The role of financial markets in financing energy efficiency & the transition to a low-carbon economy

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The 2° Investing Initiative is an international, non-profit think tank working on finance sector issues as they pertain to climate change. We help design metrics and products for investors, challenge mainstream investment processes, and engage with financial regulators and supervisors to integrate climate constraints into financial regulation and policy.
Finance sector and climate change

Anticipating financial risk & opportunity // Making the deal flow fit investor constraints

“Making it happen” // Altering the supply of capital to impact investment decisions in the real economy
Overview

Three drivers of change

- Climate-friendliness & climate-related risk metrics
- Financial policies & regulation
- Investment processes & financial market practices

The financial sector ecosystem

- Corporates & developers
- Universities & research orgs.
- Data providers
- IOs
- Technical Secretariat
- NGOs
- Financial institutions
- Index providers & other fin. product providers / Climate Finance Lab
- Policy makers

A → B
Climate-related metrics - Portfolios

Aligning portfolios with 2°C climate goals

Share of ‘green’ cars in US sales & S&P 500

- US Sales
- S&P500 Sales
- Non-S&P500 Sales

Supported by:
- Allianz
- HSBC
- Morningstar
Climate-related metrics - Buildings

G7 report on 2° investing criteria for the building sector

<table>
<thead>
<tr>
<th>2°C compatible</th>
<th>Conditional</th>
<th>Misaligned</th>
</tr>
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<tbody>
<tr>
<td>Fully aligned with 2°C</td>
<td>2°C aligned only under certain conditions</td>
<td>Consistently misaligned with 2°C in all scenarios</td>
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</tbody>
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<table>
<thead>
<tr>
<th>kWh/m²</th>
<th>10</th>
<th>150</th>
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<tbody>
<tr>
<td>Current Best Available Technology</td>
<td>Increasing alignment with 2°C</td>
<td>Upper end in 2°C scenarios in 2050</td>
</tr>
</tbody>
</table>

No regret strategy; compatible with 2°C in all cases

Value judgement: compatibility with 2°C needs to be argued

Exclusion: incompatible with 2°C in all cases
Financial policies (1)

ACCOUNTING & DISCLOSURE:
- Corporate reporting
- Financial institutions reporting
- Funds information

GOVERNANCE:
- Capital stewardship
- Remuneration

PRUDENTIAL FRAMEWORKS:
- Basel III
- Solvency II
- ...

MOBILIZING CAPITAL
- Capital markets
- Public finance
- Monetary policies

Co-developed with:
Processes

Think big or think small?

The tragedy of time horizons

![Diagram showing the comparison between physical and financial assets, risk models, asset management mandates, and asset owners over time.]

Years

0 10 20 30 40 50 60 70

Physical assets
Financial assets
Risk models
Asset management mandates
Asset owners

A → B
The urban green investment conundrum

The energy efficiency & renewable energy opportunity

- Rising electricity prices
- Improved economics of energy efficiency
- Green electricity providers for households & businesses
- Improved economics of household electricity generation

The barrier

- No insurance product
- Principal-agent problems for households
- Green electricity doesn’t respond to energy efficiency
- Limited ability to deploy green energy in urban areas
A response: The Electricity Bank
THANK YOU!

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