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Interview with Kristina Jeromin: “A return to what the financial system is supposed to do”

Interview: Inken Schönauer, **Fotos:** Markus Hintzen

Ms. Jeromin, the financial world is still obsessed with sustainability criteria. Surely it’s all a lot of hype, isn’t it?

Kristina Jeromin: It’s a very topical theme right now, but too much buzz prevents the topic of sustainability from becoming mainstream.

Why do you say that?

Jeromin: Because people act like it’s an entirely new thing, which is not the case at all. I like to talk about fiduciary duty in this regard, for example. It’s certainly nothing new that investors should invest with a certain degree of prudence with their clients in mind. Since the financial crisis at the latest, we have known that focussing solely on the classic key financial figures is not enough.

That’s a new approach, isn’t it?

Jeromin: Key financial figures provide us with information about business performance over the past twelve months, but they tell us very little about future opportunities and risks for companies along their entire value creation chain. If I look at the fiduciary duties of investors though, precisely this future aspect is crucial. Here, it’s not just about risks that could arise in the near future, but also areas that could be problematic in five, ten or 20 years’ time. Examining these is one of the classic jobs of an investor.

But that’s also part of the entrepreneur’s job, isn’t it?

Jeromin: Of course. Companies must continually review whether their areas of business still conform to current standards. If I have built a central pillar of my business on coal-fired power, for example, then the question has to arise of how future-proof this business model really is. It’s also likely that regulation will increase if the goal of limiting global warming to two degrees is in jeopardy. It’s inevitable that we’ll move away from coal, and it no longer matters which reasons you ascribe to sustainability. It’s about a rational overview and the impact on and across our area of responsibility.

Then the concept of sustainability is actually rather misleading, isn’t it?

Jeromin: I prefer to use the term “future viability”. It’s easier to grasp. Recently we have lacked a uniform understanding of what exactly is meant by sustainability, and it’s precisely this that actors within and, of course, outside the capital markets need to have in mind. After all, this is about the future viability of Germany as a place of business, but ultimately it’s also about the survival of the international economic system.

Has that been neglected to date?

Jeromin: I wouldn't put it quite so drastically. Basically, it's always a question of how priorities are set. They're changed or adjusted. It's not the case that previously there were no risk analyses or disclosure criteria, but since the financial crisis at the latest we have known that the existing structures are not sufficient.

The financial crisis first began ten years ago though.

Jeromin: You're right. Immediately after the financial crisis a lot of things initially just carried on the same way. Sustainability in the sense of future-proof financing is actually only really getting going now.

So sustainability is both trend and hype: trend because there's no way of avoiding it, and hype because it's by far the predominant theme in investments at the moment.

Jeromin: Sustainability is already beyond the trend phase. What we're seeing in terms of engagement on a European level and quite specifically from the political actors in Brussels alone makes sustainability more and more of a firm fixture in the finance industry. As far as hype is concerned, I take a similar view. A lot of things are now sustainable.

So it's good that everybody is talking about it?

Jeromin: I don't want to complain about it because for anyone who works in this area it's just grist to the mill. The problem about hype, however, is that it suggests something special. Debates then often become very emotional and can also fade away again just as quickly. I would rather we talked about honest and rational arguments.

Are there any?

Jeromin: Of course. There are very clear indications that financing cannot be entirely detached from social wellbeing over the long term. We need to get back to a stronger involvement between society, politics, academia, business and the finance industry. When the world is contending with climate change, you can't just continue with "business as usual", and that applies to the finance industry, too.

So where do we stand on that in Germany?

Jeromin: At the beginning.

That's not very encouraging – are we really just at the beginning?

Jeromin: Well, not right at the beginning. Over the past few years in particular, a number of players and initiatives have formed that are dedicated entirely to this topic.

Is it disadvantageous for Germany that the political centre is Berlin and the financial centre Frankfurt?

Jeromin: It's always a question of how you deal with such a peculiarity. In France, for example, there is an initiative called "Finance for Tomorrow", based in Paris. There, all the threads of sustainability activities in France come together. With the "Sustainability Finance Cluster Germany" and the "Hub for Sustainable Finance Germany" we have on the one hand consolidated the German finance industry, and on the other built the bridge that was needed between the finance system and politics. It helps if we're not all moving in our own little worlds. That applies to politics as much as to the finance industry. Decentralised structures can be just as good or bad as centralised ones.

So what do we need for closer integration?

Jeromin: At the moment, Germany lacks a clear political agenda on the topic. We have the German Sustainable Development Strategy, which is the responsibility of the Federal Chancellery. This also incorporates the 17 Sustainable Development Goals (SDG criteria) of the United Nations. It's important that we use this as a basis to define what that means for individual ministries and actors. There are still a lot of loose ends here.

And that leads to uncertainty.

Jeromin: Companies like certainty in their planning, so reliable and clear political frameworks are helpful here.

Are you calling for a Sustainability Minister?

Jeromin: The matter is in good hands in the Chancellery, but greater visibility is needed. I'm the last person, though, to always just pass the buck to politicians – we all have a responsibility here.

Let's be specific. How can we bring some order to all the hype?

Jeromin: I'm in favour of a sectoral approach. Here, companies need to define sustainability for their core business. That represents a huge advantage. After all, the classic key financial figures must be supplemented with relevant ESG figures to give a meaningful picture of the value of the company – both its present and its future value, as we mentioned at the beginning. The important thing here is to understand that it's not just about risks, but also opportunities and new areas of business.

So let's touch on the limitations of sustainability. What's good for one area can be a disaster for another.

Jeromin: I believe there are no limitations to sustainability. It's merely a question of: is my business fundamentally viable for the future? And there are precisely two possible answers here: yes or no.

It's about prioritising sustainability.

Jeromin: It's about bringing sustainability into the mainstream. It's not about adding it onto something else, but rather it should be a fundamental component of business strategy in all areas. It's about considering sustainability in an integrated way and not as something isolated.

That leads to conflicting objectives.

Jeromin: Of course it does. And here the area of finance is no different to any other area of business.

That means that 100-percent sustainability doesn't even exist.

Jeromin: That's precisely the case. That's why it's also wrong to exploit sustainability merely as a short-term PR and marketing topic. That's missing the point. It takes time before value creation chains are repositioned and defined. Sometimes incursions have to be made that can be difficult.

Does the EU's "Action Plan on Sustainable Finance" make sense?

Jeromin: This taxonomy process the Commission is aiming for makes a lot of sense. Essentially, it's about finding a shared understanding of sustainability based on established categories, developing criteria, and understanding the resulting implications for economic actions. But that's not a project that can be completed within a few weeks, only to end in regulations that don't quite meet the goal. We need an ongoing process that is designed to be ambitious and open, incorporating the expertise of all the relevant actors.

Then perhaps seals and labels might help?

Jeromin: The key things here are requirements and scope of activity. Seals and certifications for a "green niche" often fall short. Undoubtedly, it's important to promote transparency and standardisation, but at the same time we should always be addressing the entire breadth of the capital market and not focussing exclusively on ecological themes, but rather also social themes, such as upholding human rights in the supply chain or even integrating diversity and aspects of business management.

But without regulation there is a greater risk of unfavourable developments, as we know from the financial crisis. What happens if the first allegedly green bond topples?

Jeromin: You're right there. Regulation is always an opportunity to create clear relationships and orientation. Regulatory frameworks make the topic more attractive and the risks more visible. I just think that the topic is too important to allow hasty reactions. We spoke before about dovetailing society, economy and politics; everyone has their own role to play here. Failure to act is not an option, but nor is overregulation. We are on the right track, but part of that, as we said, is the consolidation of the initiatives "Accelerating Sustainable Finance" and the "Green Finance Cluster" of the state government to form the Sustainable Finance

Cluster Germany. That's a good step towards consolidating financial market opinion and representing it in a unified way. This has also been very positively received in Berlin.

Why is Deutsche Börse investing so much energy in this topic?

Jeromin: Deutsche Börse has a particular responsibility in the capital market, which is also justified by its public-service mission. We have to ensure a stable, correct and transparent capital market. What do we need to fulfil this mandate? My theory is that we need eyes on more than just the classic financial performance. To ensure the stability of infrastructure, you have to be familiar with the risk structure portfolio. Here, additional key figures about the future viability of business models and the idea of holistic entrepreneurship are helpful.

So is Deutsche Börse a mentor or an arbitrator of companies?

Jeromin: I wouldn't go that far. Ultimately, as a company listed on the stock exchange, we are also subject to disclosure obligations and regulatory requirements. But as a marketplace we are in a good position, because we are in contact with all the market participants. Perhaps it's a moderating role. Here, we have an opportunity and a responsibility at the same time. The changes needed are ones we cannot get right on our own, however. No one can do that alone.

Would these developments towards sustainability have happened without the financial crisis?

Jeromin: Of course I can't answer that categorically, but ultimately crises always lead to the emergence of something new. Crises bring the necessary impetus to bring about change. The whole discussion on sustainability is about considering which social groups have what tasks and how the system functions best. At the moment, I can absolutely see a return to what the financial system is actually supposed to do. Just using money to earn more money is undoubtedly too meaningless a role.

KRISTINA JEROMIN talked to us at the Deutsche Börse headquarters in Eschborn.

THE INTERVIEWEE

Wiesbaden-born Kristina Jeromin (36) is Head of Sustainability at Deutsche Börse and is therefore one of the best-placed people to discuss sustainability issues. As a company under public law, Deutsche Börse is a trading platform that acts as a kind of anchor point from which many initiatives, forums and interest groups stem. Deutsche Börse has a market capitalisation of 22 billion euros.