

Strategic Alliance on *Green Bond Market Development in G20 Emerging Economies*

Panel Discussion: Risk Assessment for Green Bond Investments

Annual Risk Management Symposium of the Asociación de Bancos de México
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At the 12th Annual Risk Management Symposium of the Asociación de Bancos de México, the [Strategic Alliance](#) (STA) between GIZ & SEB and its local partner ABM held a panel discussion focusing on *Risk Assessment for Green Bond Investments*. The session, which was attended by around 500 risk management professionals and a number of business representatives, called for understanding environmental and climate change risks as fundamental financial risk that needed to be treated in mainstream financial risk management.

When introducing the panel, José Humberto Alarcón Torre, Head of Risk Management at ABM shared the observation that a **green economy** fueled by solar, wind and other renewable energy sources has for a long time sounded like science fiction. However, this green future is slowly yet steadily becoming reality, and those who do not take action now will soon face large problems. The *Sustainability Protocol* signed by 19 Mexican banks in 2016 to embrace sustainable finance practices was an important public signal for this recognition by financial decision-makers. How to translate this into action is however still far from clear. He therefore welcomed the experts on the panel to share their insights from international experiences.

Yannick Motz, Lead of the STA at GIZ and moderator of the session, embedded the beforehand mentioned relevance of climate change for mainstream financial risk management in the context of **transformative international processes** such as the Paris Climate Agreement under which the Mexican government committed to reduce greenhouse gas emissions by 25 percent until 2030.

In a keynote, Lauren Smart, Global Head of the Financial Institutions Business at S&P Trucost, stressed the immense **financial risks** related to **climate change**, which impacts the World Economic Forum had identified as the most severe risks for the global economy. She forcefully demonstrated how climate risks translate into material financial risks – foremost liability, physical and transition risks – with profound implications for insurers, financial stability and the economy, as not least highlighted in the renowned speech by the Governor of the Bank of England, [Mark Carney](#) in 2016. While acknowledging the complexity of measuring and assessing climate risks, Lauren argued that some action by risk managers, portfolio managers and investors will lead to better investment outcomes than no action. Such action can start with stress testing the portfolio against climate risk exposure to analyze which sectors including supply chains are most heavily affected by environmental and climate impacts. Taking ac-

tion now will not only improve resilience but also facilitate the access to the estimated \$93 trillion investment opportunities for a low-carbon future. Specifically in Latin America, large investment potentials rest in the energy transition, as S&P Trucost's *Carbon Scorebord* found.

An important instrument to effectively channel capital towards such investments consistent with a 2° economy are **green bonds**. With their introduction in 2007/08 by the World Bank and the Swedish bank SEB, environmental aspects were for the first time integrated into a mainstream financial product. In their simplicity, the important difference to regular bonds is their specified use of proceeds for green investments such as in renewable energy, energy efficiency and sustainable infrastructure, as Mats Olausson, Senior Advisor of Climate & Sustainable Financial Solutions at SEB, outlined. He explained the five pillars of issuing a green bond, referencing the Green Bond Principles and touching upon the important topics of green definitions, verification and impact reporting. He also depicted the rapid global market growth, with Mexico having come up to a good start, showing the fifth largest issuance volume in 2017 until date.

Marcos Mancini, formerly heading the Sustainability Committee at ABM, now leading Argentina's work in the *UNEP Inquiry into the Design of a Sustainable Financial System*, gave insights into the work of the UN initiative that works with policymakers and the financial sector to green the financial system. The UNEP Inquiry investigates the landscape of **policy and market action** taken around the world in recent years in sustainable finance including areas such as environmental risk management and disclosure practices, and supports the public and private sector in developing and adopting comprehensive strategies to managing this transition. A lot of this work feeds into important international processes such as the G20 Green Finance Study Group. By showing an overview of how regulation in topics related to environmental risk management is evolving, Marcos re-emphasized that this is not a distant development but something that is definitely coming.

John Flannery, who has worked with investors for more than 30 years, inter alia as Senior Advisor of the Financial Institutions Group at the World Bank's International Finance Corporation (IFC), shared some views from the institutional investor perspective. He reinforced that the demand by institutional investors for long-term, income generating assets such as in renewable energy or sustainable infrastructure, for which green bonds are a perfect match, is large and driven by their need to hedge against long-term climate risks and match asset liabilities. The novel transparency provided by green bonds on their use of proceeds, verification and reporting requirements helps to better capture and account for the underlying risks. The obvious advantage for risk managers compared to regular bonds is that green bonds work exactly like regular bonds while providing greater transparency on another fundamental risk that will eventually make it into mainstream financial decision-making.

All presentations and photos of the event are available on emergingmarketsdialogue.org.