

Transparency in sustainable finance: it's more than a tick box exercise

Episode 2, part 2

Emily Farrimond, Baringa: Welcome back and thanks for joining us again. Wendy, towards the end of part one, you talked about the need for two different taxonomies. One that's looking at the environmental outcomes and driving positive climate change and action. Then, a separate one for the social outcomes. So, I'm going to ask you a really contentious question. Which one's more important?

Wendy Whewell, Santander: So, to me, it's actually thinking about what impact does anything that we do in an environmental matter have from a climate change perspective. We have to look at the unintended consequences. Before the financial crash, none of us, probably, unless you're a really great follower of economics, would have heard of Black Swan events. We've now had the financial crash. We've now had a pandemic. I would never have thought in my lifetime that we would be living through another war. These situations are really, really unusual, and I think we have to really think about what the unintended consequences are. Let's think outside the box. Make sure that we bring collective brains together to ensure that every step that we take, we look at it through the lens of the United Nations Sustainable Development Goals. There are 17 great goals that have been set up that are global. Everybody knows what they are. It's a universal language. If we look at those goals and we think about the steps that we take and can identify the goals that we're helping, whether it's sustainable cities, whether it's looking at how we reduce poverty, how we reduce hunger. I think it applies to everybody, whether we're sitting in the West or whether we're sitting in Europe, the world. It's really important on that sustainable trajectory.

Emily Farrimond, Baringa: Thank you, Wendy. You didn't fall into my trap there, so well done. What about you, Natalia? In terms of which do you think is more important, the social or the environmental outcomes?

Natalie Cermeno, Baringa: Well, I guess I got the answer already. So, in that sense, I will try not to fall into the trap unless you are trying to trick us with another twist. Wendy gave amazing examples that are both super important. I feel in a way that the social element has been underplayed, and I think everybody started with climate change as the big thing and started measuring this. But there's much more to it, even on the environmental side with the biodiversity and the water, and everything else. As Wendy said, that has consequences in the social outcomes and each of them feed each other. To me they are both needed and neither would be able to thrive without the other. I think in a way maybe that's one of our challenges, that there is a tendency of looking at 'E or S' rather than 'E and S' together. I think where we could benefit is from having diverse teams that can look at both angles at the same time rather than having the 'E' expert or the 'S' expert we can have both experts working together rather than in silos. I think that once you start opening that you will realise it's not one versus the other. There are conditions and requirements, and if you don't get the two of them right you will have lost the game sooner or later.

Wendy Whewell, Santander: Natalia has hit on one word that is so important to me. Sustainability is not a silo - environmental, social, governance. It is an umbrella that goes across everything. It's really important that we consider the impacts, whether it's cyber crime, that then has a knock on impacts into international wildlife trafficking or, modern slavery, human trafficking, all of those aspects. It's all interlinked. And we can't just segregate it. We have to look at how it all impacts on each other and that, if we're going to tackle the climate change emergency, we have to think about the impact that it has on

people's lives. The aim is to improve people's lives so that they can see the importance of it, so that they don't do things that will have an impact on the climate.

Emily Farrimond, Baringa: I think we haven't used the magic word. But I'm sure we need to get to it. And that's, how do we support a just transition? That's super important to all of us to make sure that social inequality isn't further diversified through trying to transition to a low carbon society.

Wendy Whewell, Santander: Exactly that. There is a great interview by our executive chairwoman, Ana Botin. She did it with Bloomberg just before COP26 and talks exactly to that point. We've come out of the pandemic. How do we do a just transition? How do we look after people? As we're a global bank thinking about somebody in Mexico who is struggling to even have a home and we're talking about climate change. How do we make that possible? How do we support them and those aspects of it? And there's some great things that are going on. In the UK you have the community interest companies. We've got great examples of wind farms that we've supported where all of the profits go back into the communities and I think we need to use that framework a lot more to support businesses. If you read in the paper this morning, there's a great example of a business that has come together to share electric vehicle charges. One of the biggest headaches that we are all considering as to what happens if you live in a flat, how are you going to charge your vehicle? What's going to happen? But if you can find a community way to actually build together with regards to these electric vehicle charges, then it's going to make a big, big difference. So that just transition is firmly built into everything that we do.

Emily Farrimond, Baringa: Great to hear, Wendy. Just thinking about it from the other point of view, the topic of greenwashing is all over the place at the moment, and we know we're seeing a very directional point of view from the regulator and particularly the FCA in the UK being clear that they're looking to put policies in place on that topic. Is it something that concerns you?

Wendy Whewell, Santander: Very much so. Credibility, our license to be here, is really important and we have to understand exactly what we're doing from the greenwashing, and that's why the classification system is so important. So, we understand why a business is wanting to do certain things. If we're to support them, we have to understand the full strategy of the business on that sustainability journey. Greenwashing, I think that's vitally important because we've got to make sure that promises made are adhered to and that they actually go in the right direction. Things will change, so we have to make sure that we understand exactly the reasons why we're doing things today so we can explain them in the future if somebody questions them. But there will be transitions. There will be amazing technology that will come along that somebody might say with hindsight, well, why did you do that? If we've got the framework today, we can explain it exactly. But, greenwashing, sustainability washing, it is very much on our lens that we make sure that we understand very clearly, that it is a big, big risk to us all.

Emily Farrimond, Baringa: Thank you. Natalia, from your work with clients, I know that you regularly talk to them about the topic of greenwashing and how they're trying to address some of their concerns in that area. Is there anything that you want to add?

Natalie Cermeno, Baringa: Yes, I think most of the time when people talk about greenwashing it's through this negative lens where maybe someone is trying to arbitrage it. It is like trying to look like you're green without looking green. But one of my concerns, and that's why we at Baringa are really focussing on greenwashing, it's not because we

believe people are inherently bad and deliberately trying to arbitrage the system. It's because it's a new asset class, it's a new way of thinking. I think there is greenwashing that can happen just by lack of knowledge, by that moving landscape going so fast that you are trying to catch up. That's where we really want to focus on. We are already focussing on working together and understanding and challenging ourselves and challenging our clients to really understand greenwashing. In a way, the last thing you want is to be greenwashing without purposely doing greenwashing. I think that purposeful greenwashing is something that, in a way, you can address very easily. The regulators will come, they will crack down and they will give a fine. But it's about changing the cultural learning and shifting the people's mindset to actually go on the right journey. I think more often than not it's done by not knowing rather than actually trying to arbitrage the system. So that's why I think is very important to be conscious. It's almost like an unconscious bias when you are doing greenwashing, you are not even realising it and that's what you really want to avoid.

Emily Farrimond, Baringa: Do you have any guidance for people in terms of when they're thinking about how not to have that unconscious bias? What is it you suggest they do to open their minds to all of the issues and challenges and to understand as much as they possibly can? Is there any specific guidance you'd have for them to support them?

Natalie Cermeno, Baringa: Yeah, I think there's two guidance. Obviously, if you are in financing, you want to be looking at people like the LMA and you want to understand how they look at it. You want to look at the climate initiatives. That's on the technical aspect. But I think even moving further than that, when we're just talking banking, one thing they tell you is: don't do something that you wouldn't want to be shown in the industry. And that's almost like a moral compass that you can just use for tax schemes, you can use it for accounting. I think there is a lot you don't know, but it's a lot of questioning yourself. How would someone else look at it from the outside? Am I thinking about it the right way? It's about talking to other people, it's about reading. Even if we look at Ukraine, there is a big divide with the arms and defence. So maybe your view two years ago, would you finance arms? Maybe it would be quite black and white. Then the question 'would you help defence?' is slightly different and maybe now people would potentially have a different answer than they had three months ago. So, it's about deeply thinking and looking at guidance and best practise in the market.

Wendy Whewell, Santander: I think on that point as well, education is key. We see examples of where people are objecting to whether it be wind farms or solar panels or new inventions. I think what we have to do is collectively work together. Find a way to educate people so that people can understand the reasons why it's being done, what the benefits are. I think if you take what happened with the zero emission zone in London, the low emission zone in London, when it got extended, that had a big impact on people's lives, especially as we were coming out of the pandemic and people still wanted to travel by cars rather than by tube. And it was the right thing to do because it has an impact on people's health, as well as removing cars that are emitting too many CO2 emissions and all the other emissions that come from those vehicles. But we need to educate people on why it's important, because actually a lot of low-income families will be living very close to those roads, whether those CO2 emissions are creating bad air quality and it's protecting those young people. So sometimes we'll have to make some really hard choices and we have to explain why those hard choices are being made. Because actually, in the long term, the health of the people that we're trying to protect will be far better than if we don't. It's a long trajectory and things like this podcast are really, really important because hopefully people will get an understanding as to why we're doing these things and why they're so important.

Natalie Cermeno, Baringa: I was reflecting a bit further about how to avoid greenwashing. I said, let's look at the principles and what is out there, but it's also going further and not looking at the principles, you also need to look harder and get to know your clients. What type of company are you actually trying to help? What are their ambitions? What are the expectations? How do they want to go on that sustainability journey? And that's equally as important as actually making sure the structure ticks every single checklist. It's looking a bit wider into almost due diligence for your client. And not due diligence as an exam but actually helping that client to transition into where you think they should be going.

Wendy Whewell, Santander: And that's such a brilliant point because those businesses that are doing this well are those that have got board representation. You've got remuneration attached to those sustainable goals through the sustainability plan. That it has been shared right through the organisation and everyone's bought into it so that you could go to a business and whether you speak to somebody who works in the transport department or somebody who works in the factory, that they would actually be saying: these are our goals and we really understand it. And that's when you know, when the sustainability strategy is there because it's in the DNA of the business rather than it's in the prospectus of a business because they know that's what the investors wish to say.

Emily Farrimond, Baringa: That's a really interesting point and, Wendy, you talked a little bit there and a little bit earlier about some of the tradeoffs between environmental and social outcomes and actually balancing needs of the few versus the needs of the masses. And your wind farm example was a great example of that. I just wondered for you and the organisations you're working with, how are you balancing the tradeoffs between, I guess, the three key critical factors which are: driving positive social outcomes, improving our environmental footprint and I suppose saving the planet, but also driving economic outcomes because that's a tricky one to balance and a lot of decisions have really historically been made based upon the economics without society and the planet being considered at all.

Wendy Whewell, Santander: It's a really great question, Emily. And actually, Natalia worked with me to pull together some training for our colleagues, and we have this great slide that I've spoken to earlier about the physical and the transition risks, but underpinning that is the impacts on the businesses. And one of them is: what happens if you don't change? What happens if you don't take these important steps, whether it be from the societal or whether it be from the green element. Other businesses will be doing so, so you'll lose your consumers, you'll lose whoever you're selling to. That will have an eventual impact on your profitability. And then if you suddenly decide, oh, I've actually got to do something, you actually won't have the profits to be able to pay for it, or you won't be able to perhaps sell your business because your business doesn't have any value. Or you've stranded your assets because you haven't actually taken steps to move towards protecting it against flooding or from the rising energy costs. So, all of these impacts really do actually come down to the P&L at the end of the day. And if you're not doing the right things, as I said earlier, you're not going to be able to attract the talent and the people that you want to work in your business, because they'll have gone and said: 'Well, I've got the choice of two businesses and this one's got great purpose and are doing all the right things. And I want to be with them and want to be with them on the journey. Whereas this other business isn't.' So, I think it is an extremely hard balancing act. It's never been more difficult in all our careers actually. I think, how do you balance it all up to do the right things, to make sure that you've got a sustainable business and to protect the environment and especially

with all the other things that are going on at the moment. But I think we have to take this as an opportunity to say, gosh, there are rising energy costs, but actually we could use this as an opportunity to bite the bullet and think about how we're going to look after our premises, look after our infrastructure. Think about solar panels, whether it's some form of hydrogen type of energy, and think about how we're going to move forward. And I think there's an element of who wants to be a first mover. We've seen what happened when we first saw renewable energy, the importance of the feed-in tariffs. What great impact that had of kick starting that sector. And perhaps there needs to be something more like that that will help businesses be brave and say, 'actually, I will take the plunge and start moving and start doing the right things for my business to protect it for the future.'

Emily Farrimond, Baringa: That leads me to my final question, Wendy, for you and then we'll come to Natalia. It feels like a great place to ask, if you could click your fingers and get to the perfect state, what role would you and Santander be playing in the sustainability ecosystem?

Wendy Whewell, Santander: If I could click my fingers, that means that I've done my job. I'd be out of work because everybody would have sustainability in their DNA. Everybody would be looking at this through the lenses that we've talked about earlier. And really, it would just be part of everybody's business proposition that they're looking at how can they make the lives better from an environmental perspective, from a social perspective and great governance protecting everybody. I think to be able to get there on that trajectory, what's really important is the education. I don't want to be the last person to have seen polar bears or to have seen the penguins down in the Antarctic, and people can only see them from my photographs. I really think it's important that we help people on these journeys. So, clicking my fingers, it would be that we are having these really, really great conversations, working with great partner companies like yourselves in supporting our businesses and helping them on this really difficult journey. Because if we don't, we won't get there. There is a great quote from Christiana Figueres. Let me read it to you, because I just think it's important. 'The planet has been around for four and a half billion years. She was perfectly happy before we ever got here, and she'll be perfectly happy if we are idiots enough to pull the ejector seat and leave.' I don't want to be the one who's ever responsible for that ejector seat. I want to be one of those people who is working with everybody collectively to try and make a contribution on this journey. That we support everybody, so we protect this planet for the generations to come.'

Emily Farrimond, Baringa: It sounds like your answer is you want to do yourself out of a job and spend more time photographing wildlife. Is that a fair summary?

Wendy Whewell, Santander: If we ever got there, yeah. But I love my job. I am so blessed to be given this opportunity to do this job.

Emily Farrimond, Baringa: Fantastic. And Natalia for you, is there anything you'd like to say if you could click your fingers and get to a perfect state?

Natalie Cermeno, Baringa: Well, that's a big question, and even bigger after Wendy's response. I think I would like to see a more equalitarian society. I think there is still too much difference between people who can't afford, people who happened to be at the right place at the right time versus people who didn't. And the work the people who weren't at the right place at the right time need to do to get to the minimum standards is too much. So, I think that's the bit that you want to see more of. I think that's the bigger piece that I would want to see. And as Wendy said, that you almost want to be in a place where, as I

said before, there's no sustainable finance or sustainable management of business – they are all sustainable. And that's business as usual. And we are helping businesses, but we are helping businesses, not as a specialist, but as mainstream because all businesses are already looking at the same goals and are supporting the Sustainable Development Goals.

Emily Farrimond, Baringa: Thanks, Natalia.

Wendy, Natalia, thank you so much for your time. I'm going to draw it to a close there. Your passion absolutely shines through and it's been a pleasure spending time with you.

Wendy Whewell, Santander: Thank you so much, Emily, I've really enjoyed it.

Natalie Cermeno, Baringa: Thank you very much.