
A European Green Deal: What's the future for Sustainable Finance?

The future holds fundamental changes in the banking sector in terms of a Green transition and a complete change in risk management activities.

The key question: How can the banking industry actively help realise the ambitious plans of the European Commission and the Green Deal? It is clear that the Commission and the European Investment Bank cannot provide enough money to achieve the Green Deal objectives,



therefore, it is up to the banks and the investment industry to finance the change. The EU should rely more on the role and investment of the banking sector.

Risk management is crucial in this transition. There is a need for clear definitions of sustainable finance and what defines a green project, as well as a need for more data to enable better risk management. Moreover, there is a need for an adequate framework in which banks can operate; as well as high levels of investment to better fund climate change mitigation, hence the need for incentives to encourage more green investments.

In the first quarter of 2020, the European Commission will release a public consultation concerning updating the Sustainable Finance Action Plan. In the third quarter of 2020, the Commission will then present a more in depth and more detailed strategy. The areas that will be focused on include: the incorporation of climate and environment risks into the risk management and governance of financial firms and the ways in which the financial sector can help other parts of the economy to manage environmental risk. The Action Plan will also focus on data and non-financial disclosures; international coordination; a clear taxonomy and clear labelling of green investments.

The European Green Deal is currently not clear enough in terms of ambition and there are several areas in which details need to be finalised. Banks and investors can no longer wait for green projects to appear to invest in but create their own green projects. As well as focusing on risks and risk management, an incentive-based framework should also be focused on to encourage households, corporates and SMEs to change their behaviour.

Recently, banks have decided to include sustainability into their strategies, which is an important step in the right direction. This leads to a new internal governance structure for risk

management, as well as enabling better collection of data in order to make better investment decisions.

Conclusion:

Encouragement is key in relation to the fact that companies need to act proactively by incorporating ESG considerations into their decision-making, about which a report will be released by the European Central Bank later in 2020. Scenario analysis is crucial to making better strategic decisions. Disclosures soon will be mandatory for all, the metrics for which are being worked on.

But this new context is more complex than any other change before and there is much more uncertainty.