

# **THE ENVIRONMENT - FINANCE NEXUS**



## **THE MARKET VALUE OF POLLUTION PREVENTION**

**Candace Sellar  
Head of Pollution Prevention, Ontario  
Environment Canada**

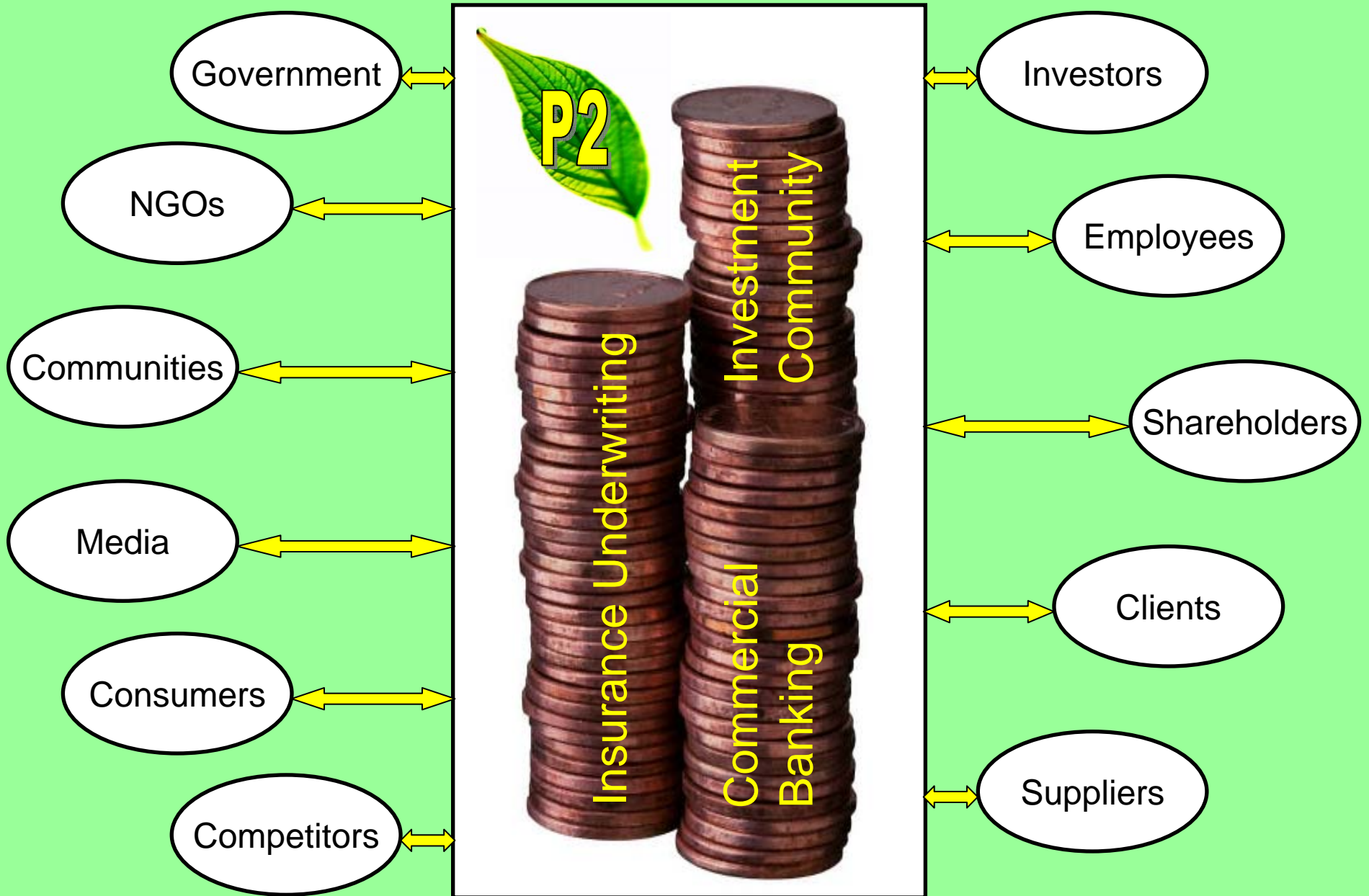


## WHY ARE WE DOING A PRESENTATION ON THE ENVIRONMENT FINANCE NEXUS?

- ✓ *To demonstrate how P2 & good environmental performance can add value to a company's financial performance.*
- ✓ *To show how your firm's environmental portrait impacts on the core financial services available to you.*

**“Sustainability versus profitability  
is a false choice!”  
Joel Makower, GreenBiz.com**

# WHO ARE THE STAKEHOLDERS?





## CORE FINANCIAL SERVICES & RISK

### ***Commercial Banking***

- Traditionally Risk Aversion
- Risk Profile Clients Assets

### ***Insurance Underwriting***

- Traditionally Risk Adoption
- Historical Risks
- Present & Future Risks

### ***Investment Community***

- Traditionally Risk Maximization
- Investors can be anyone



## CORE SERVICES RESPONSE TO ENVIRONMENTAL CONCERNS TO DATE

### ***Commercial Banking***

- Increased Scrutiny

### ***Insurance Underwriting***

- Asbestos Lawsuit Litigation Costs
- Pollution Exclusion Clauses
- Env'tl Impairment Liability (EIL) Policies
- Cleanup Cost Cap Insurance Policies

### ***Investment Community***

- “Triple Bottom Line”
- Screening Tools & SRI Growth

# COMMERCIAL BANKING

## A Bank Perspective:

- influence on small & medium size enterprises
- impose environmental conditions
- lender liability & reputation risk
- investors

## A Facility Perspective:

- environmental counsel when pursuing funds
- good environmental performance = financial service benefits

## COMMERCIAL BANKING: P2 BENEFITS

- P2 initiatives can open the doors to:
  - ✓ minimizing lender liability & risk
  - ✓ preferential lending packages – e.g. Cooperative Bank – net savings for a company can be as high as 30% when compared to standard interest rates
  - ✓ green mortgages – 1.5 to 2.0% below market
  - ✓ insurance savings – for low pollution vehicles, breaks ranging from 3 to 10%

**“There is a corporate fiduciary need to evaluate risks – which includes the ‘currently off balance sheet risks’.”**  
**Mindy Lubber, President, CERES**

## HOW CAN P2 HELP WITH LENDER LIABILITY & REGULATORY RISK?

- **CEPA 1999**: Sections regarding responsibilities pertaining to remediation & mitigation: “any person who owns or has charge of” stipulated toxins that are released, or who did “cause or contribute to a release”.
- **Fisheries Act**: Duties apply to any person who i) owns or has the charge, management or control of a deleterious substance, or ii) causes or contributes to the causation of the deposit or danger of a deposit, or iii) linked to the substance, not owner etc. of property.
- **Ontario EPA**: Liability includes persons who have previously owned or controlled the source of contamination.

# INSURANCE UNDERWRITING

## An Insurance Provider Perspective:

- environmental performance & analysis of risk
- influence via policy development
- new products to address risk
- investors

## A Facility Perspective:

- difficult & expensive to offset risk
- insurance data used by investors

# INSURANCE UNDERWRITING: CHANGING TIMES

## An Insurance Provider Perspective:

**“Lloyd’s of London, the oldest insurance market in the world, urged its members to start taking global warming more seriously, by increasing prices to avoid being swept away in a sea of future financial claims.”**

**“Insurers should cease to base risk premiums on historical data & do more to look ahead & factor in scenarios connected with climate change.”**

**“It was time for insurers to stop treating climate change as a peripheral field of work and to put it at the centre of their operations.”**

Source: Guardian Unlimited - <http://www.guardian.co.uk/climatechange/story/0,,1791115,00.html>

**“AIG recently appointed a new Director of Climate Change – who is responsible for producing new products & services.” CERES**

# INSURANCE & CLIMATE CHANGE

## Some Facts to Consider:

- **Estimated damage from catastrophes has doubled every year since 2002, while claim volume has increased since 2000.**
- **Five hurricanes from the 2005 hurricane season (Katrina, Wilma, Rita, Ophelia and Dennis) accounted for \$52.7 billion, nearly 93% of last year's insured losses affecting nine states.**
- **Hurricane related deaths in the U.S. in 2005: 1,218 people.**
- **Predictions by meteorologists that hurricanes will continue to be more frequent and more intense for the next 15 to 20 years.**

# INSURANCE & CLIMATE CHANGE

## What Does This Mean For P2?

- **Help to limit business interruption due to catastrophes.**
- **Can limit envt'l damages & liability due to catastrophes.**
- **Insurers now have heightened interest in climate change & P2 initiatives that address CO<sub>2</sub>.**
- **Now doing CO<sub>2</sub> benchmarking, a means of measuring the CO<sub>2</sub> intensity of firms.**
- **Insurance firms control approx. 25% of the stocks in global financial markets, & could affect CO<sub>2</sub> emissions directly by their investment strategies.**

# **INSURANCE UNDERWRITING: INFLUENCING P2**

## ***Examples of Insurance Industry Influence Beneficial to the Implementation of Pollution Prevention Initiatives:***

- **Clean Marine Program – identifying risks – insurance savings on insurance premiums – the higher the environmental rating, the higher the insurance savings.**
- **Quebec insurer, Desjardins General Insurance, offers extra 10% discount on hybrid vehicle premiums – greening fleets**
- **USTs – mandatory double hulls and an air pressure monitor – making it more challenging to have USTs – promoting alternatives such as JIT and elimination of toxics**

# Investment Community

## An Investor Perspective:

- Users of corporate environmental reporting
- SRI vendors & environmental screening tools
- “One Bad Apple” approach

## A Facility Perspective:

- good ‘environmental portrait’ & SRI’s
- product quality, health & safety & financial performance
- lost investment dollars and increased image risk



## **INVESTMENT COMMUNITY: TIMES ARE CHANGING**

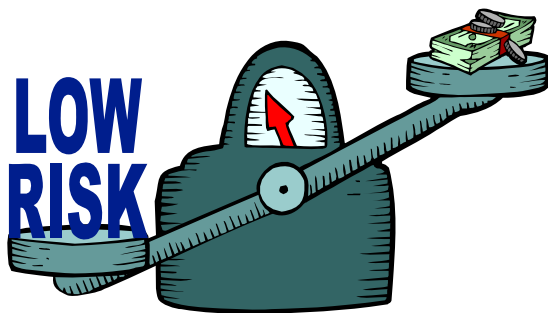
- **2005: Merrill Lynch & the World Resources Institute, published a report on climate change & investment strategy – a first of its kind statement from a mainstream US investment firm that CO<sub>2</sub> emissions should be treated as a business risk!**
- **Provides detailed analysis of firms that are risky & firms that can be expected to benefit from measures to reduce CO<sub>2</sub> emissions & are thus good investments.**

# INVESTMENT COMMUNITY & SUSTAINABILITY REPORTING

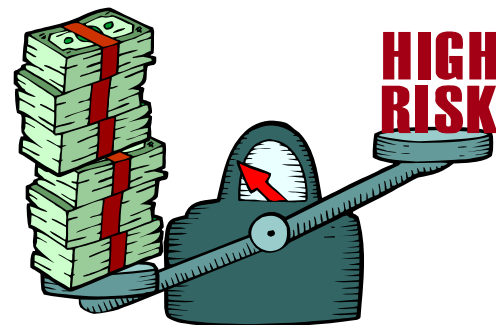
- **26% of the Top 100 Canadian companies prepare environmental sustainability reports**
- **The Investor Network on Climate Risk (INCR) – 2 year old alliance of 50 institutional investors in the US and Europe, collectively managing approximately \$3 trillion (US) in assets**
- **Environmental, Social & Corporate Governance (ESG) issues are the core mission of the Global Reporting Initiative (GRI) (G3)**
- **GRI established to create a common framework for sustainability reporting worldwide & working toward harmonization of disclosure**
- **Over 700 companies from around the world use GRI reporting guidelines**

# ENVIRONMENTAL PERFORMANCE INDICATORS & P2

- ✓ Disclosure of Env't'l Policies
- ✓ Proactive Env't'l Management
- ✓ Pollution Prevention Initiatives
- ✓ Raw Material Efficiency
- ✓ Recycling/Reusing
- ✓ Elimination of Waste Streams
- ✓ Emission Reductions
- ✓ Environmental Products
- ✓ Toxic Release Reductions
- ✓ Energy Efficiency
- ✓ Good Compliance History



- ✓ Nondisclosure of Env't'l Policies
- ✓ Environmental Violations
- ✓ Environmental Emergencies
- ✓ Flagged Industry e.g. Pesticides
- ✓ Greenhouse Gas Producer
- ✓ Supply/Use ODS
- ✓ Adverse Environmental Publicity
- ✓ Reputational Controversies
- ✓ Non-Env't'ly Friendly Products
- ✓ Increasing Emissions & Spills
- ✓ Toxic Use & Releases



# THE UNHAPPY INVESTOR



- **Shareholder Activism/ Exit of Dissatisfied Investors**
- **Divestment – e.g. Walden Asset Management & Safety-Kleen**
- **Active Engagement & Shareholder Voting (CERES)**

## A Fact to Consider...

- **Some of the world's most influential institutions are public pension funds: it is estimated that pension funds (both public & private – account for up to 35% of total global investment**
- **e.g. Ontario Teachers Pension Fund – Talisman & the Sudan**

# THE UNHAPPY INVESTOR & SRI



## Finally, is SRI profitable?

The web site, [www.sristudies.org](http://www.sristudies.org), lists 16 studies that show that SRI funds do as well as or better than comparable financial-only funds.

The Domini 400 Social Index is a list of US companies that meet certain social and environmental criteria. Over the 10 years to 2001, the index returned an annual rate of 16.3%, compared with the 15.1% returned by the S&P 500.

In Canada, we have the Jantzi Social Index of 60 Canadian companies selected on social responsibility criteria. Although the index does not have a long track record, historical data shows that the value of the JSI increased by 18.9% over a five-year period, compared with the TSE 100's growth of 18.1% and the TSE 300's 17.4% over the same period.

Source: <http://www.bctf.ca/ezine/archive/2005-2006/2005-11/support/39SRI.html>



## SUMMARY

- The activities of companies are more closely scrutinized by stakeholders.
- Stakeholders will attempt to influence companies to have better environmental performance.
- P2 initiatives improve the environmental portrait of a company.
- Reputation/Image Risk associated with poor environmental practices can translate into financial loss.
- Eco-leaders and eco-innovators will have the competitive edge.