Triodos Bank

Making the financial sector more sustainable requires a broad view of the entire portfolio

Position paper for the Round Table of the Standing Committee for Finance of the Lower House of Parliament, 17 December 2019

Social orientation crucial for a healthy financial sector

The financial sector is an essential part of society. It must serve the real economy and society: businesses, social institutions, all of us as citizens and consumers. That is why a bank, an insurance company or a pension fund is not an 'ordinary' company. This calls for a recognisable social anchoring, as is evident in every discussion on the role of banks after the financial crisis. This is the position that Triodos Bank has chosen since its establishment in 1980. Serving all stakeholders contributes to ensuring that this social role is safeguarded. A business model with a dominant orientation towards shareholder value or 'finance for finance' does not do this. The agenda for the future and the sustainability of the financial sector should be based on a social orientation and a link with the social challenges of our time. This course of action can only be successful if financial institutions take on this role themselves and are supported by adequate regulation and supervision.

The transition tasks as a guideline for financial trading

A great deal of attention is currently being paid at national and international level to the relationship between (global) social transition tasks and the role that the financial sector should play in them. The Sustainable Development Goals (SDGs) and the Paris Agreement have become essential guidelines for the financial sector. Triodos Bank welcomes this. Together with other fellow banks around the world, united in the Global Alliance for Banking on Values (GABV), we ask ourselves every day whether the projects and companies - for which funding is sought - add positive value to social, environmental and cultural changes. This connection with the real economy and social agenda is deeply anchored in our mission. In addition to making an optimum contribution to the realisation of a sustainable, inclusive economy and society - as called for by the SDGs and by the (financial) business community – experience shows that this course is becoming an increasingly important factor in the assessment of the stability of financial institutions. Financial regulators such as DNB are, for example, increasingly taking climate risks into account in their assessment of banks. The SDGs are a great opportunity to connect the financial sector more deeply with the social challenges of our time. A sustainable financial sector is not only about reducing greenhouse gases but also about creating a sustainable food system and promoting social inclusion. This is also the case in the Netherlands (see, for example, the Climate Accord and the nitrogen crisis).

Inclusive transitions

A transition without public support is not a successful transition. Public support and care for those who are unable to participate independently in a transition are important preconditions. A balanced distribution of costs and benefits, extra care for people on the lowest incomes and the guarantee of a fair share in the achievement of sustainability objectives are necessary building blocks here. Transitions also become inclusive when the whole of society can participate.

Attention to non-sustainable financing is essential

In many discussions about the greening of the financial sector (see, for example, the EU Sustainable Finance Action Plan), the green financing market is usually central. This is partly justified: the transition tasks will only be realised if sustainable companies and projects are able to gain access to green financing. The government can provide targeted support by means of facilities such as the Green Project Regulation, Invest-NL or the use of guarantees. That's fine, but it's not enough for the tasks to be accomplished. The active phasing out of existing non-sustainable financing is an essential part of a successful transition. This requires financiers (as well) to consider the (negative) impact of the entire portfolio and to take action. Triodos Bank considers this to be essential for promising transitions. Focusing on green financing alone is not enough.

Recent initiatives in the financial sector

Triodos Bank believes that the financial sector has the task and responsibility to take action itself. Much has happened in this area in 2019. Some of the initiatives in which Triodos Bank was involved:

1. With the government's and parliament's acceptance of the Climate Accord last summer, it was also possible to cash in on the commitment of more than 50 financial institutions operating in the Netherlands. From next year, these institutions will publish the carbon footprint of relevant assets; by 2022 at the latest, they will choose their own reduction target. Triodos Bank is pleased to have contributed to the realisation of this commitment and supports it.
2. The Dutch PCAF initiative for carbon accounting was brought to the international stage in September 2019 on the occasion of the UN Climate Action Summit in New York, and is supported by ABN AMRO, Amalgamated Bank, ASN Bank, GABV and Triodos Bank. Financial institutions worldwide are offered the PCAF methodology with support.
3. The UN Principles for Responsible Banking (UNPRB) have also been signed by many banks. These principles strengthen the link with the SDGs and the Paris Agreement. Banks that subscribe to the principles are asked to go further than issuing a non-binding statement and to present a plan for how they can improve themselves in terms of socially desirable positive impact and avoiding/reducing negative impact. Triodos Bank was closely involved in and is a signatory to the UN PRB. Triodos Bank hopes and expects that more and more banks will sign up to these principles and thereby bring the way in which they make investment decisions into line with the SDGs.
4. At COP25 in Madrid, in December, the Spanish banking sector gave its commitment to the Paris Accord in a manner similar to that expressed in the UNPRB and partly inspired by the Climate Commitment in the Netherlands. Triodos Bank's Spanish branch played an active role in this, as did our presence in other countries (United Kingdom, Belgium, France, and Germany).

Role of government

With regard to government policy, we identify four points for attention in promoting and optimising the role that financial institutions can and should play in promoting sustainability.

1. *Consistent transition policy*

Making the financial sector more sustainable depends in part on clear government policy for transitions in areas such as the energy market, the (industrial) built environment, but also in agriculture and in the social domain. The financial sector benefits from keen decisions by means of pricing, standards and targeted government investments that set out a clear transition path for society. In this way, ecological and social enterprises and projects can be given the opportunity to grow and be provided with good financing. Also relevant here is the fact that distorting subsidies or a lack of external pricing hinder the desired transitions, put sustainable businesses at a competitive disadvantage, make green financing more difficult and leave risky non-sustainable financing untouched. Both Invest-NL and the announced investment fund offer opportunities to speed up transitions. The Climate Accord is an appealing example of government policy that provides a clear guideline for the financial sector. At the European level, the recently published Green Deal offers prospects. In addition to climate, a defined and consistent policy is needed for other transitions, currently, in particular, for a transition to an ecological and social food system. Today's intensive agriculture is unsustainable from the points of view of biodiversity and of healthy and sustainable agriculture.

2. *Transparency and supervision*

The EU Action Plan on Financing Sustainable Growth contains several trajectories that should contribute to sharpening the focus on what (non-) sustainable investments are. The binding element of the EU plan is to create and make public a (greater and better) understanding of the impact of funding in order to promote the financing of sustainable activities. Triodos Bank supports the general direction of the action plan, but notes that it is not yet doing enough on the divestment of activities with a high fossil footprint. All financing has an impact, so if investors want to make informed decisions, they need to know the impact of all investments.

The recent compromise on taxonomy, the central project of the Action Plan, is an important step forward. In a previous letter to the Minister and Parliament, Triodos Bank expressed concerns about the limited nature of the original proposals (the taxonomy would only concern the niche of green investments). The choice has now been made for a broader taxonomy. That's good news. Triodos Bank hopes and expects that the taxonomy will contribute to more meaningful, standardised impact information.

More pressure is needed to maintain financial stability during the transition to a sustainable economy and to prevent financial institutions from being overly exposed to stranded (fossil) assets. Triodos Bank therefore welcomes the activities of supervisory authorities such as DNB in the field of climate-damaging investments. In this context, we are thinking in particular of capital measures that have a positive impact on the investment policy of banks. This could take the form of asking for additional capital to counter transition risk *(stranded assets*) and reduced capital requirements for financial institutions that can objectively demonstrate that they are taking significant steps towards greening *entire portfolios* , thereby making a substantial contribution to societal climate and financially related systemic risks.

3. *Sustainability and diversity*

A well-functioning and service-minded financial sector that can contribute as much as possible to the transitions benefits from diversity and open financial markets. As described in more detail in Triodos Bank's position paper for the Lower House round table on the Financial Sector Agenda of the Minister of Finance (December 2018), diversity in the financing landscape also affects the ownership structure and control relationships of financial institutions. Stability, diversity and sustainability reinforce each other.

4. *Sustainable public-private alliances*

The desired transitions should be a 'co-production' of government, society, citizens and (financial) market parties. Triodos Bank believes that a common approach with well-defined roles in shared responsibility has the greatest chance of success. For this reason, Triodos Bank was keen to contribute to the realisation of the Climate Accord and the related commitment of the financial sector. In terms of commitment, it is now up to the institutions to deliver what they have promised. Active involvement and support from the Minister of Finance is desirable. Growth in sustainable financing and limiting the negative impact of existing portfolios are a necessary but significant challenge for the financial sector. Production cooperation with communities of citizens and entrepreneurs and public parties such as DNB, InvestNL and other government bodies is essential for success.

Triodos Bank
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