear how it should go about this. Usually, the first thing companies want is a strategy. Now, if we want to combat climate change, if we want a sustainable economy. Wouldn't it be wonderful if individual companies' strategies would somehow be aligned with a much broader world strategy? Wouldn't it be wonderful if such a strategy for the world existed? If we are all in the pursuit of happiness, if all men are created equal, not just those of us living today, but all men and women that will come after us, shouldn't we urgently formulate a strategy for the world? Fortunately, the world does already have such a strategy: The Sustainable Development Goals of the United Nations.

And, keeping that in mind, a suggestion I would give to companies is:

Innovate, while using what's already there. Join a platform, cooperate, form strategic alliances; get an overview of what's happening; connect with others. Today is a great example of just that. For example, the Netherlands Banking Association has recently launched a public consultation document proposing how the Dutch banking sector can support a number of the UN Sustainable Development Goals.

Businesses could follow suit by launching a similar initiative.

We cooperate on this matter as well: The Dutch central bank is part of the G20 Green Finance Study Group and of the European High Level Expert Group on Sustainable Finance. This expert group is mandated by the European Commission to come up by the end of this year with nothing less than a comprehensive strategy to turn EU financial regulation green. It will publish its interim report by means of public consultation by the end of next month. If you want to directly influence EU green finance strategy and policy please don't hesitate to send in your comments.

Using our convening power on a national level, the Dutch Central Bank created a national cross-sectoral Platform for Sustainable Finance, bringing together representatives from all over the financial sector as well as the relevant ministries, and stimulating the creation of working groups that take on a range of sustainable finance issues.

One of these working groups works on SDG Impact Measurement and consists of several Dutch insurers, pension funds and banks together with major multinationals such as Philips and Unilever. Their goal is to develop a methodology that will allow them to assess the impact on the SDGs of any investments they make. If investors around the world start doing this on a large scale, you can only imagine what effect it will have on the companies that cannot deliver sustainable goods or services. This illustrates that one area where the Netherlands is a frontrunner is impact investing.

Impact Investing is all about seeking measurable social and environmental benefits alongside financial returns. The Dutch financial sector is a global leader in this field. It helps create opportunities for investors wanting to generate a positive impact through their investments.

As for the energy transition, the rate of the change is an important element. For the energy transition to succeed and cause as little damage as possible to our economies, it must proceed as orderly and gradually

as possible. This will allow companies and financial institutions to have enough time to adapt and to make the right investments.

This means that governments should start taking the appropriate measures to put us on such a smooth and gradual path as soon as possible.

### **Public and private**

It is also crucial that we cooperate internationally on carbon goals. The global climate change agreement that was signed in Paris was an important first step. But we need an effective carbon price.

If the cost of carbon reflects the real costs to society caused by carbon emissions, immediately green projects will have positive business cases and brown projects will no longer be profitable. An effective carbon price is the single most powerful tool we have in greening our societies, economies and financial sectors. At the Dutch central bank we are currently researching the effects of an increase in the carbon price on different sectors in the economy.

Nations and regions should also develop climate laws, in order to provide investors with more security about long term developments, helping them to incorporate these long-term issues into their investment decisions. Climate is too important to depend on the volatility of all too short political cycles. This long-term clarity will foster the much needed surge of investments in sustainable projects. Since the energy transition is one of the biggest challenges we face this century, cooperation between the government and the market is also crucial and, as we have learned in the Netherlands, most certainly possible.

The Dutch government recently introduced a new law requiring all office buildings to have an energy label of at least C by 2023. While that gives the owners of these offices about 5 years to adjust, financial markets responded immediately. Dutch financial institutions wrote letters to their clients, requesting them to hand in plans to reach Label C on time if their offices did not already meet this label. Even though it is a tough challenge, the market is thus already responding, and their efforts seem to be working.

This shows how important cooperation between the public and the private sector is. If the government states clear deadlines, the market will respond effectively.

I have spoken about the importance of sustainability. How the business community can get involved in sustainability. Why it is important to start now, and how the market and government can complement each other. Before I finish, I want to remind you that even the smallest of changes can make a world of difference.

### **The power of a single word: sustainable**

A few years ago we changed our mission statement to include the word 'sustainable'. "DNB seeks to safeguard financial stability and thus contributes to sustainable prosperity in the Netherlands".

"You're the Dutch central bank, not an NGO!", said some. Well, our institution has been around for over two centuries. We take the long-term view. And believe me, central bankers and prudential supervisors love the concept "long term". It is in our genes.

It's our business to know that the insurance company we pay our premiums to today, will still be around if our house burns down twenty years from now. That when our children start saving for their retirement, they will be able to collect their pensions half a century later. And that's also what sustainability is about: what works in the long term.

## Conclusion

Adding just one word to your mission statement can set an entire organisation in motion. And if that organisation brings together other organisations, if it actively seeks cooperation with other parties, that word will not only spread, but it will lead to real actions. To a great many real actions. And if the word is well-chosen, these actions might do a great deal of good.

I have a statement to make. I am a banker. Not just a banker, but a supervisor of banks. A central banker. Our mission is sustainable prosperity. But I am not just a banker. I am also a citizen, a father, a fellow traveller on Space Ship Earth. Sustainability is our core business as a Central Bank. This holds true for all of us. By its very definition, we will not be able to survive in an unsustainable world.

Already the Framers of the American Constitution knew this: "*in order to secure the Blessings of Liberty, to ourselves and Posterity*". Posterity. The Framers considered this concept of such utmost importance that they placed it most prominently in the very first sentence of the Constitution. Even before the first Article. Posterity. Sustainability.

Now I'd like to end by reaching out and passing the baton on to you. With a five-point call to action:

1. Cooperate – only together we can make a difference
2. Manage the risks
3. Seize the opportunity
4. Be inspired by the Sustainable Development Goals
5. Start now!, and now that this is a room full of individuals that have already started: Continue !

Thank you.