

# Panel on Financial Stability and Risks



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# Greener Finance for Sustainable Future Conference

Panel on Financial Stability and Risks

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Helsinki, 31 October 2019  
Harald Francke Lund  
*CICERO Shades of Green*

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## FINANCIAL ADVISOR

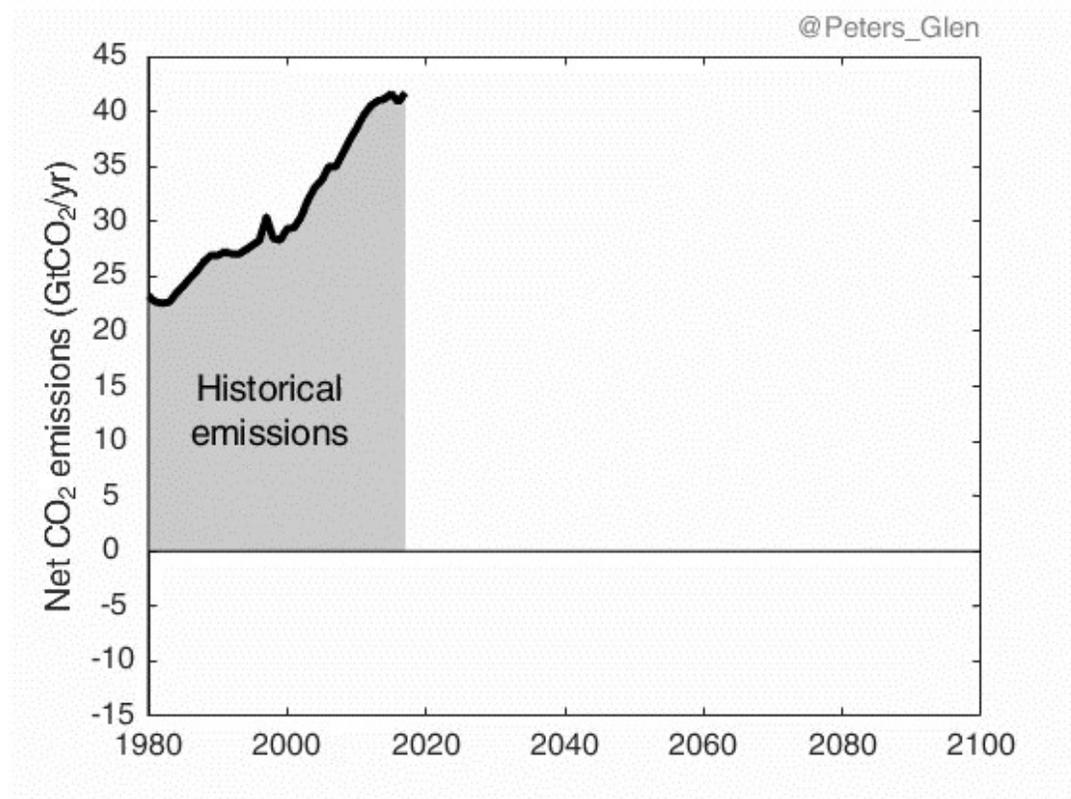


**"I would caution against long-term investments."**

## To stay well below 2°C, science tells us that...

.....emissions must go to zero within a decade, or we need large-scale negative emissions to compensate.

.....negative-emission technologies are not an insurance policy, but rather an unjust and high-stakes gamble.



# Investors expect increased losses from extreme weather

- Global losses from extreme weather rose by 86 percent from 2007 to 2017 (EU Commission)
- Uninsured losses were e.g. in 2017 more than double the insured losses (Swiss Re Institute 2018)
- In some countries in-particularly vulnerable to climate change insurance penetration is under 1 percent; Bangladesh, India, Vietnam, Philippines, Indonesia, Egypt and Nigeria. (Lloyd's of London 2018)



[BUSINESS](#)

# PG&E: The First Climate-Change Bankruptcy, Probably Not the Last

The fast fall of PG&E after California's wildfires is a jolt for companies considering the uncertain risks of a warming planet



# Cyclone Idai drives Mozambique's economic growth to negative ground in 2019, EIU says

17 April 2019 | Mozambique

**T**he damage caused in Mozambique by cyclone Idai is expected to result in an economic contraction for the country of 2.0% this year, according to the latest forecasts from the Economist Intelligence Unit (EIU).



# Investors are increasingly paying attention to sustainability (ESG)

- Investors **divest** from **unsustainable controversial investments**
- Green solutions are scalable and represent **investment opportunities**

## Kenya: Proposed coal project in World Heritage Site angers locals

*Protesters say the project will damage the environment, kill animals and destroy their island.*

by Nicolas Haque [f](#) [t](#)

29 Sept 2019

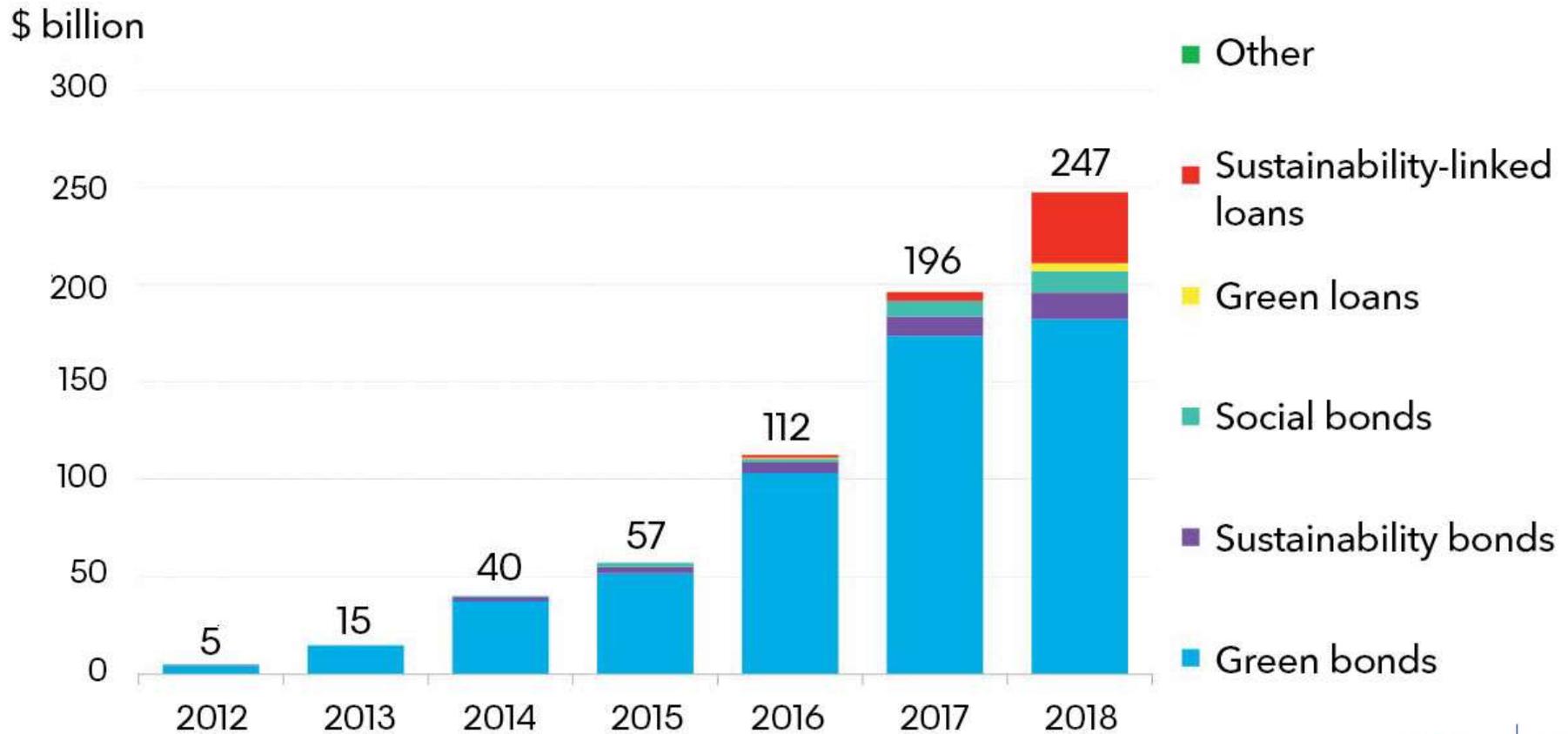


# The answer is more transparency



- The world won't get to net zero if the financial sector doesn't know how companies are responding.
- 1100 top G20 companies are now disclosing climate-related financial risks in line with some of the TCFD recommendations.
- Less than 20% of firms in the FTSE All World (AW) index have a strong physical climate risk management programme, according to Sustainalytics, with real estate developers 'particularly underprepared'

## Global sustainable debt annual issuance, 2012-2018

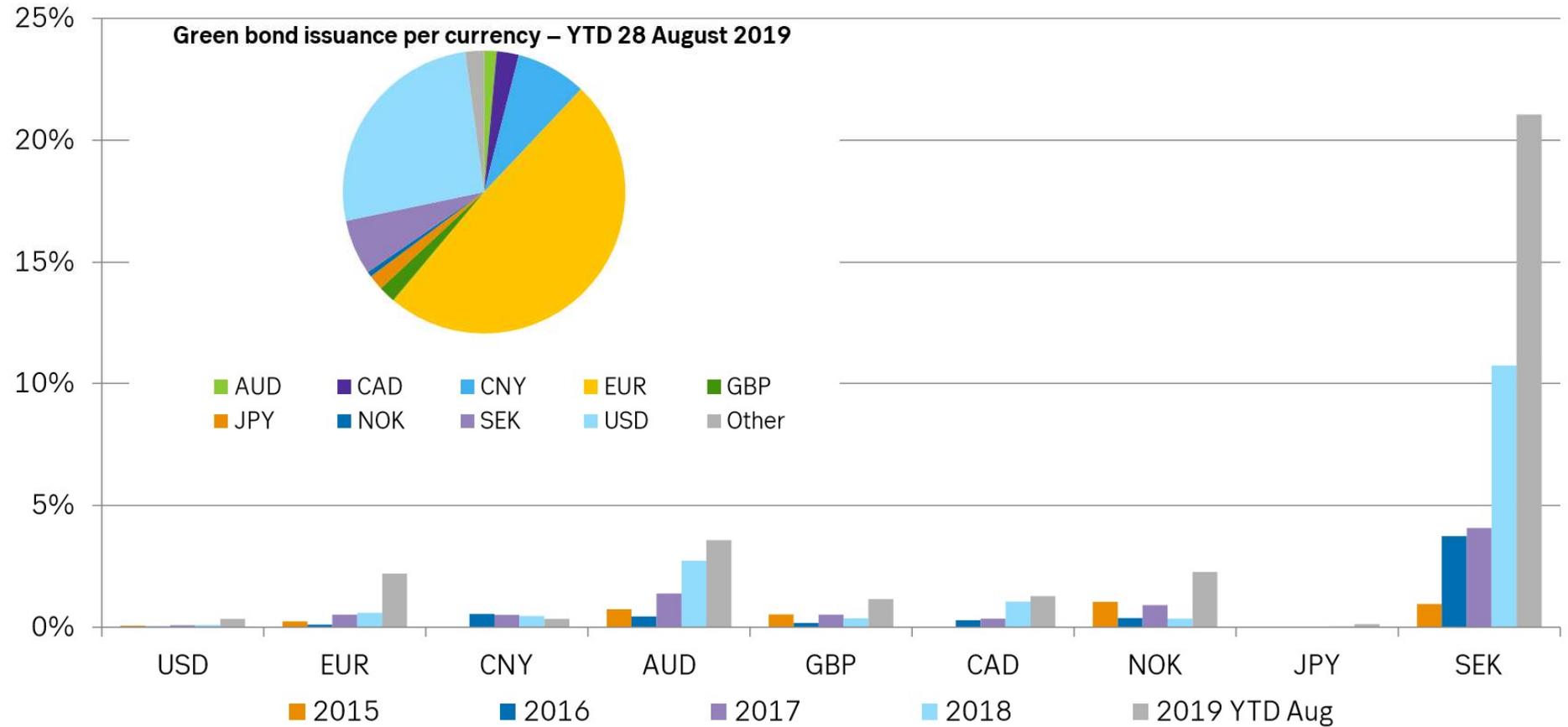


Source: BloombergNEF, Bloomberg L.P.; Note: 'Other' includes labeled blue bonds



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**Figure 14: Green Bond issuance as a percentage of total bond issuance**



Source: SEB analysis based on Bloomberg (BNEF) and SEB data

# Who Defines Green?



Voluntary principles for issuing a green bond that the vast majority of issuers align with ***across all markets***



Ongoing process in the EU to integrate sustainability considerations into its financial policy framework, including an ***EU green taxonomy***



Stock exchanges with green bond lists set ***criteria for listing***



Green bond indices ***have criteria for inclusion***



## EU states agree to delay classification of green finance to Dec. 2022

1 MIN READ



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BRUSSELS, Sept 25 (Reuters) - Representatives of European Union governments agreed on Wednesday to delay the application of a classification of sustainable financial products to the end of 2022 and did not rule out that investments in nuclear and coal could be deemed “green”.



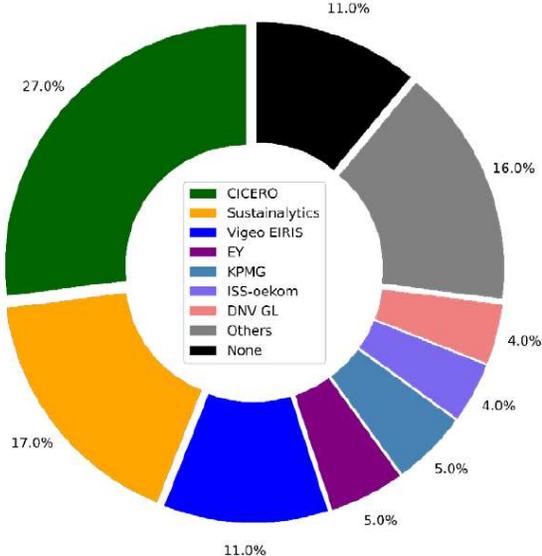
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## Remarks given during the UN Secretary General's Climate Action Summit 2019



- “The EU’s Green Taxonomy and the Green Bond Standard are good starts, but they are binary (dark green or brown). Mainstreaming sustainable investing will require a richer taxonomy – 50 shades of green.” Mark Carney, Governor of the Bank of England

# CICERO Shades of Green External Review market share



- ✓ 1<sup>st</sup> green bond second opinion: the World Bank
- ✓ 1<sup>st</sup> municipal green bond: Gothenburg
- ✓ 1<sup>st</sup> corporate green bond: Vasakronan
- ✓ 1<sup>st</sup> green sukuk: Tadau Energy
- ✓ Largest green bond issuer: Fannie Mae
- ✓ Largest commercial bank green bond: ICBC



Figure 4: Market Shares of External Reviewers by cumulative value of bonds issued from 2008-2019. Data adapted from CBI (August 2019) data base with average monthly ECB currency conversion rates.

Source: CBI



# CICERO Green Rating on Climate Risk



Dark Green



Solar energy projects with a governance structure that integrates environmental concerns.



Medium Green



Green buildings with a high level of certification and energy efficiency.



Light Green



Hybrid personal vehicles.



Light Brown



Natural gas replacing coal as a fuel source.



Dark Brown



New infrastructure for coal.

# What is a green ship?



- Hydrogen?
- Biofuel?
- Batteries?
- LNG?
- Scrubbers?
- Ship design
- Type of cargo



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## **Panel of Financial Stability and Risks**

*Jukka Vähäpesola*

*Greener Finance for Sustainable Future Conference*

*Bank of Finland and Ministry of Finance*

*31 October 2019 at Finlandia Hall, Helsinki*



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### *Elo in brief*

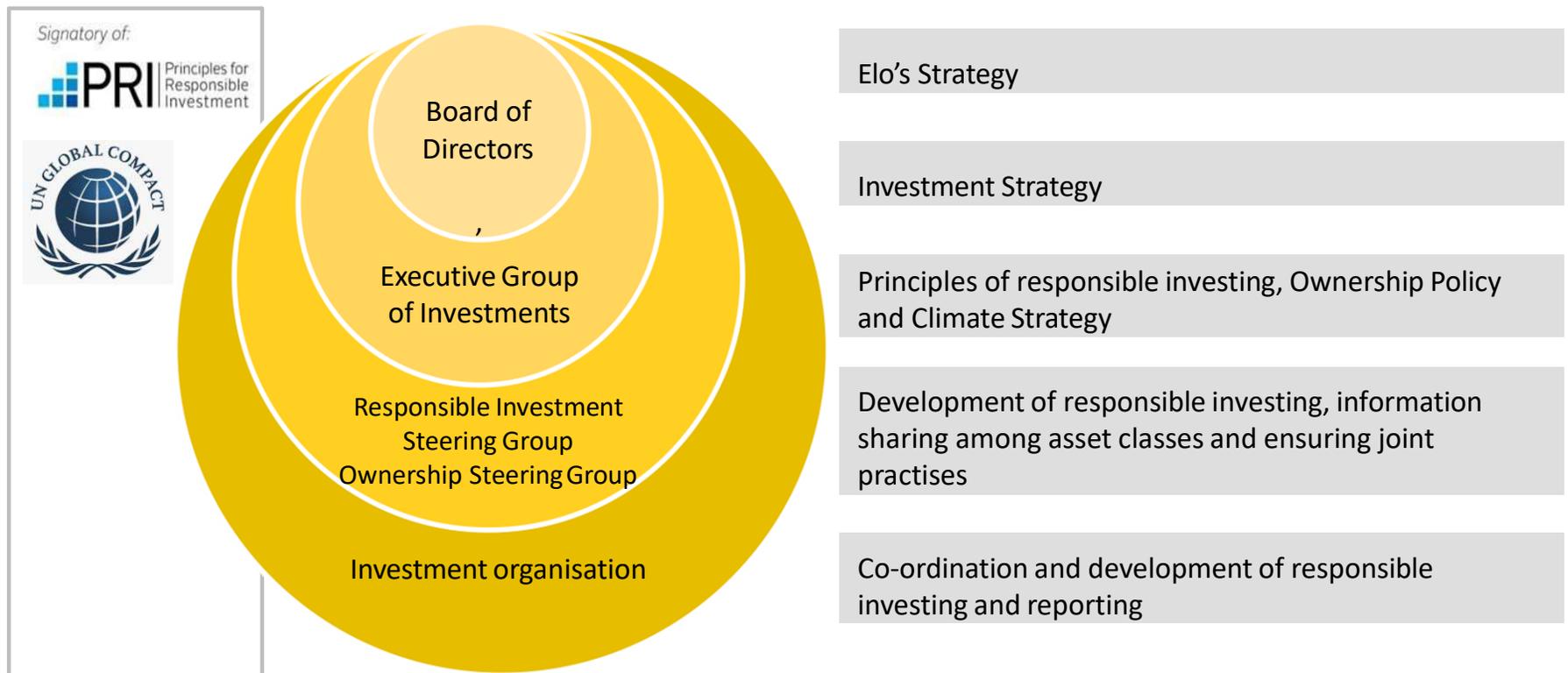
- Elo is one of the largest Finnish pension insurance companies – we make sure that our customers get the pensions that they have earned
- Elo manages pension security for about 700,000 employees of customer companies and self-employed persons
- Elo has about 500 employees

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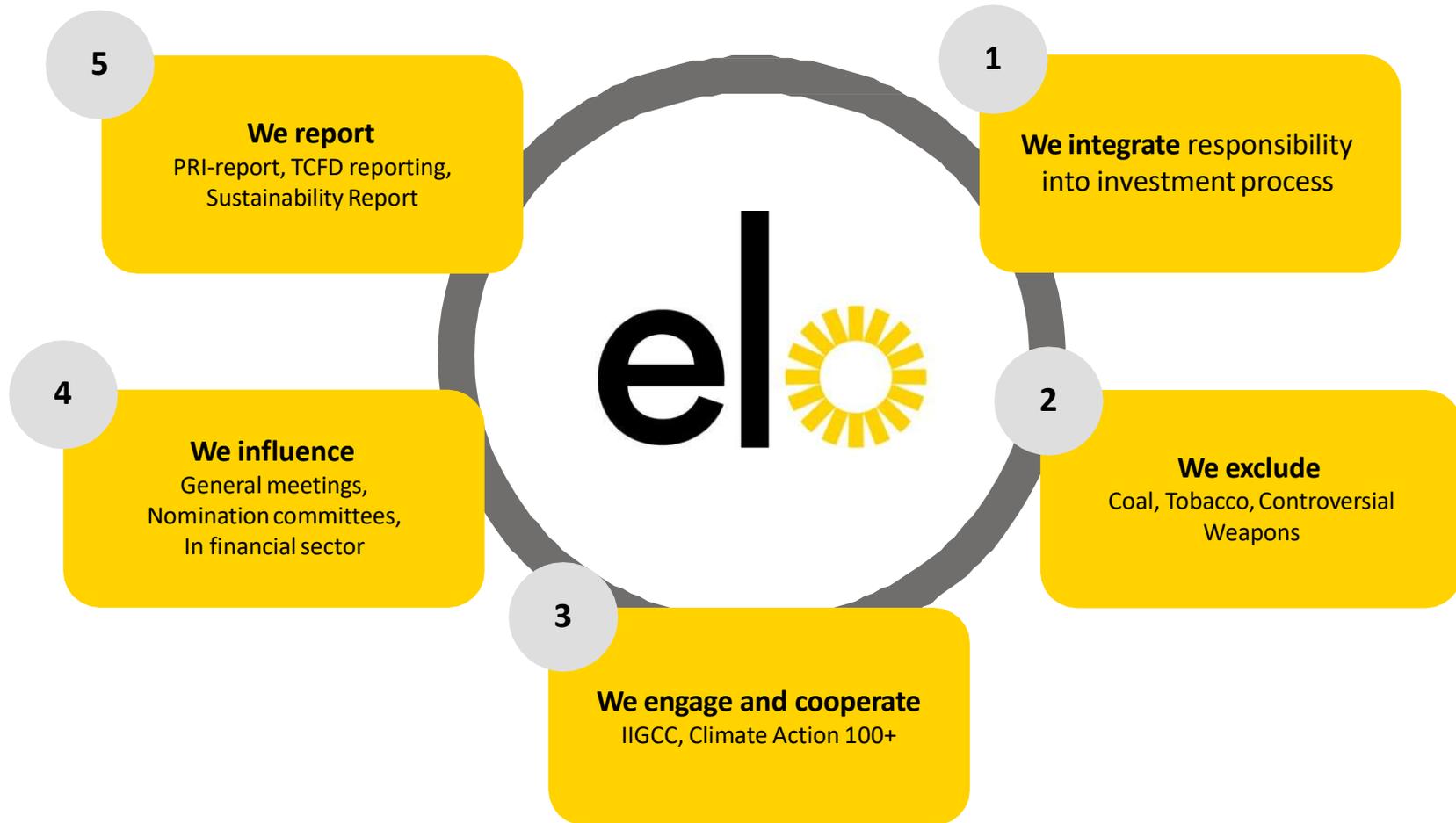
### *Elo's investments*

- **The objective is to ensure profitable and sustainable investments of employee pension assets**
- Elo has EUR 25 billion of assets under management
- Return on investments for 1 January–30 September 2019 was 9.4%

# Elo's responsible investment governance model



# Elo's approach in responsible investing



# Elo's external commitments and cooperation projects in 2018

(The year Elo committed to the initiative in brackets)

	<p><b>PRI, the UN's Principles for Responsible Investment (2008)</b></p>	<ul style="list-style-type: none"> <li>8/2018: Elo signed CDP's Investor Action Request initiative. It provides investors with a greater visibility into how their portfolio companies manage carbon emissions and energy efficiency.</li> </ul>
	<p><b>PRI Montréal Pledge, disclosure of the carbon footprint of Investments (2015)</b></p>	<ul style="list-style-type: none"> <li>5/2018: Elo signed a joint letter to the oil and gas sector to mitigate climate change. The letter was published in the Financial Times, among others.</li> </ul>
	<p><b>CDP (2015), climate change, water and forest programme and the Investor Action Request Initiative (2018)</b></p>	<ul style="list-style-type: none"> <li>6/2018: Elo signed a joint letter to the G7 countries, "2018 Global Investor Statement to Governments on Climate Change".</li> </ul>
	<p><b>IIGCC, Institutional Investors Group on Climate Change (2017)</b></p>	<ul style="list-style-type: none"> <li>12/2018: Elo signed a joint letter to power companies to mitigate climate change, published in the Financial Times.</li> </ul>
	<p><b>TCFD, Task Force of Climate Related Financial Disclosures (2017)</b></p>	<ul style="list-style-type: none"> <li>5/2018: Elo, other investors and IIGCC addressed Shell's general meeting to set more detailed goals for climate work</li> </ul>
	<p><b>Climate Action 100+ (2017)</b></p>	<ul style="list-style-type: none"> <li>12/18: Shell announced a new public short-term carbon footprint target and integrating the targets in executive remuneration.</li> </ul>
	<p><b>Investor Agenda (2018)</b></p>	<ul style="list-style-type: none"> <li>Elo participated in The Investor Agenda, which has been developed for the global investor community to accelerate and scale up the actions that are critical to tackling climate change.</li> <li>Elo made a commitment to outline its view on coal.</li> </ul>



## Elo's current action points

- Reviewing our **Climate strategy**
- Preparing for **Regulatory changes**
- Ensuring the **Quality of ESG data**
- Strengthening **Engagement**

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