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House of Finance

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Protocol – Session 2
Panel Discussion: Sustainable Finance

Moderator:	Marco Becht
Panelists:	Carine Smith Ihenacho
	Monica Mächler
	Christian Thimann

Marco Becht is a Professor of Finance and the Goldschmidt Professor of Corporate Governance at the Solvay Brussels School for Economics and Management at Université libre de Bruxelles where he teaches master courses on corporate governance, corporate restructuring and law, finance and economics. Becht is also a Founder Member, a Fellow and the Executive Director of the European Corporate Governance Institute, an international non-profit scientific association. In 2003 and 2012, he was Visiting Professor and Fellow at the Saïd Business School, University of Oxford, in 2008 Max Schmidheiny Visiting Professor for Entrepreneurship and Risk at the University of St. Gallen, in 2011 Visiting Professor at Stanford Law School and a Visiting Fellow at the Rock Center for Corporate Governance and in 2013 a Visiting Fellow at Columbia Law School. Beyond his core academic activities Becht is a member of the Group of Financial Market Law Experts of the German Ministry of Finance and a Senior Academic Adviser to Oxera, the Economic Consultancy.

Carine Smith Ihenacho is Chief Corporate Governance Officer at Norges Bank Investment Management, the manager of Norway's sovereign wealth fund. Carine is responsible for exercising the fund's ownership rights and promoting good governance and responsible business conduct with the fund's investments in more than 9,000 companies. This includes policy development, standard setting, active ownership through company dialogue and voting, and supporting sustainability initiatives and research. Carine holds a law degree from the University of Oslo, a Master of Economics from the Norwegian School of Economics and Business Administration and a Master of Laws from Harvard Law School.

Dr. Monica Mächler has been a member of several Boards of Directors since 2012 such as of Zurich Insurance Group Ltd. since April 2013. She regularly speaks, teaches and writes on financial market regulation and international law including the business impact thereof. She also chairs the Advisory Board of the International Center of Insurance Regulation at the Goethe University in Frankfurt and is a member of the Stiftung für schweizerische Rechtspflege. Mrs Mächler served as Vice Chair of the Board of Directors to the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to September 2012, after having been the Director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012 Monica Mächler chaired the Technical Committee of the International Association of Insurance Supervisors IAIS. From 1999 to 2006 Monica Mächler assumed the role of Group General Counsel and Company Secretary of Zurich Insurance Group which she had joined in 1990. During the years 1985 to 1990 she was in private practice specializing in banking and international business law after earning her JD at the University of Zurich's Law School and having been admitted to the Zurich Bar.

Christian Thimann is CEO and Chairman of the Management Board of Athora Germany Holding company and is responsible for the activities of Athora in Germany. He most recently worked at the AXA Group in Paris. From 2014 until 2016 he was Group Head of Strategy of AXA and a Member of the Group Executive Committee. In this function he coordinated the global strategy of the AXA Group in the sectors of life insurance, general insurance and asset management. Christian Thimann was a Member of the Board of Directors of Alliance Bernstein Investment and of AXA Investment Managers, the two asset management companies of AXA Group. He was moreover responsible for matters concerning European and international insurance regulation. Up to 2013 Christian Thimann worked in an executive position at the European Central Bank, most recently in the role of a Director General. Recently Christian Thimann was Chairman of the EU High-level Group on Sustainable Finance and is special adviser to the European Commission in the area of financial regulation. He holds an M.Sc. from the London School of Economics and a Ph.D. in Economics from the University of Munich.

Protocol of Session 2, Friday 7 June (12.30 a.m. – 13.30 p.m.)

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In the second part of this session, a Panel Discussion on "Sustainable Finance" takes place. The introduction held by Marco Becht gives an overview of the topic. According to a recent study, the costs and risks of climate change might amount to 5% of global GDP each year. Sustainable finance is the provision of finance to investments taking into account environmental, social, and governance considerations. This indicates the importance of sustainable finance and sustainable investing. From an institutional perspective, financial institutions are of particular relevance. Based on this, the panelists Carine Smith Ihenacho, Monica Mächler and Christian Thimann - with institutional professional focus – are introduced (see the above introductory texts on each panelist). Afterwards, the discussion begins.

Christian Thimann points out that sustainability is nothing particularly new. In article 2 of the Paris Climate Accord, the financial sector is mentioned. According to this, climate targets can only be reached if capital flows are going to be reoriented. However, how should that happen? It is a legal challenge to implement this into action: e.g., the BaFin introduced institutional changes. Fundamental questions in this context: 1. How can risks (climate risks) be controlled and managed? 2. What do we do about it? How do we change the investment patterns?

Afterwards, Monica Mächler is introduced. She gives insights to Zurich Insurance Group and underlines the importance of responsible investments. Such responsible investments shall generate long-term value. They can be broken down from multiple angles: i) Successful ESG integration regarding all actively managed asset classes, which requires adequate data and includes active ownership practices, such as voting practices. ii) Monica Mächler furthermore points out that substantial impact investments were made in 2017 by Zurich Insurance Group. More than 80 % of the goals of these investments have already been achieved. iii) Zurich believes that it is essential to advance together, i.e., that sustainable finance becomes a mainstream approach. Summarizing, sustainable finance is a multi-channel approach.

Finally, Carine Smith Ihenacho introduces Norges Bank Investment Management (NBIM). The target of NBIM is to generate the highest possible return at moderate risk. It is a long-term fund with 70% exposure to equity. Therefore, the performance of the fund is highly dependent on the development of the companies it invests in. From this perspective, sustainability is of importance. They have a three-pillar approach: 1) NBIM tries to improve market standards – it was interesting to learn from Prof. Bebchuk's presentation that he did not find much evidence of such engagement by other, large asset managers; 2) Impact through NBIM's voting decisions and company dialogue, i.e., exercising ownership; 3) Support to academic research. For NBIM exercising ownership is very important according to Carine Smith Ihenacho. NBIM voted at 98% of shareholder meetings on in total more than 115.000 voting items. Sustainable investment means that NBIM aims to identify long-term investment opportunities and reduce its exposure to unacceptable risks. Risk-based divestments are made. In her concluding remarks, Carine Smith Ihenacho emphasizes the need for better sustainability disclosures by companies to allow for appropriate company assessments and the ability to conduct sustainable investment decisions.

Following the individual introductory statements on sustainable finance, an open discussion is started. In this context, the German Climate Change Policy was pointed out which showed that governmental policies have difficulties in implementing sustainable policies (e.g., CO2 emissions did not substantially decrease afterward, whereas electricity prices increased). Furthermore, the question regarding impact investments and their expected returns is discussed. According to Monica Mächler, the investments of the private sector are catching up in sustainable investment since 2015. Christian Thimann adds that so far prices do not reflect ideas of sustainable finance (e.g., regarding prices for different energy sources). Therefore, property rights would have to be assigned for pollution pricing. Besides this, funds' guidelines concerning the exclusion of particular funds are discussed. Carine Smith Ihenacho mentions some criteria based on which companies are excluded from investments (e.g., involvements with weapons) as well as the underlying monitoring mechanisms. Companies seem to be slightly concerned about their potential for exclusions from investments. They may be put on observation lists and rehabilitate as their exclusion criteria are no longer valid. It is also discussed that the performance of investments with social responsibility have shown over- performance over the last five years.