



**Innovest** Strategic Value Advisors, Inc.

# Climate Change and The Financial Services Industry – Realising Value

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***EXPORT CREDIT AGENCIES 2<sup>nd</sup> WORKSHOP ON THE ENVIRONMENT  
UNEP/HERMES***

***Hamburg, November 2002***

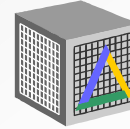
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Four Times Square, 3rd Floor, New York, NY, USA 10036 212-421-2000 Fax 212-421-9663  
1, Cornhill, London, UK EC3V 3ND  
225 East Beaver Creek Road, Suite 300, Richmond Hill, ON, Canada L4B 3P4  
[www.innovestgroup.com](http://www.innovestgroup.com)

# Innovest Background

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- A leading-edge, specialized international financial information services firm with offices in **New York, Toronto, and London.**
  - Now have 25+ staff with backgrounds in finance, industry and sustainability
  - Over \$1 billion in funds structured around our research in variety of fund products
  - Returns-seeking, forward-looking investment thesis
  - Proprietary **EcoValue**<sup>'21</sup><sup>TM</sup> and **IVA**<sup>'21</sup><sup>TM</sup> performance rating systems focus on competitive risks and opportunities driven by environmental and intangible value trends
  - Leveraging research into private equity, specialized funds, custom advisory work and **CARBON FINANCE**
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- ***“Value At Risk” [CERES]***
- ***Threats, Opportunities, Barriers throughout the  
Financial Services Industry [UNEP FI]***
- ***Carbon Risks & Shareholder Value [CDP]***
- ***Corporate advisory and benchmarking***
- ***U.S. Congressional briefings & government  
advisory work***
- ***Asset management and investment bank advisory***
- ***Shareholder resolutions/activism support***

## UNEPFI Report

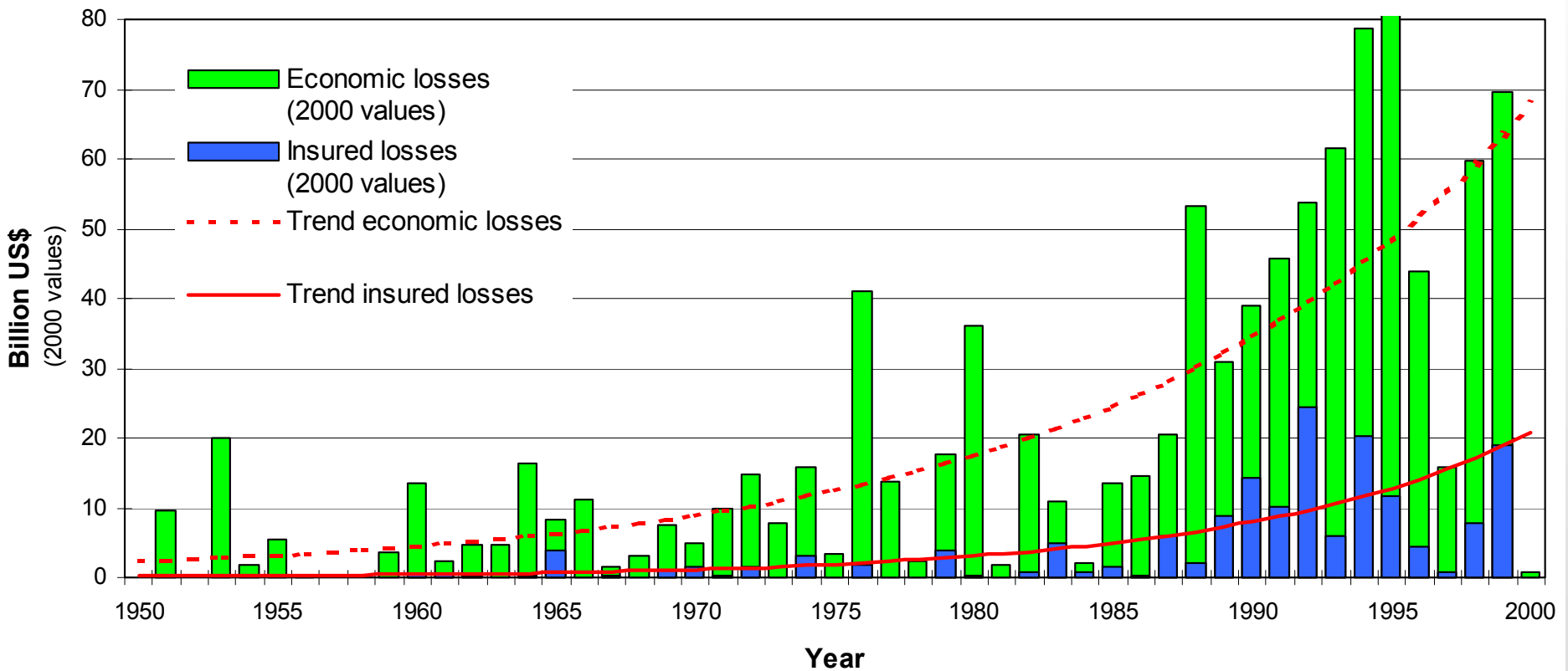
1. *“CEO Briefing”*
2. *“Threats and Opportunities”*
3. *“Blueprint For Action”*

## Bottom Line

1. Economic & Competitive Risks from Climate Change Itself (*e.g., Nth American drought; European floods*)
2. Exposure to the regulatory and competitive implications of attempts to mitigate GHG emissions (*e.g., Xstrata; Clean Energy Markets*)

# UNEPFI Report

## Economic and insured losses with trends



# Sector Impacts

SECTOR	THREATS	OPPORTUNITIES
TRANSPORTATION	Fuel Costs Emissions Mitigation	Clean Fuels 'Sustainable' Infrastructure
BASIC INDUSTRIES	Energy Costs Emissions Mitigation	Product 'Sustainability' Efficiency Gains
AGRICULTURE/FOOD	Productivity Disruptions Crop Damage	ERC Generation/Sale Resource Efficiency Benefits
ENERGY/PIPELINE	Weather Impacts on Demand Side Commodity Price Impacts Emissions Mitigation	Clean Energy Technology Efficiency Gains ERC Generation/Sale
WATER/WASTE	Disruption to Hydrological Cycle Increased Floods/Droughts	Biomass/Landfill Gas Energy Efficiency Gains
INSURANCE/FINANCE	Increasing Financial Exposure Investor Confidence Loss Reduced RoI	New Underwriting Areas Enhanced Equity and Debt Perf. Expanded I-Bank/Brokerage Services

# Shareholder Exposure

## ■ via DIRECT CASH FLOW/EARNINGS

- *Market Share*
- *Higher Value Applications*
- *Operating Costs*
- *Taxes, Penalties and Other Incentives*
- *Project IRR*

## ■ via BRAND / MARKET PERCEPTIONS

- *Market's Perception of Stock Value*
- *Relationships with Regulators/Communities*

## ■ via COST OF CAPITAL

- *Debt financing*
- *Discount Rates*
- *Insurance Conditions*
- *Credit Risk Ratings*

# Key Barriers

## ■ COGNITIVE

- *Language*
- *'Monday Morning' problem*

## ■ POLITICAL

- *Political Uncertainty*
- *Marrakech/Delhi*

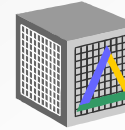
## ■ ANALYTICAL

- *Quantifying Value Creation/Erosion*
- *Monetizing Sustainability Benefits*

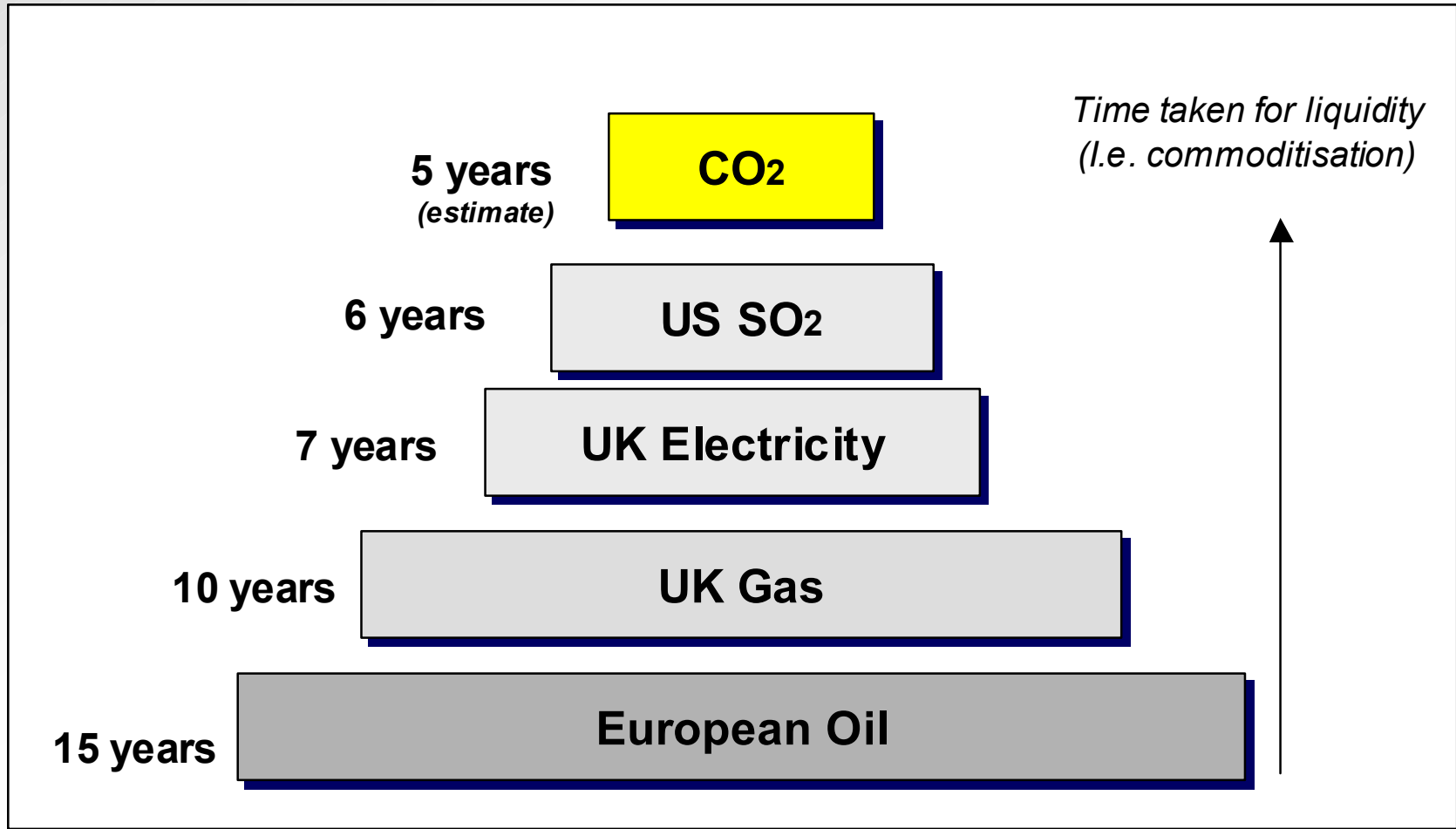
## ■ MARKET

- *Low Market Efficiency*
- *Transaction Costs*
- *Complexity*
- *Project Scale*

# Market Development Dynamics



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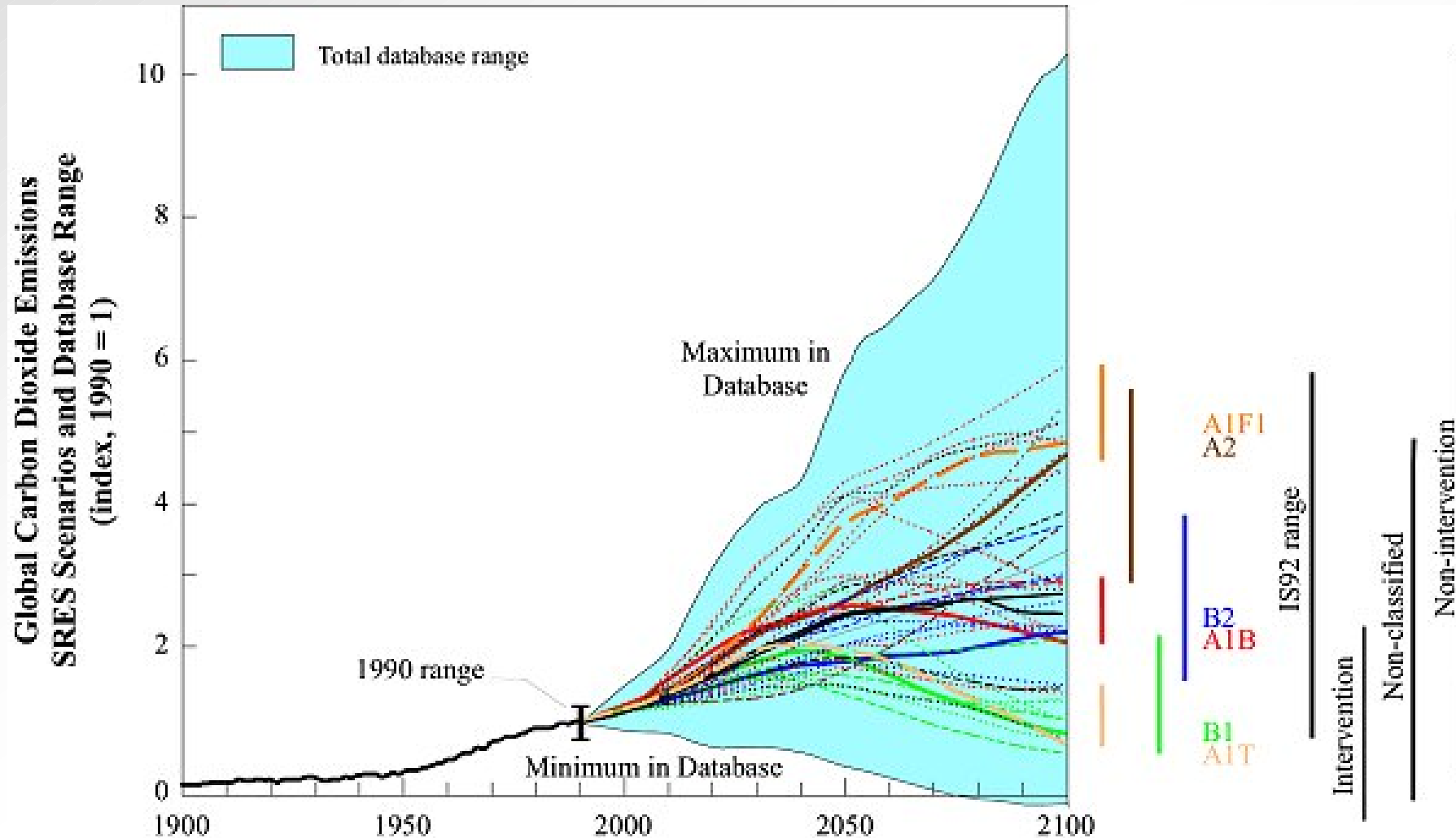
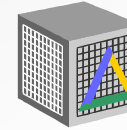


Source: Natsource

# Key Issues For ECAs

- **INFLUENCE DEVELOPMENT TRAJECTORY**
- RISK MITIGATION
- FINANCIAL OPPORTUNITIES
- REPUTATION

# Future Global Emissions Scenarios



# Key Issues For ECAs

## ■ INFLUENCE DEVELOPMENT TRAJECTORY

## ■ RISK MITIGATION

- *Market Viability*
- *Property Value*
- *GHG Management Costs*
- *Political Risks*

## ■ FINANCIAL OPPORTUNITIES

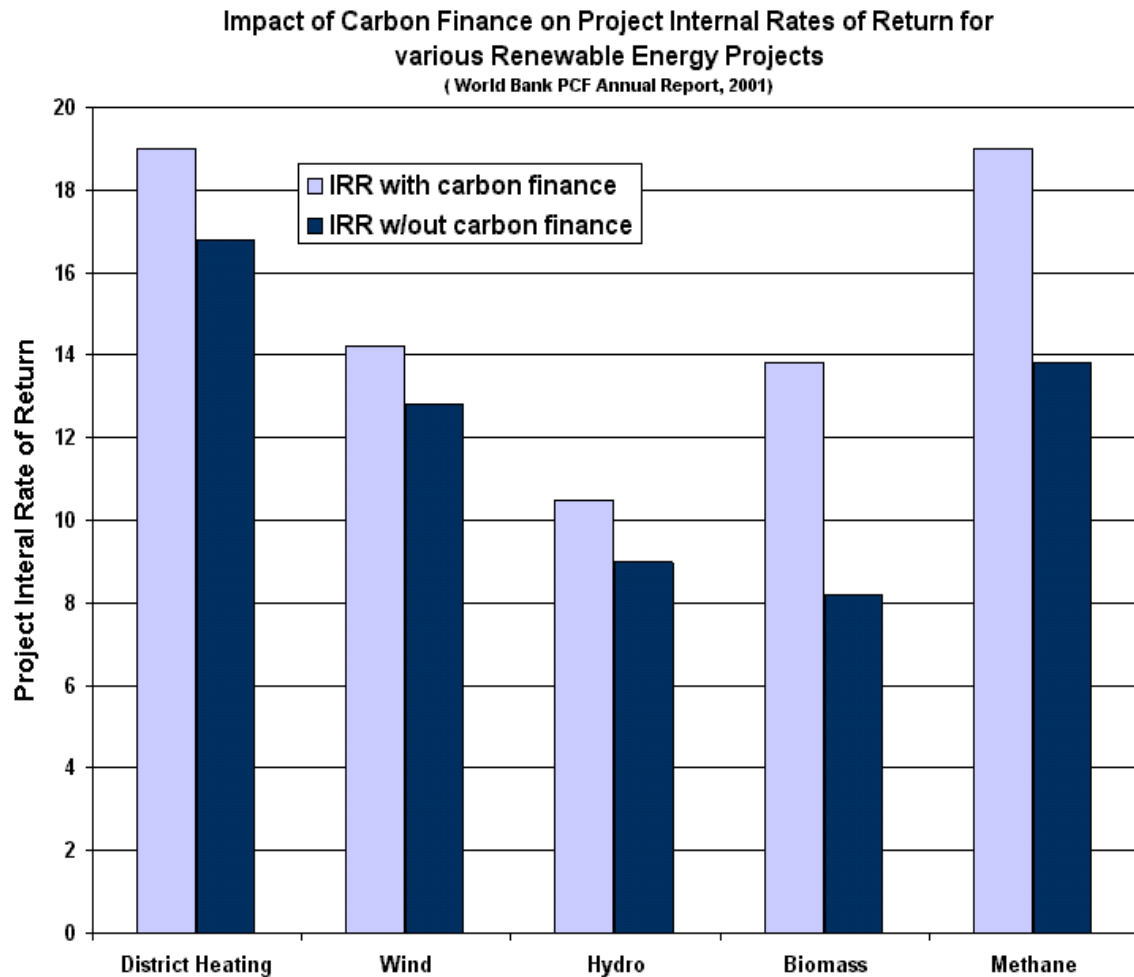
## ■ REPUTATION

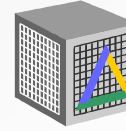
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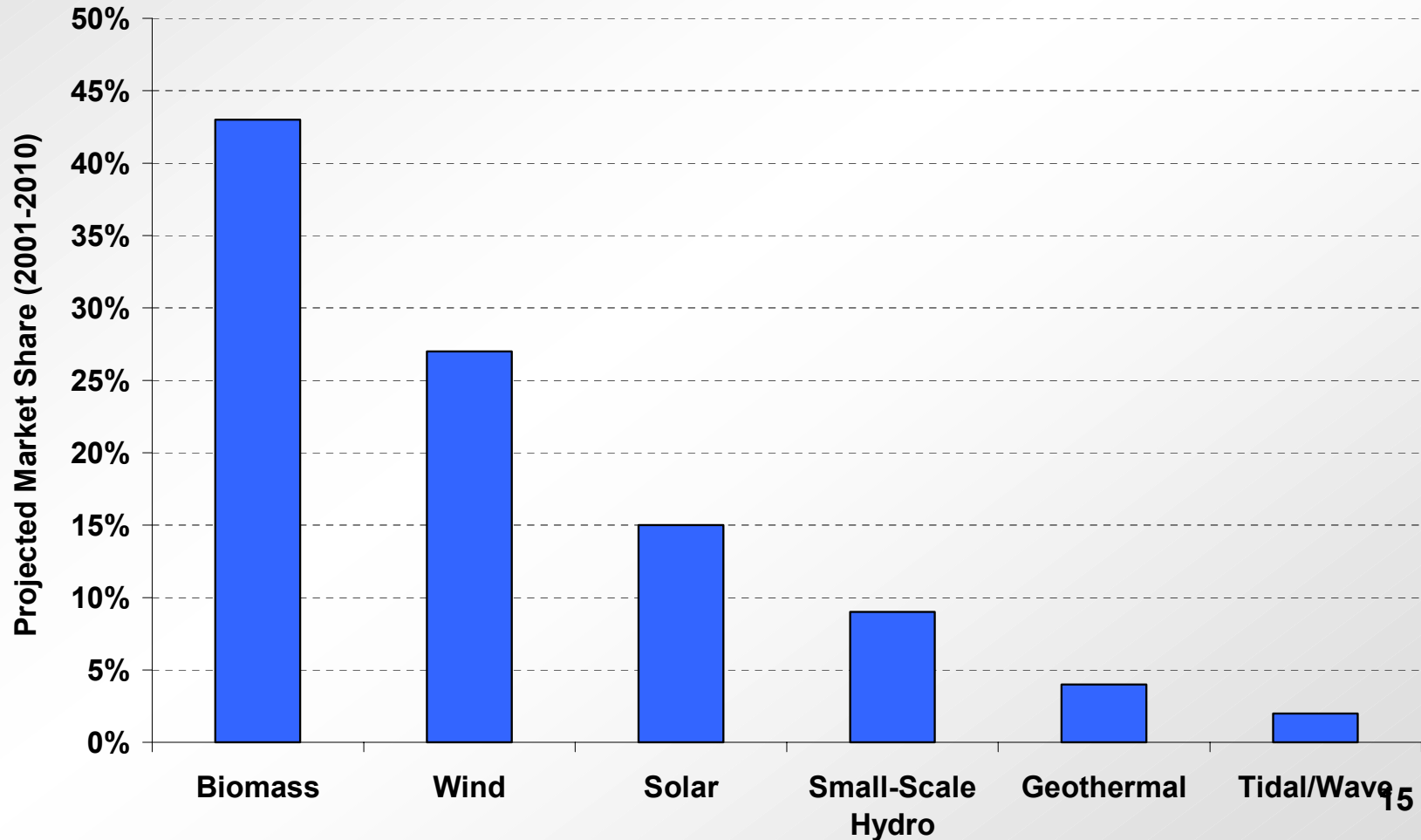
# Project Impacts

Yet the use of GHG credits has also been shown by the World Bank PCF to augment project IRRs....





**Estimated Share of \$270 billion Renewable Energy Market (2001-2010) by Technology**



# Key Issues For ECAs

## ■ INFLUENCE DEVELOPMENT TRAJECTORY

## ■ RISK MITIGATION

## ■ FINANCIAL OPPORTUNITIES

## ■ REPUTATION

- *NGOs*
- *Government CC Policymakers*
- *Financial Partners*
- *Project Proponents*

# Leading Fls

## ■ Dresdner Bank

- *Emissions Trading*

## ■ Barclays Bank

- *Emissions Offsets*

## ■ Rabobank

- *WB PCF Partner*

## ■ Deutsche Bank

- *WB PCF Partner*

## ■ Swiss Re

- *D&O Liability*

## ■ Element Re

- *Climate Change Sector 'Checklist'*

## ■ USS

- *Thought Leadership*

## ■ Fannie Mae

- *Energy Efficient Mortgage*

## ■ Friends, Ivory & Sime ■ Marsh

- *Carbon Screening*

- *Risk Mapping*

# Key Recommendations

## ■ LEAD BY EXAMPLE

- *GHG Criteria in Project Selection*
- *Liase with Leading FIs*
- *CDM/JI*
- *Value Through Sustainability*
- *Internal Policy*

## ■ DEVELOP ANALYTICAL TOOLS

- *Credit Risk Management*
- *Project Benchmarking*

## ■ OPTIMIZE 'GREEN' CASH FLOW

- *GHG Credits*
- *Green Trading*