


Demographic Change and Financial Services: a Short List of Threats – a Long List of Opportunities?

**Working Group G:
Demographic Change and
Frameworks Impacting
Intergenerational Solidarity
in Pension Schemes**

Intra- and Intergenerational Solidarity

„**Sustainable Development** is a development that meets the **needs of the present** without compromising the ability of **future generations** to meet their own needs.

It contains within it two key concepts:

- the concept of ‚needs‘, in particular the essential **needs of the world’s poor**, to which **overriding priority** should be given; and
- the idea of limitations imposed by the state of technology and social organization on the **environment’s ability to meet present and future needs.**^[1]

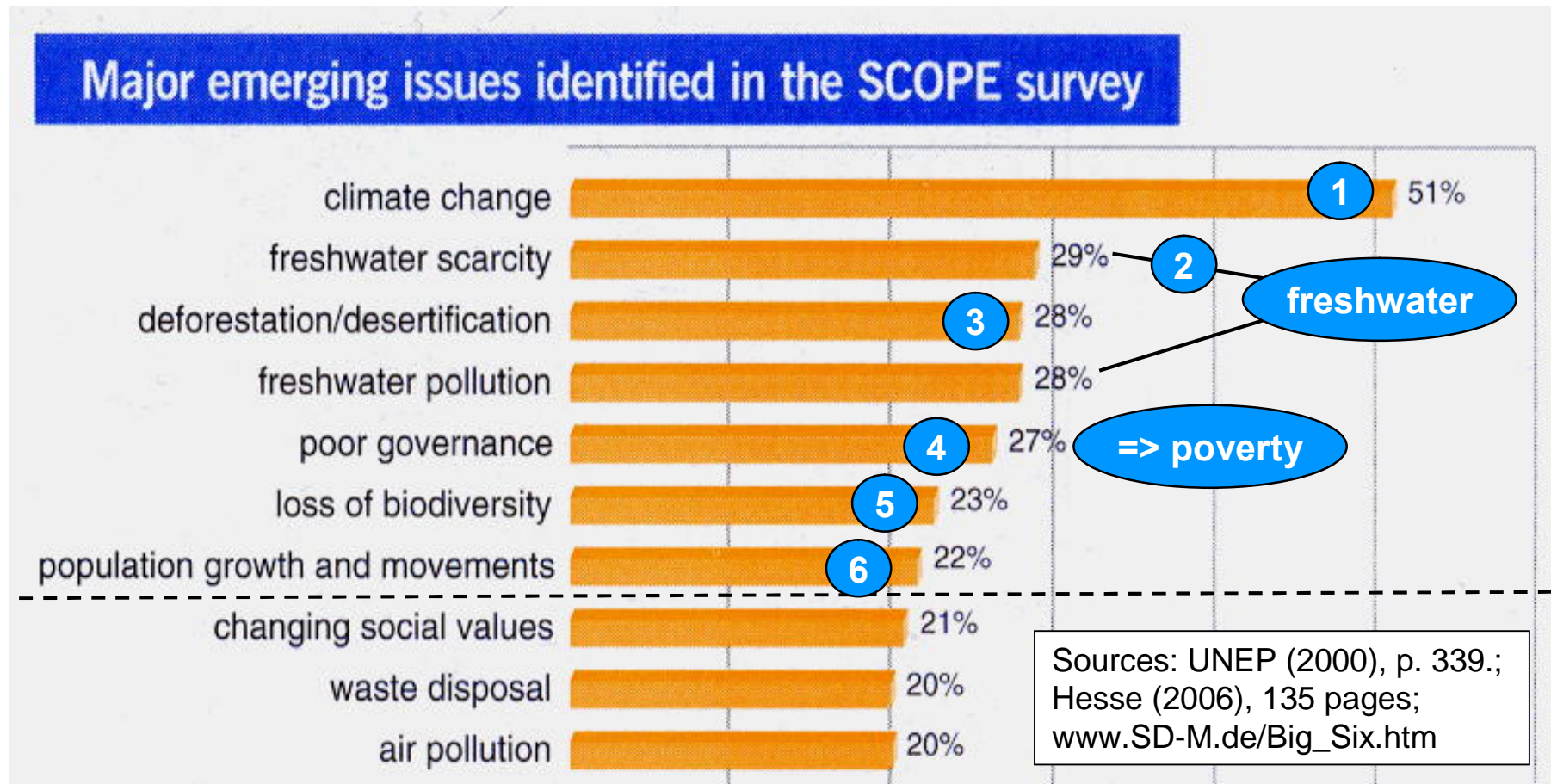
^[1] World Commission on Environment and Development: Our Common Future, Oxford 1987, p. 43.



Pension funds: - high investment volumes and influence on investee companies
- further growth due to increasing occupational pension schemes
- think, according to their goals, in a cross-generational manner

Thesis 1: Pension funds can be called “ideal sustainable owners”, as companies are interested in long-term investors, and long-term investments match the also long-term task of sustainable development.

Broad variety of sustainability criteria. - Focus on key factors like the six most important SD challenges for the 21st century “Big Six”!




Thesis 2: Global population growth is the most important sustainability challenge of demographic change. The provision of pension schemes could lower this growth.

Thesis 3: Broadening intersection of (Good) Corporate Governance & Sustainability Management / Investments in Investee Companies

AXEL HESSE

Corporate Governance und Sustainability

STEIGERUNG DES NACHHALTIGEN UNTERNEHMENSWERTES



66.03 32.82 28.27 47.16 38.46 61.55
27.82 38.34 71.23 59.24 22.84 18.76 36.04 41.19 82.58
47.28 .90 27.95 37.82 38.52 69.26 58.7
57.33 .48 26.35 72.47 28.19 48.13 38.27
17.31 .47 21.57 39.83 62.88 35.26 31.73
35.82 .53 76.93 41.35 10.73 32.94 47.12
84.83 .04 41.19 82.38 72.37 63.68 63.51
62.88 .95 57.82 61.33 57.69 22.95 61.36
91.68
54.27

Dr. Ola Ullsten, Chairman of the World Council for Corporate Governance (WCFCG):

'In other words good corporate governance is when those who are responsible for running companies perform good financial management, observe good ethics, and also realize that they have a role in looking after the environment, and in bridging economic and social gaps.' [...]

Australian Stock Exchange Corporate Governance Council: The essential corporate governance principles

A company should:

- Actively promote ethical and responsible decision-making.
- Recognise legal and other obligations to all legitimate stakeholders."



"ECGS sees corporate responsibility as an integral part of corporate governance and ECGS reports will identify **key CSR issues** for clients."

Thesis 4: “Sustainable Development Key Performance Indicators” (SD-KPIs) Impact Intergenerational Solidarity (in Pension Schemes’ Investments)

Deloitte.

Extra-Financial Issues

Sustained added value.

Information demand of investors and analysts for sector-specific “Sustainable Development Key Performance Indicators” (SD-KPIs) in Management Commentaries (MCs) of German companies

A study by Dr. Axel Hesse (SD-M) for Deloitte and the German Federal Ministry of the Environment

Audit, Tax, Consulting, Corporate Finance.

Demand of investors for SD-KPIs in management commentaries/annual reports according to EU modernisation directive

SD-KPIs should be

- **of importance for the business’ development, the position and the expected development with its relevant chances and risks,**
- **measured quantitatively,**
- **disclosed annually and over time relative to the competitors of the sector to show improvements of the reporting company.**

Survey of seven relevant investors and analysts covering SD factors for the German DAX-30-Index

Results: Up to three most important SD-KPIs for ten sector groupings

Examples for SD-KPIs with the highest importance for the business' development, the position and the expected development

Automobile industry: Fleet consumption (7 out of 7 investors / analysts)

Utilities: Greenhouse gas intensity of energy production (6 out of 7)

Transport and logistics services: Energy and greenhouse gas efficiency (6 out of 7)

Consumer goods and retail: Compliance to environmental and social standards in the supply chain (6 out of 7)

Pharmaceuticals: Access strategies to medicines for the poor (5 out of 7)

Source: Hesse (2007), 40 pages.

Dollar value of a single SD-KPI?

Automobile industry: Fleet consumption

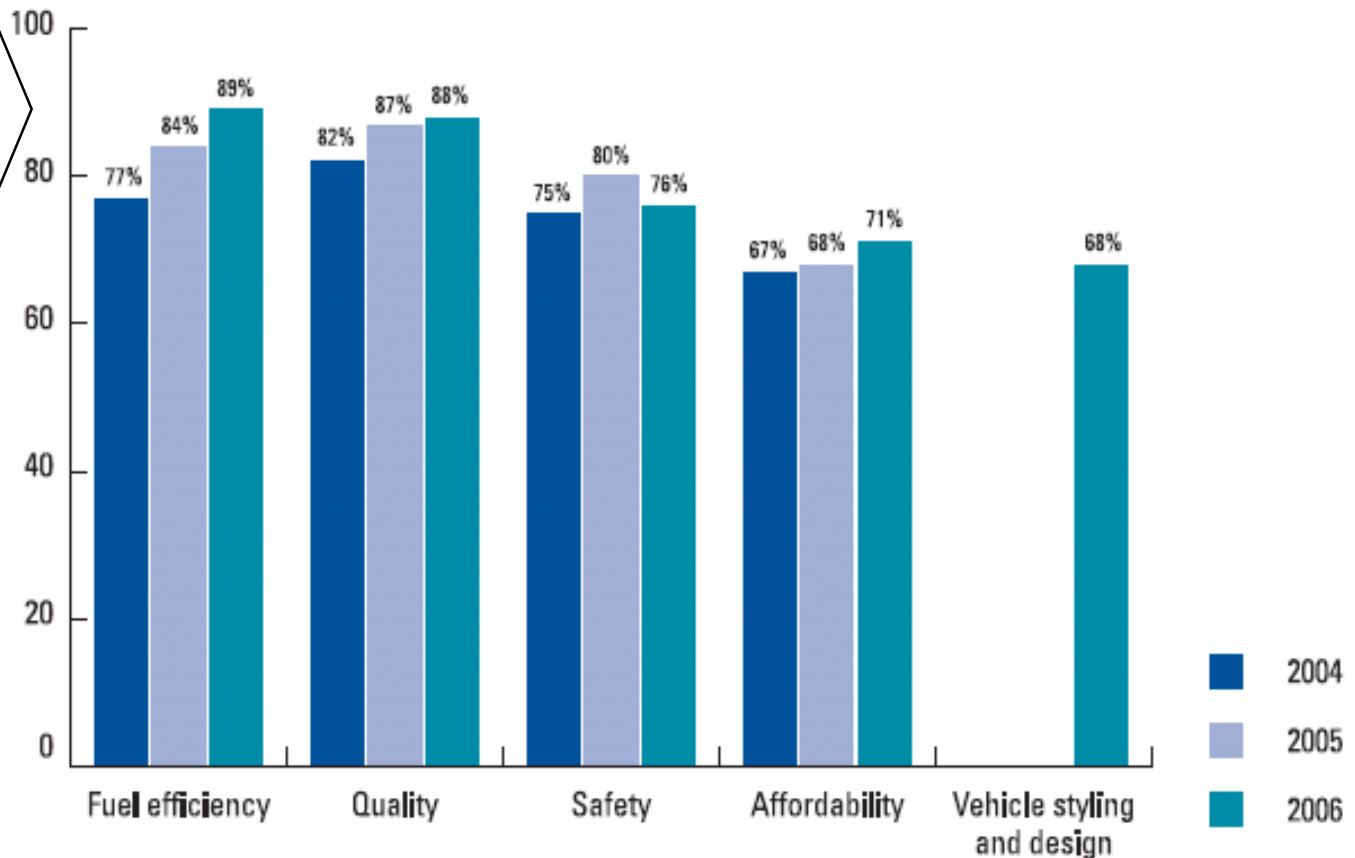
How important do you expect each of the following issues to be to the consumer's purchase decision over the next five years, using a scale of 1 to 5, where 1 means "Not At All Important" and 5 means "Extremely Important"?

Fuel efficiency most important factor for the consumer's purchase decision!

And: 80-95% of CO₂ emissions during the use phase

S&P March 2007:
600-3.000 Euros per vehicle to meet upcoming EU emissions standards

Extremely Important/Important (4-5 on a 5 pt. scale)



Dollar value of a single SD-KPI?

Utilities: Greenhouse gas intensity of energy production



RWE: >1 billion Euro per year additional costs for the purchase of emission rights from 2008 (2007: 100 million Euro)

Vattenfall Europe: 500 - 700 million Euro per year

Source: Handelsblatt, May 16, 2007, p. 14.

Current usage of SD-KPIs? Yes, but not yet in a focused approach

Sustained investments in retirement funds and pension funds - international comparison



Zurich, September 2007

Structure

Reporting obligations

Investment regulations

Investment strategies

Screening

Best-in-class

Corporate governance

Engagement

Generational justice

A study by Dr. Axel Hesse (SD-M)
for Swisscanto Fondsleitung AG, Bern



Survey of eleven countries and their best practice pension funds regarding sustainable investments

Focus on key factors like the “Big Six“ or “SD-KPIs“ leads to a high impact

- on intergenerational solidarity and sustainable development and
- good corporate governance as well as
- better measurability,
- easier communication to pension clients (differentiation)
- financial outperformance in the long term (Thesis 5),

Source: Hesse (2007), 31 pages.

Other results of the study



- **obligation to report about Sustainability Investments: Australia, Austria, Belgium, Germany, France, UK, Sweden**
- **obligation to disclose exercising of voting rights**
- **differentiation with options (e.g. 350 options in Australia) or independent certificates for Sustainability.**
- **sustainable investments in all asset classes (FRR in France: no short-term Hedge Funds)**
- **obligation for public institutions to investment at least 10% in sustainable assets (Belgium)**
- **fiduciary duty to consider Sustainability issues (Freshfields)**
- **pos./neg. screening activities in all 11 countries**
- **percentage of Sustainability investments e.g. approx. 9% (CH) with a target of up to 30% (CH) or 100% (ERAFP in France) / mainstreaming (NL)**
- **Engagement activities: Austria, UK (40%), New Zealand, The Netherlands, Norway, Sweden, Switzerland, USA**

Source: Hesse (2007), 31 pages.

promotion of <u>long-term</u> sustainable outperformance	within current frameworks	positive or negative (current or future) frameworks for intergenerational solidarity
pension funds	<p>pension funds as “ideal sustainable owners”</p> <p>pension schemes could lower population growth</p> <p>differentiation in communication to pension clients</p> <p>financial outperformance in the long term</p> <p>sustainable investments in all asset classes (no short-term investments)</p> <p>positive / negative screening activities</p> <p>% of Sustainability investments up to 100%</p> <p>mainstreaming</p> <p>Engagement activities</p>	<p>fiduciary duty to consider Sustainability issues</p> <p>obligation to report Sustainability Investments</p> <p>obligation to disclose exercising of voting rights</p> <p>annual accounting of guaranteed income</p> <p>obligation to investment X% in sustainable assets</p>
investee companies	<p>multiple dividends for long-term / Sustainability investors</p> <p>multiple voting rights for long-term / Sustainability investors</p> <p>tax relief for long-term / Sustainability investors</p> <p>positive economic impact of reporting (frameworks) and managing SD-KPIs</p> <p>broadening intersection of Corporate Governance & Sustainability Management</p>	

Thank you for your attention!

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