Leaders in Sustainable Finance: Event Summary

On Thursday 1 February, around 270 professionals from the Netherlands financial services industry gathered at the Antropia conference venue in Zeist to discuss the role of the financial services sector in sustainable transition. The theme of the event was: ***"Transition: what is the pain and what is there to gain?"***

This document summarizes the speeches and presentations at the event. It is not a transcript of what was said, but provides a paraphrased synopsis of the key points made. It has been prepared and published by Leaders in Finance. Leaders in Finance would like to thank **KPMG** and **Mark McKenzie**, Director at KPMG, for their support.

Key messages that were heard often at the event included:

- The need for action is urgent
- It is important to go beyond compliance with reporting regulation in order to drive real change
- The FS sector has great power to drive sustainable transition through its customers and value chain
- The financial services sector needs to focus on the impacts it has on people and the planet, not on "tick-box" ESG reporting criteria.

Welcome
Twan Huys, Moderator

Twan Huys opened the event by speaking of the urgent need to get sustainable finance moving. Climate change is already wreaking havoc on our planet; the finance sector plays a crucial role in addressing the challenge, he said.

The Leaders in Sustainable Finance event provides an important opportunity to explore the role of the financial services sector in sustainable transition, and how action can be accelerated, he claimed.

Opening
Jeroen van Wijngaarden, Executive Director Dutch Fund and Asset Management Association

Jeroen van Wijngaarden started his speech by reminding us that in 1978, it was legal to smoke in school classrooms. Today, we cannot even imagine doing that. So how will future generations look back at us and judge what we do today? Will they see us as action-driven or compliance-driven?

We do not have 40 years to change in order to solve climate change – we need rapid transformation right now. The trouble is, people do not like rapid change. For example, we are seeing an anti-ESG lobby emerge in the US and there is a risk of that antagonism spreading to Europe.

The pace of ESG regulatory change has been impressive in Europe, for example with the introduction of the EU Sustainable Finance Reporting Directive (SFDR) Level 2. But action trumps compliance. So it is important that the financial services industry supports the intentions and not just the letter of the law.

Asset managers should focus on action, engagement and stewardship. Shareholders need more voting power on the implementation of CSRD. Gain is not about profit but about keeping a liveable planet. Van Wijngaarden ended with a call to action: the times have chosen us to make a difference, please do so.

Keynote: impact and direction of regulation

Laura van Geest, Chair Authority for the Financial Markets (AFM)

Laura van Geest opened her speech with the quote "to measure is to know" – attributed to the physicist William Thompson who did his thesis on the shape on the earth. When we look at the condition of the earth, we can see the evidence of climate change and we have the measurements to prove it.

But are we focusing on the right targets? How do we make sure we are doing what is really needed and not just "teaching to the test"? It is important to look further than the numbers.

Ms van Geest went on to focus on three questions:

- Should the finance sector focus on carbon emissions or broaden its view to include biodiversity?

Ms van Geest pointed out that Dutch banks have €510 billion capital at companies that are dependent on biodiversity and yet biodiversity has dropped by 70% since 1970. The financial services sector needs to look at its impacts on nature. The topic is not yet embedded in risk management and strategy at most organizations. Measuring biodiversity impact is difficult and the availability of data is limited. Moreover, trade-offs can be complex when some initiatives that cut carbon emissions also have negative impacts on biodiversity.

Yet an integrated approach between reducing carbon emissions and protecting biodiversity is essential to manage risk, make positive impact and get ahead of regulations.

- Should we focus on transparency or on change?

With regard to the issue of transparency versus change, Ms van Geest said that if an organization is transparent that does not necessarily mean it is also sustainable, engaged in transition or making a positive impact. There is a danger that too much focus on reporting could lead to not enough focus on changing strategies or business models.

Echoing the message of Jeroen van Wijngaarden in the opening address, Laura van Geest said that financial services companies have a responsibility to do more than simply report; they need to take action in line with the sustainable transition that the legislator ultimately wants to achieve.

- Should we focus only on the actions large organizations or also on small and medium enterprises (SMEs)?

Ms van Geest went on to discuss whether the focus should be on large companies alone or whether SMEs are also an important part of sustainable transition. She said that even though SMEs are not currently covered by CSRD, they need to provide CSRD-relevant data to their larger customers and to their financial stakeholders. This is challenging for them, research shows they are lagging and they need help. It is therefore important for financial sector to collaborate with their value chain and their customers to help them generate the necessary data.

As the regulator, AFM focuses on compliance but is not blind to complexity of the challenge, she stated. An honest appraisal of the difficulties is needed. The key message is to focus on ultimate goal (sustainable transition) and not “teach to the test” (compliance).

CEO Panel: how do we transition as people, organizations, financial institutions and society at large?

David Knibbe, CEO, NN Group
Maarten Edixhoven, CEO, Van Lanschot Kempen
Jeroen Rijpkema, CEO, Triodos
Leonique van Houwelingen, CEO, Aon NL

The urgency to act was a key theme of the CEO discussion. There was recognition that the pace of change is not quick enough and that the world is currently nowhere near on track to limit global warming to 1.5^{0}C in line with the Paris Agreement.

Concern was also voiced about the anti-ESG trend in the US where some states have banned ESG and mandated that investment must be done solely on the basis of financial return and shareholder value. Such attitudes risk making ESG a culture war issue.

The panel acknowledged the need for more awareness and attention within the sector and customers. On one hand, climate risk is currently low on CEO risk surveys and while there is a lot of talk, more action is needed. On the other, Financial Services companies have influence to take their clients on the journey of sustainable transition, the CEOs agreed. Risk management is an important means to engage clients; risk scenarios based on a 2^{0}C temperature rise are becoming increasingly common in the industry and the sector has a clear role in guiding clients to diminish and avoid risk, for example in real estate.

There is a danger of underinsurance on climate damage and climate-related insurance risk exclusions are happening. The industry should prepare for massive losses through climate-driven disasters and financial services companies should not take on risks they are unable to cover. They need to work more closely with governments to cover the risks of natural disasters. This problem is especially alarming in the global south because of capital limitations. On the opposite side of the coin, the Netherlands has shown that risk can be addressed with investment, for example after the floods of the mid-1990s.

Innovation such as new forms of building (e.g. wooden or floating houses) needs more support from insurers and investors. As an example, current barriers when insuring recycling companies need to be addressed. In short, Governments need to step in to solve problems where perverse subsidies and incentives get in the way of sustainable transformation.

According to the panellists, some €4 trillion is needed to fund new energies, and consequently, FS has a role in helping clients open up working capital. ‘We need not only fear but also a positive vision of a world that can thrive within planetary boundaries,’ said Jeroen Rijpkema of Triodos.

When asked to predict the big issues 10 years from now, David Knibbe spoke about the huge impact of artificial intelligence (AI) and how it will fundamentally change how business works. He also expects more focus in the financial sector on funding adaptation to the effects of climate change as well as the mitigation of climate change.

Maarten Edixhoven pointed to the unique opportunity the financial sector has to embed sustainability in everything it does and to drive real impact due to deep client relationships. Leonique van Houwelingen spoke of the huge increase in sustainability data and how it is transforming transparency in the sector around sustainability. While Jeroen Rijpkema said Triodos hopes to prove, by 2035, that lending and investment can be net zero and that the financial sector will focus on solving problems like climate change rather than on financial instruments that have no direct benefit for society.

Introduction to Reporting Panel: Mini-presentation

Marco Frikkee, Partner, Sustainability Reporting, KPMG Netherlands

Marco Frikkee began his presentation by explaining that around 4,000 Dutch companies must report under CSRD. This is a huge increase from the circa 150 companies that previously published voluntary sustainability reports. The challenge is clearly huge.

Mr Frikkee emphasized the importance for reporting companies to look beyond compliance with reporting regulation towards taking action for sustainable transformation. C-suite buy-in is critical to link company purpose to sustainability. The mandatory Double Materiality Assessment requires companies to take both the “inside-out” view (i.e. their own impacts on people and the planet) and the “outside-in” view (i.e. how their companies are affected by ESG risks and opportunities).

Mr Frikkee acknowledged that there are big challenges with getting the necessary data but ended on an encouraging note, saying that there is still time to do it.

Panel: what and how to report, and how to go beyond compliance reporting?

Tjeerd Krumpelman, Global Head Reporting, ABN AMRO
Babs Dijkhoorn, Director Sustainability, Achmea
Marco Frikkee, Partner Sustainability Reporting, KPMG Netherlands
Ton Meershoek, technical Expert Corporate Reporting, AFM

The discussion, moderated by Twan Huys, explored a number of issues including the preparedness of the sector to report under CSRD and the many challenges involved. Key points made by the panellists included:

- Sustainability reporting is a relatively new area compared with financial reporting and so it will take time to get it right. The sector needs to train its financial professionals to integrate ESG and sustainability into their existing roles and processes.
- Many organizations are struggling with CSRD but most are heading in the right direction with a sense of purpose and the allocation of appropriate resources. It is important to involve subject matter experts who understand the measurement methodologies for a wide variety of ESG issues.
- There are particular challenges in Scope 3 emissions – for example, how to measure the carbon footprints of banking clients (both retail and commercial). Universally accepted, audit-proof models are needed. Social data is often even more difficult to access than environmental data.

- Reporters, auditors and the supervisor/enforcer must all play their own roles and work together to make CSRD work.
- It is important to remember that CSRD only mandates disclosure, it does not mandate specific actions. However, it is the first step. If you can measure then you can manage, so CSRD has the potential to change the world. It will ultimately have real impact because it will provide the information needed for new opportunities, innovation and new risk models.
- Reporters are currently focusing on how to comply but after a year or two they should be able to shift their focus onto how they can use the data to improve their sustainability performance. This process of transitioning from mere compliance to ambitious action takes time. The very first financial reports were not used for decision making in the way they are used today. Ultimately ESG will become integrated into P&L.
- In the end, it is not about reporting but about strategy, vision and purpose. There is no future for the companies who don't do it.

Speech: what is the state of the transition?

Kees Vendrik, Chair, National Climate Platform

Kees Vendrick called for the financial services sector to take moral positions on sustainable transition. Global climate action is gradually having an impact on reducing the growth of emissions. It is not enough but the impact is beginning to show, he said.

The Netherlands may be on target to reduce its emissions by 55% by 2030. There is tangible progress here including growth in solar, grid investment and energy hubs. However, there is a lack of coherence and different initiatives are moving at different paces. Energy transition is underway but progress is stalled in food and agriculture due to protests and conflict with farmers. In the materials sector, circular transition is at a very early stage. All of these are critical components of the overall sustainable transition, but all are at different stages of maturity.

Mr Vendrick called on financial services institutions to fully implement the Climate Commitment of the Dutch Financial Sector and to develop a clear pathway for removing fossil fuel from their portfolios rather than simply adding renewables to the mix. The financial services sector needs to be courageous and a vocal partner in systemic transition, he said.

He referred to some business examples where financial services organizations can have a huge impact: namely the financing of innovation in local energy, food and circular systems and the implementation of proper ESG due diligence of their value chains.

Asked by moderator Twan Huys to give the sector a score for its performance so far on sustainable transition, Mr Vendrick said “seven out of ten with a lot of room for improvement”.

He emphasized that companies need strong leadership to move away from fossil fuels and encouraged business leaders to be very clear about what they need from government in order to move faster.

When asked about the potential of political change to interrupt or hold back action on climate change, Mr Vendrick said that he believes the climate movement has too much momentum and too much support – both in parliament and among the public - to be stopped.

He also mentioned that global competition on climate action is increasing and cited the introduction of the US Inflation Reduction Act in 2022.

Young Sustainable Leaders Panel: what do other generations miss?

Nikki Trip, Founder JIIP, co-founder network 2100, AF Advisors
Werner Schouten, CEO, Impact Economy Foundation
Michiel Evers, Senior Manager Climate Change& Decarbonization , KPMG NL
Marnix Kluiters, Founder Ecosofie, author "Duurzame ambitie"

The discussion, moderated by Twan Huys, explored the younger generation's view of progress in the financial sector towards sustainable transition. When asked to score the financial sector for its performance so far on sustainable transition, the young leaders gave their scores ranging from minus 5 to a maximum of only 4 out of 10. The panel expressed opinions that action started too late, is happening too slowly and that there is not enough finance available for energy transition and innovation.

There was a call for more creativity in the financial sector: not just exclusion lists and KPIs. There needs to be a stronger sense of morality and proactive action; an acceptance that it is ethically wrong for the finance industry to continue to facilitate fossil-driven emissions or to allow the global south to experience famine.

The panellists said that transparency driven by the CSRD is good, but what really matters is using that data as a tool to change direction and make better decisions on where capital goes. There was a broad belief among the young leaders that direct action through protests does help to draw attention to the climate issue and encourages government to engage.

In terms of what needs to happen now, the young leaders made suggestions including.

- improve the measurement and comparability of impact and integrate it into P&L
- increase scrutiny on whether or not companies are delivering on their mission statements
- embrace prosperity in broadest sense, focusing on societal wellbeing as well as financial productivity

As a concluding remark, Nikki Trip said that pension is worth nothing on a planet that is not liveable.

Introduction to panel: attitudes towards implementation of the EU Sustainable Finance package

Lotte van Meerten, Manager Protiviti and recent cum laude VU graduate on ESG Regulatory Compliance

Lotte van Meerten presented the outcome and conclusions of her study which asked “Are the drivers of ESG Compliance Changing?”. The study explored whether the drivers of ESG compliance are changing with the increase of enforced regulations such as the CSRD and CSDDD.

The key finding of the study were:

- Compliance drivers are not changing dramatically at this moment in time
- Organizations are motivated and have the capabilities to voluntarily comply with the ESG Regulatory framework
- Enforcement actions such as inspections and fear of sanctions by the regulatory bodies do not seem to influence motives and capabilities to comply
- Organizations that face a lower regulatory burden perceive enforcement as less of a risk and are less aware of regulatory actions. However, they are similarly motivated and have the capabilities to voluntarily comply as those organizations that face a higher regulatory burden.

Panel: ESG Strategy – ambition versus obligation

Jaap Gerkes, Managing Director and ESG Lead, Protiviti
Pauline Bieringa, Managing Director, Triodos Netherlands
Joost Oorthuizen, CEO Invest International
Jan-Willem Kong, CEO Polestar Capital

The discussion, moderated by Twan Huys, explored a number of issues on the topic of ESG ambition versus obligation (action as opposed to mere compliance). Key points made by the panellists include:

- There is concern in Europe over the lack of climate awareness in the US financial sector.
- The CSRD is about the transparency (and hence comparability) of ESG ambition and is therefore a game changer. Companies that think they perform well on ESG may not be performing as well as they think.
- It is important to focus on delivering impact and not just on reporting ESG criteria.
- More public/private blended finance is needed to finance new technologies such as green hydrogen.
- The EU’s Carbon Border Adjustment Mechanism (CBAM) is driving global change – companies in other regions are investing in green technologies because of it.
- Exclusion criteria on sectors or specific companies is not enough, especially for pension funds. We need investment approaches directly focused on positive impact.

Keynote: what will be the pain and what is there to gain?

Peter Jacobs, CEO, ING Netherlands

The key points of Peter Jacobs' keynote speech were as follows:

- ING has an ambition to improve the sustainability performance of the Netherlands
- Banks are hugely powerful – ING has €240 billion of client cash with which to finance growth and social wellbeing. People expect a decent return but also that banks build the country.
- ING has put in place a 4-step plan to get to net zero by 2050: measure the baseline; define 2030 & 2050 targets; understand the baseline trajectory (how emissions would grow if no remedial action were taken); and outline actions to deliver on the pathway.
- ING's goal is to get all its mortgage holders to stop using gas and get a heat pump.
- The bank is also working to understand the carbon footprint of its customers, but it is difficult. Nevertheless, CO2 performance is now a condition for ING real estate loans.
- There needs to be a balance between financial health and planetary health. We need to get it right, otherwise we will go bankrupt without making an impact.
- Banks have a critical role in the social impact of improving people's financial health: ING is looking at how to address this via the National Bank Coalition.
- 72% of ING clients had a different financial health score than 12 months ago, evidencing the opportunity banks have in improving the financial health of their clients.
- ING's ambition is to become the #1 universal bank whilst directing our growth to finance society's ESG transition
- It is important to keep pushing for green growth but sometimes it is not possible – for example, electricity connections are not always quickly available for businesses that want to stop using gas. To support that transition, it is important to put a price on waste as well as pricing in other negative externalities.
- There is a role for government intervention in sustainable. We can't change the world in a day, but ING is going as fast as it can.