



Environmental Risk Assessment and New Business Opportunities

Workshop, Brussels, 16 June 2009

1. Introduction

This workshop was the second in a series organised by WSBI/ESBG as a follow up to the “Guidance Framework on Climate Change“ that was endorsed by the ESBG Board of Directors and published in December 2008. It forms part of an action plan to implement the Charter for Responsible Business that has been adopted by the ESBG and WSBI General Assemblies respectively in May 2008 and April 2009.

The objective of the workshop was to provide the opportunity for ESBG members to exchange information, experience and best practices on the challenges and opportunities presented by the introduction of a climate change strategy in their organizations.

2. Highlights from the workshop

The Focus

This workshop focused on environmental risk assessment and the new business opportunities (including socially responsible investment, SRI) related to climate change. One of the conclusions of the workshop was that tackling climate change required a compelling vision backed by a strategy. A study by Carbon Trust and McKinsey in 2008 about the value of tackling climate change was also noted: “tackling climate change could create opportunities for a company to increase its value by up to 80% if it is well positioned and proactive. Conversely it could threaten up to 65% of value if the company is poorly positioned or a laggard.”

Considering Environmental Risk

Environmental risk is the probability that an unwanted event occurs and produces adverse effects on the environment. One of the main direct sources of environmental risk for a bank is reputation risk if a project financed by a bank causes environmental damage. Another example is a non-performing loan risk due to new environmental protection regulation.

Financial institutions have to develop internal mechanisms to control these risks. These mechanisms must be compatible with the bank’s usual risk management mechanisms but avoid using the classic financial rating of the company concerned. This does not work because of the complex and multifaceted nature of environmental risk, the fact that there is no historical data to apply a statistical inference and the speed with which environmental regulation changes. This means that there are no tools sophisticated or contrasted enough to integrate the environmental component in the traditional financial risk analysis model.

Methods to assess environmental risk could, for example, be based on a credit portfolio analysis by sector of activity and consider variables related to activities producing emissions, the use of resources, the direct and indirect impact on the surrounding environment, and new environmental regulation and possible environmental taxation.





Opportunities with Socially Responsible Investment

Socially responsible investment (SRI) covers ethical, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social, and governance issues

There are several approaches to SRI via different investment vehicles. These are dominated by investment funds i.e. ethical, theme, sustainable, solidarity and social funds. These investments are generally attractive to wealthy and well-educated young customers.

In 2008, the total volume of SRI assets under management in Europe was EUR 48,730 million. Market volumes for SRI investments were highest in France, followed by the UK, Belgium and Switzerland.

At the workshop, Hamburger Sparkasse presented a case study on how they market and sell SRI investments to clients. Natixis Asset Management shared its approach to SRI asset management, including its approach to research and its integrated SRI offer. ASN Bank discussed their approach to climate change and their experience with Trucost – an environmental research organisation - on calculating the carbon footprint of their investment funds.

Other New Business Opportunities Related to Climate Change

New business opportunities arise in the area of energy markets, in particular, finance for renewable energy projects. There are opportunities in the area of property including, the financing of the eco-design and construction of new buildings or retrofitting and renovation of existing buildings in order to meet new energy standards. There are also possibilities for loans for better insulation and for renewable energy such as solar or photovoltaic panels. There are also opportunities in the area of transport, in particular the financing of more energy efficient engines and design. Further, carbon markets present a new area of finance and, in general, the financing of climate change mitigation and adaptation measures taken by governments to combat climate change mean new business opportunities.

Most of these opportunities are based on lending, which is one of the core businesses of banks. Thus there is no need for banks to invent a new business language to avail of these new business opportunities. The prerequisite for success is a compelling vision and a clear strategy, including a careful analysis of the potential risks.

ESBG/WSBI members can access the proceedings of the workshop on the ESBG/WSBI Extranet. Go to Extranet, click on Responsible Business, then click on Environment and finally on Climate Change workshops.