Transcript of interview with Gerald Podobnik, Head of Sustainability, Deutsche Bank Corporate Bank

Janet Du Chenne: ESG and sustainable finance have become increasingly important topics in the capital markets. How has Covid-19 impacted the sustainability agenda?

Gerald Podobnik: It's a very interesting question because there are actually two very different answers to it. The first is that when the crisis broke, there was some expectation that the sustainable finance agenda would take a backseat. This is obviously because there were severe economic consequences and liquidity management was the focus of the day in the first couple of weeks of the crisis. But then quite quickly we saw that the political pressure (for sustainability) is not going away. On the contrary, this might even intensify, because if we learned one thing from the crisis it's how little resilient our economies are.

This, in addition to the overall pressure to combat climate change, and the recovery programmes mean you have a clear ESG element. I think political pressure intensified, which meant that the focus has not been dropped on ESG. The second element that I find particularly interesting is that the social dimension of ESG actually gained significantly in importance. If you would have talked about ESG a year ago I would have said that the vast majority of the focus was firmly on the 'E' of ESG, particularly climate change. People talked about the 'S' but it was relatively modest compared to the importance that was given to the environmental topic. And this has now completely changed with the crisis, so that the social dimension is suddenly not just equally important but extremely well talked about and looked into next to the environmental topic. So I think if there is one result from this it's that there is a much more balanced and holistic ESG focus.

JDC: How does the ESG topic affect you as CFO?

GP: It affects me personally in three different ways. On the one hand, I'm in charge of ESG for Deutsche Bank Corporate Bank, and I'm Co-chair of the Sustainability Council, which is the Governance Forum where we set the agenda for the Bank Group. So I still have a very active business and strategy development role for ESG in the Corporate Bank. Then secondly, I'm honoured to serve on the Sustainable Finance Advisory Committee of the German government. This is a very expertise rich committee that the Federal Government set up last year to advise Germany at the national level on sustainable finance. And then thirdly, I am contributing insights on various sustainable finance related matters. These are first and foremost, the tracking, performance measurement and planning of our Eu200 billion sustainable finance target that we have given ourselves publicly shortly before our AGM.

JDC: What effect does ESG have on the cost of capital, and more specifically, what are the key sustainability risks for corporates and the financial impact of those risks?

GP: Given we talked about long term risks, and I think this is what distinguishes ESG risks quite significantly from most of the other risk categories that we have worked with for a while, is that we are in the early days of how the risk impact will look financially. I think it's safe to say is that if you take a long term perspective, then you obviously see that the more ESG friendly your business profile, this reduces your long term risk and its very likely to improve your long term returns.

The really specific issue is that for many corporates, including for our own bank, ESG is seen as a strategic imperative. Because in the end, we're talking about the license to operate. So we're seeing substantial changes required for the infrastructure for the economy if we are to effectively combat climate change. Obviously there will be social consequences of this development that will have to be to be managed properly so that we get the best out of it for human society. I think there is widespread acceptance that beyond the potential short term financial impacts, there is the long term risk impact and strategic imperative that will define your license to operate. So that's why we tell corporates that look into the matter to look at it from a long term perspective. Yes, there are risks, yes there are short term financial impacts, and there will definitely be long term financial impacts. But let's not lose sight of the important long term strategic imperative that we have to deal with. Because in the end there are potentially two mega trends that we see in our global economy. One is digitalization and the other one is sustainability.

JDC: Can you provide an example of how corporates can weigh in on the short term and long term incentives?

If I look into how corporates can strategically respond to the challenge, I always say that they should do so in four dimensions. The first one is an obvious one is, it's the business. And there are two areas here, clients and products. In the end, the economy has to transform and have sustainability friendly products. Whether you are a real economy company or if you are a financial company, you can play a very important role in that perspective and you can help your own clients to answer the challenge, and to transform. The second one is risk management, which obviously is different. If you are a real economy firm, or if you're a financial company this is how you integrate ESG risks into your wider risk management and forecasting. We talk about exposure management for banks, for example. This is the area where we talk about our policies and what we are not financing anymore. And we'll be talking about how we manage our overall lending exposure going forward.

The third pillar of importance is communication, both internal and external, which is about educating team members. Externally, it's about talking about what you do but it's also about reporting. So we see a huge trend that non-financial reporting will be called ESG relevant reporting to the outside world. We'll move more closely to what we call financial reporting which is the standard annual and quarterly reporting system of companies. And the fourth area is governance, which might be the easiest place for some to start by having a sustainability counsellor and ESG counsellor who can bring all the company’s stakeholders to the table, whether it's from the business, or infrastructure functions that work in a corporate centre to manage the company, to have one forum where sustainability metrics can be discussed and developed and also be decided upon. These are the four pillars that I would advise corporates to work on to prepare themselves for the next decade of sustainability focused economic challenges.

JDC: Please comment on key projects that you promote in your role as a member of the sustainable finance committee that advises the German government, and how can corporates benefit from those?

GP: Yes, it’s very interesting because it's a very broad committee. It includes all relevant stakeholders of the sustainability discussion including members of financial companies including banks, insurance companies and investors. It has members from the real economy and corporates as well as from academia, from NGOs, and from various governmental entities, including ministries or government run companies. This is hugely important as it ensures you get a holistic look into the question of sustainable finance.

The two directions we are working towards can be summarised into two words. One is transformation and how we can support the transformation of the German economy into an ESG friendly economy. And the other one is resilience or the strength of corporates. The biggest project at the moment is a report, which will contain recommendations to the government on policy measures that it could or should take. We have published an interim report in the spring 2020 that has been consulted on and now we are working towards finalizing that report which will be public. For the second half of the year our biggest project touches upon many topics from definition questions to product labelling questions to reporting questions and institutional structure questions. It deals with how the government and the state in particular can get involved. When the final report comes out in the second half of 2020, it will be it will be a very visible conclusion to the discussion with very specific recommendations of what Germany could implement and what Germany could push for on a European stage.

JDC: And finally, what advice can you provide other CFOs pursuing a sustainable finance agenda?

GP: I would say the biggest advice is: get involved. ESG is a topic which is, and will be very close to people’s hearts. This is not just because it has a reporting angle that describes moving non-financial reporting closer to financial reporting for the CFO, but also because it's strategically so important. We look at our revenue and cost streams, over the next decades, and ESG and the positioning of the company will have a huge influence on this again on both on both revenues and costs. That's why it's just a key topic for any CFO, and for any CFO to be to be driving. It's not just a PR discussion, it has moved way beyond that. So it should be at the heart of the strategy of a company and the CFO is obviously best person to drive this with many colleagues in the business and on the infrastructure side.