



2020

The Decade ahead

2030

Unthinkable (but not impossible) forecasts

ESG & Sustainability

Arthur Krebbers gives us his outlook for the decade ahead and the positive impact of coronavirus crisis on climate goals.



Arthur Krebbers

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Let's start with the realistic outlook and the status quo

1. There has been a constant deluge of negative news flow around the coronavirus crisis, what's been a positive take for you?

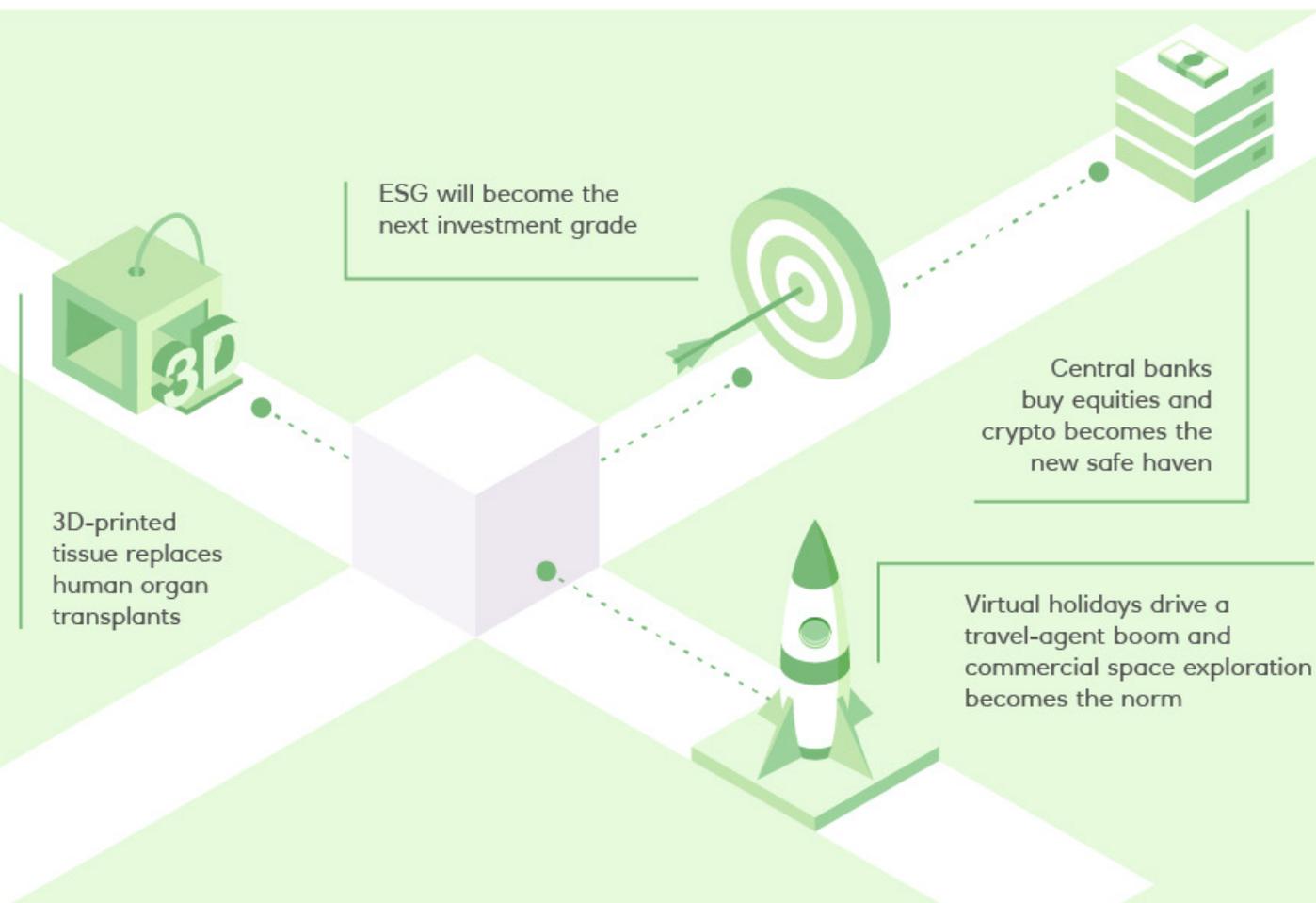
At the beginning of all this in January and February, most western/developed countries felt that we were worlds apart from the crisis taking over a small, remote region of China. For many, this combined with our idea of medical science created a blissful state-of-mind that pandemics are 'things of science fiction' or Hollywood, and that the science would protect us if it did ever come. It wasn't until the virus reached closer to home and hit Italy and New York that the mind-set changed. This crisis has really shown how interconnected we all are, both as a global society and as a species. The virus discriminates no one and this crisis has forced lots of humility and respect for our shared human-ness. I like that.

There is a great solidarity story here, too — in recent years there was a growing conflict between generations, value systems and economic priorities. Tensions especially between baby boomers and millennials have been reflected in things like the rise of political populism and decisions around Brexit, for example. It's been heart-warming that this crisis has forced more intergenerational solidarity and dialogue with younger generations helping to support the elderly through volunteering and community outreach.

And finally, society is shaped often by those who we consider to be our role models – for many over the past decade it's been reality TV and social media stars. In war time, people look up to soldiers; but during the war against coronavirus it's been doctors and nurses who have become the dominant role model, and this is hugely positive. Hopefully this will inspire our younger generations to take up a medical profession, which would be great as there is still a lot of work to do, especially with our aging population.

2. The coronavirus crisis has caused the largest annual fall in global CO2 emissions; will it have a lasting impact?

Pre-crisis, many of us had quite high-carbon lifestyles and it was considered 'just the way we do things'. We needed to be in the office, we needed to get public transport and we needed to travel abroad. Now all of a sudden, I can see from our own businesses, as well as hear from clients, that things are changing – yes it's forced, but in many ways we are becoming greener and it's great to see. After all, a lot of psychology research says it takes about two months to form a habit, so I'm hopeful that some of these forced adjustments will inspire lasting change for many of us, as well as the planet. Whether that's more working from home, cycling to get around or having more of your meetings online to avoid travel. The crisis has certainly been a wake-up call for many and might just be clincher for those who still needed convincing that we can change our lifestyles to deal with global warming.



3. Climate has been a big story during the crisis, but what about other ESG (environmental, social and governance) issues?

When we think about sustainability, many equate it with environmental sustainability and climate change — that’s the goal which rallies most people around the flag. Now clearly the focus has shifted very quickly and accelerated the trend towards social sustainability and thinking about vulnerable parts of society, whether that’s for physical and mental health reasons or economic ones. It has forced us to think more about the role and duty that companies and governments have in supporting society. And the reality is that it may not always be in one’s short-term interest (especially financial) to do ESG-related things, but it absolutely is from a longer-term sustainability perspective.

For the ‘E’ in ESG, we have the language of carbon and metrics like emissions and weather. But for social, we use the language of people which makes it more challenging to describe, differentiate and measure the impact of social actions. Also, the ‘S’ in ESG is typically thought of as philanthropic ‘giving back’ sort of initiatives in faraway countries — but most often, social begins close to home. It includes a company’s treatment of its employees, suppliers, clients and local communities. The coronavirus crisis has seen a greater focus on employee welfare. Wellbeing programmes and mental health awareness have experienced exponential growth over the last decade, and hopefully this crisis will spark more progression here too. Such wellbeing needs are what some are calling ‘personal sustainability’.

4. Looking back to your expectations for 2020, which themes are the same, which are different?

I’ve been expecting to see sustainable investing become more and more of a defensive play — for it to move beyond the realm of PR and clever communications and marketing strategies, more towards regulation and strong pressure from critical stakeholders. And now with the coronavirus crisis, we have seen that strong pressure applied. For 2020, I also predicted that the green bond market would grow, particularly in the US. Instead, we’ve seen the spectrum of the sustainable bond market broaden, thanks to masses of social bonds issued during the crisis to help fund government programmes and policies. It is absolutely my view that green bonds will continue to grow, in fact I believe it will become sizeable and a very broad-church asset class in the coming years, covering all kinds of sectors and rating categories. Accessing the green bond market is the most tangible action that can be taken by a company or indeed an investor to show they are serious about the carbon transition.

An interesting change brought on by the coronavirus crisis has been the massive rise in green and social short-dated debt instruments. We used to always think about funding being long-dated, but in these circumstances, the most sustainable thing for many companies has been to access short-term relief measures such as lending, payment holidays and commercial paper.

5. Has the coronavirus crisis been the final push investors needed to appreciate ESG investing??

The coronavirus crisis will act as the first litmus test for ESG investing since the 2008 crisis. It's an ideal market situation to evidence whether or not ESG funds and assets really are sustainable, and if they can withstand major shocks better than their non-ESG counterparts. Markets have been highly volatile and investors who have been running sustainable portfolios, though they've been hit, have fared relatively well compared to others. There is more and more research out there that suggests it pays to do ESG, and this crisis will likely further confirm that.

And what about your wacky forecasts — ones that are totally unthinkable (but actually possible)?

6. With global flights stopping almost overnight and stunning results like dolphins in the Venetian canals, is this a new era for pro-environmental tourism to take hold?

Wacky and unthinkable (but actually possible) forecast: Virtual holidays drive a travel-agent boom and commercial space exploration becomes the norm

Inevitably, less air travel will work wonders for the environment, but it might also inspire (or indeed, bring back!) new types of travel. With social distancing, there is no doubt that holidays within local borders will become our new normal, at least for the short term. But once flying can resume, we may see a shift in preference. I wouldn't be surprised if many limit their global travel for some time now, and this will see a period where people will become much more focussed on their local environment. The crisis has seen a number of cities, museums and attractions offer virtual tours. They've proven popular, and I don't see why this won't kick off a new trend into the world of virtual holidays — it will certainly elevate the concept of 'staycation' to new heights!

Once we move on from the coronavirus crisis and the world around us is fully embedded into the digital transformation, with a new culture of innovation, we may well see commercial space travel become frequent and even 'normal'. There's been lofty talk of taking holidays to the moon for some time; but holidays aside, as the science develops, the idea of more trips to space for scientific discovery and life outside of this planet does seem plausible. And looking at our planet from afar may help more people realise how precious it is!

7. You refer to digital transformation and a new culture of innovation, what other ESG-related innovations might we see?

Wacky and unthinkable (but actually possible) forecast: 3D-printed tissue replaces human organ transplants

I'm expecting to see pre-coronavirus trends and innovations accelerate as a result of the crisis. 3D printing is something I've been watching closely. The method can be very carbon friendly as products can be made locally, shortening supply chains as well as making them quickly and cheaply. But from a social and health perspective what I find really exciting is the prospect of 3D-printed organs or human tissue made from biocompatible plastic — which, although sounds a bit strange, is actually happening. They aren't yet fully functional or transplantable yet, but the research is already underway. What could this mean for our livelihoods, life expectancy and wellbeing?

8. Taking the interview back to the investment world — there has been an unprecedented level of monetary and fiscal stimulus in response to the coronavirus crisis. Is it sustainable?

Wacky and unthinkable (but actually possible) forecast: Central banks buy equities and crypto becomes the new safe haven

All eyes have been on the limited stimulus that central banks in Japan and Europe have been able to deliver during the coronavirus crisis. The Bank of Japan took to buying hundreds of billions worth of Japanese stocks to ease the crisis. Traditionally, central banks are buyers of bonds, but with most of the policy tools used up, perhaps a bond-only approach is no longer sufficient. At least this was the case for Japan. Might the crisis demonstrate a need for western central banks undergo a 'Japanification' of sorts? And what does that do to the relationship between companies and the public sector, already highly interwoven due to the coronavirus crisis?

Paying at our local corner store with a cryptocurrency or paying salaries in blockchain feels unthinkable for many, but it could well become our future. Uncertainty around the value of currencies in their traditional sense is always a hot topic. But a global crisis is a perfect market condition to expose weakness and spark concerns, especially when a huge amount of money is pumped into the system by central banks to help keep the economy afloat like we have had during the coronavirus crisis. It could well make blockchain-based currencies more and more appealing because there is only a fixed number in circulation and they are not subject to central bank policies.

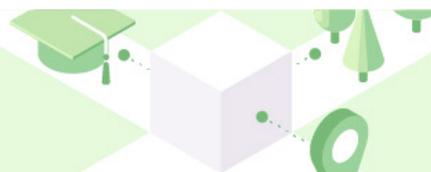
9. ESG awareness has come on leaps and bounds over the last decade. And so has responsible investing. What's next in the trajectory?

Wacky and unthinkable (but actually possible) forecast: ESG will become the next investment grade

Yes, it is totally unthinkable for some to see ESG become the next investment grade, but not for me. It's actually a long-held mantra of mine. The rise in companies talking about ESG ratings and strategies has been exponential over the last decade. And although many ESG ratings are around 100 years younger than credit ratings, I realistically think we are only a couple of years away from this becoming a reality. In my vision, companies that fail to meet minimum requirements (aka 'brown companies') will end up getting locked out of public markets and their cost of funding will become increasingly steep, forcing them to seek private funding — perhaps not quite unlike illegal business today. As I said earlier, I am convinced that green bonds especially will become sizeable and a very broad-church asset class in the coming years, covering all sectors and ratings.

One potential implication of this is that every asset will have a credit and an ESG rating. Then for every investment you can assess both the credit strengths and the environmental and social footprint. The biggest challenge will, once again, be the language of ESG. There are still hang ups and criticisms over the ESG rating methodologies available now, and I share a number of them. Issues around materiality and data availability still need figuring out and we want methodologies to come together more to allow greater comparability. It is an approach that is still very much in its infancy, but hopefully with growing focus and innovation we will find a better way of measuring ESG across the board. But just like we have a common language across credit rating space providers, with a bit of time, research and collaboration we will soon achieve a degree of harmony in ESG ratings.

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