

# Speech Medy van der Laan (President of The Dutch Banking Association) for Sustainable Finance Event.

Let me start with a quote of David Attenborough that is used in the Leaders in Finance Academy podcast on sustainable finance: “We need to learn how to work with nature rather than against it.” When asked what is needed for a change towards a better world, he said: “Perseverance and money in the right places.” That is where the financial sector is needed, where we matter most.

“Speeding up the transition with carrot and stick”, that is the theme of today’s event. We humans act more swiftly when it happens to us, rather than if we had to choose for ourselves. We can be tempted with the ‘right’ carrots to do what is necessary if it also fits our other priorities. Carrots will get us far, but sometimes we have to use a stick. Together we will have to make many difficult choices.

Only difficult choices that provide us with a credible pathway to 1.5°C, only difficult choices will deliver the urgent system-wide transformation needed to limit greenhouse gas emissions by 2030, only difficult choices will stop damaging our ecosystems and adapt to the worse effects of global warming that will impact the Netherlands.

Let us discuss solutions for the most wicked of wicked problems today.

## **Banking sector developments – Dutch Banking Association**

At the new year’s event of the Dutch Banking Sector I proclaimed that the green economy is a huge business opportunity for the Netherlands and that it is of vital importance that we create a financial sector that is both resilient and adaptable to change. In terms of global warming, the projected temperature rise has decreased since signing the Paris Agreement, but we are still tipping the scales against ourselves.

The Dutch Banking Association will take lead in conducting a structured, continuous multi-year dialogue with our stakeholders about our role and contribution that is both resilient and adaptable to change. As far as we are concerned, future-proofing the financial sector and our country is not on our long-term ‘to-do-list’, but on our ‘immediate action right now’ list. That is our new year’s resolution for 2023.

We will continue accelerating our efforts, in close cooperation with the real economy, where the changes required to bolster our resilience and adaptability has to take place.

## **Banking sector developments – Climate change mitigation**

Back in July 2019 the Netherlands announced its national climate agreement, containing agreements with economic sectors on how they can contribute to achieving the climate goals. The Dutch financial sector became a voluntary part of the agreement via its climate commitment. Let me share some facts on our climate commitment:

- It is voluntary and consists of the 52 – almost all – financial institutions in NL.
- Who will all measure and report the CO<sub>2</sub> emissions of their portfolios.
- And will all develop and publish actions plans for CO<sub>2</sub> reductions.

Last December the progress report on measuring and reporting the financial institutions’ climate impact was published. 90% of financial institutions now measure the climate impact of their portfolio up from 78% last year.

All signatory financial institutions have published their climate action plan. And this March we will report on the content of the climate action plans, which will coincide with the debate between the Dutch Parliamentary Committee on Finance and the Minister of Finance.

Banks drive businesses and economic sectors in the real economy towards decarbonisation, for instance through sustainability-linked loans and by motivating corporate clients to adopt 'Science Based Targets' in line with the Paris climate goals to decrease their ecological impact.

### **Banking sector developments – Sustainable Finance**

On EU-level there speeding up. That's a good thing! On 5 January 2023 the Corporate Sustainability Reporting Directive (CSRD) entered into force. Large companies, as well as listed SMEs, will now be required to report on sustainability, nearly 50.000 companies in total. All that data will become available to banks, once the first companies start applying the new rules for the first time in the 2024 financial year.

At present much talk is focused on gaps in ESG-data, but soon all the ESG-data will shift the question to what ESG risks arise for prudential policy. Our basic position remains constant: more risk means more capital and less risk means less capital. A better ESG score, while good from a societal perspective, unfortunately does not necessarily mean a lower prudential risk.

The Dutch Banking Association is also attentively monitoring the European Commissions' proposal for a Directive on corporate sustainability due diligence (CS3D). The proposal aims to foster sustainable and responsible corporate behaviour throughout global value chains.

### **Banking sector developments – Climate change adaptation**

Whatever we do in the Netherlands, global warming has cross-border impact. Even if we – in theory in the Netherlands – would achieve a net zero emissions economy next year, the peak in worldwide carbon emissions is not expected any time soon.

This means that we as the Netherlands have to adapt to extreme weather conditions coming up soon, and have to deal with serious sea-level rises in the coming centuries. Fortunately, these changes happens slowly over time, so in order to adapt we have to take action straight away and not let the next generation of leaders decide. The Climate Adaptation Working Group, set up under the auspices of the DNB Sustainable Finance Platform, is already moving ahead on identifying the 'added value' of the financial sector.

Just last week the Dutch Banking Association supported a call to action to the Minister for Housing and Spatial Planning. In it we call for combining the numerous initiatives on climate change adaptation, by knitting together the knowledge and expertise of a broad group of thought-leaders and designers. In the words of the Board of Government Advisors, the 22nd century starts now. We look forward to realising this call to action and contribute with our knowledge of the financial impact it may cause.

### **Banking sector developments – Biodiversity**

Another big topic coming up and getting more and more urgent. I'm talking about Biodiversity. Almost 200 countries have agreed in December last year to a new set of goals and targets to "halt and reverse" biodiversity loss by the end of the decade. Countries have agreed to mobilise "at least

200 billion dollars per year” by 2030 from “all sources”, including leveraging private finance and promoting blended finance to raise resources.

I have no doubt that the parties behind the Finance for Biodiversity Pledge, which includes some Dutch banks and other Dutch financial institutions, think hard on how they can align their financial flows with the goals of the Global Biodiversity Framework.

Together with Rabobank, the Dutch Banking Association is the convenor of the "Taskforce on Nature-related Financial disclosures" (TNFD) Consultation Group of the Netherlands. Currently this Taskforce is developing a risk management and disclosure framework. Developed by the market for the market the TNFD's ultimate aim is shifting global financial flows towards nature-positive outcomes.

**Having said this, for all of these topics, there are serious challenges for the financial sector. I will share the four main ‘sustainability challenges’ that we face in the financial sector the upcoming years.**

First of all, the lack of international standardisation and harmonisation, although the UNEP-FI's Principles for Responsible Banking and the Net-Zero Alliances aim at tackling that issue. The Dutch Banking Association recently published the paper ‘How banks measure CO2e emissions’ to shed some more light on this challenge.

Second of all, the availability and **quality** of data. Many financial institutions have to use estimates to assess the carbon emissions of their portfolio, while they would like to use the most recent and granular data available. Initiatives such as the Partnership for Carbon Accounting Financials work are aiming to tackle this issue.

Third of all, internal capacity building. That sustainability as a topic is not just the priority of sustainability advisors, but for everyone, from the top management to the front offices. Many Dutch banks offer education programmes to their employees and C-level to get them up to speed in climate-related topics, such as ESG-risk and Paris alignment.

And fourth, the preparedness of the real economy, the businesses, specifically the large group of SME clients. They will have to start reporting on their non-financial information, such as the carbon emissions of their activities. They just don't know where to start, or are not sure about the numbers. They will need all the help they can get and it will be crucial for the success of the transition.

**I'm coming to an end. With all these challenges we face, the most important condition is: that we we'll have to cooperate, work together. While we are on this bumpy road, I hope we will understand that we will make mistakes moving forward and be mild in our reactions. That is a crucial thing to do and the financial sector is in the position to play this binding role.**

Thank you!