

Green and Sustainable  
Finance Cluster  
Germany



# Action Roadmap

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## Foreword



Germany's financial system is currently experiencing a period of far-reaching change in order to emerge as an active partner in a climate-neutral, climate-resistant and sustainable economy.

Since the Green and Sustainable Finance Cluster Germany e.V. ("Cluster") was established in 2017, sustainable finance has become a much higher priority for the German financial sector. Banks, asset managers and insurance companies have

increasingly come to realise that they are subject to sustainability risks and that opportunities arise from the transformation to a sustainable world. By taking an innovative approach and sharing knowledge, a process being fostered by the Cluster, German financial actors have already begun to enhance their risk management practises, develop environmental and socially responsible portfolios and financial products, and increase the transparency of the sustainability impact of their activities.

The Cluster acts as a platform that brings together actors in the private- and public-sector financial industry, regulators, political decision makers, NGOs and representatives from academia. It has continuously grown into this role since its establishment. Today, it is not just a key player in the financial centre (e.g. in the TCFD Think Tank) and in the capital of Berlin (e.g. in the Sustainable Finance Committee of the German Government). It has also taken on a role on both the European (e.g. in the European Commission's group of technical experts) and the international levels (e.g. in the Initiative of Sustainable Financial Centres) in processes and initiatives relevant to the financial centre.

Germany's financial sector is becoming more and more ambitious in terms of the national, European and international climate and sustainability goals it sets. In a ground-breaking climate pledge issued by the financial sector, the signatories committed themselves to developing a decarbonisation strategy for the carbon-intensive industries in their portfolios by the end of 2022. To ensure that these goals are reached and to position the German financial sector for a leadership role in the international movement for sustainable finance, the next step is to push for technical implementation through the development of solutions.

This commitment also serves as an expression of the strong political desire for Germany to become a "leading centre of sustainable finance". A robust, comprehensive and ambitious strategy must be devised if Germany is to reach this goal. The Sustainable Finance Committee of the German Government is currently drawing up recommendations for such a strategy. This work should then lead to the development of a favourable environment for sustainable finance in Germany, an environment that will help to bring capital

streams into alignment with national, European and international climate and sustainability goals.

The economic crisis that followed the outbreak of COVID-19 is applying tremendous pressure to Germany's financial sector. During such times, it is tempting to focus on stabilising the economic status quo. However, the signing of the climate pledge by the German financial sector demonstrates that the sector wants to develop resiliency. This pledge communicates a clear message: Economic measures must be designed with sustainability in mind.

Given the rapid pace of development, the Cluster will have to reshape its ambitious goals in the German and European financial sectors.

In part it must do so in order to provide the actors who are unified in the Cluster with the best-possible assistance and support. Accordingly, the Cluster will focus on two areas:

### **1. Development of a sustainable finance data infrastructure**

The definition, collection and mobilisation of data along the value chain will help to improve conditions in the area of sustainable finance. They will also bolster Germany's efforts to become a leading marketplace for sustainable finance.

### **2. Dialogue with the real economy**

As a way of addressing the interdependencies between the financial sector and the real economy in sustainability issues, an intensified dialogue with actors in the real economy will become a cornerstone of the Cluster's activities.

The Cluster views itself as the linchpin in efforts to operationalise political conditions and sector ambitions.

We are looking forward to working with all stakeholders in the financial system to implement this action plan and will be happy to incorporate your ideas and suggestions into our work plan.



Kristina Jeromin  
Managing Director of the Cluster



Karsten Löffler  
Managing Director of the Cluster



# Introduction

The climate crisis and environmental and social challenges are among the most pressing problems we face today. We have no other choice than to create a sustainable society. The financial system will play a pivotal role in this transformation. Business models will have to be modified to reflect these changes as well.

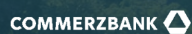
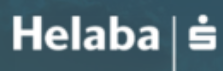
Green and sustainable finance are growing very rapidly and are currently the focus of increased attention among public and private actors as well as civil society. The political ambitions of the European Union (EU) and Germany's national government have begun to change the way the German financial sector conducts its daily business. Over the next few years, financial institutions' business models, strategies, activities, understanding of customer profiles, organisational structures, technological infrastructure and product portfolios will have to undergo a thorough review. In other words: Sustainable finance will change the face of the financial sector.

In this time of change, Germany's financial institutions must strategically position themselves to seize new business opportunities and meet challenges. This change has the potential to increase the resiliency of the financial system, create room for an intensified dialogue between the financial sector and the real economy and open up new business fields for German financial institutions. This will enable financial institutions to support the transformation of the real economy in terms of its focus on the Paris Agreement and the United Nations' Sustainable Development Goals (SDGs) while simultaneously bolstering their own business.

In this time of change, the Green and Sustainable Finance Cluster Germany e.V. ("Cluster") wants to be a key partner for both its core actors and Germany as a financial centre overall. This action plan will guide the Cluster's activities over the next few years. The ultimate goal will be to maximise support for its stakeholders and enable the German financial system to move to the mainstream of sustainable finance. In its work, the Cluster acts as a networking, dialogue, research and knowledge platform.



# Sponsors



## THE CLUSTER AS PLATFORM

The Cluster acts as a networking, dialogue, research and knowledge platform. As part of this function, it provides support structures for efforts being undertaken by Germany as a financial centre, creates a knowledge base for financial market actors and offers networking opportunities.

By doing so, the strengths of Germany as a financial centre can be safeguarded and expanded.

### The Cluster as...

#### NETWORK PLATFORM

Collaboration in the area of green and sustainable finance among German financial institutions, the German economy and other European and international actors will strengthen competitiveness, create business opportunities and lower costs. The Cluster promotes the development of networks among specialists in the financial sector, fosters exchanges of knowledge and experiences and encourages the sharing of good practices.

#### DIALOGUE PLATFORM

The development of a green and sustainable financial system will require the inclusion of a broad range of interest groups. For this reason, the Cluster wants to serve as a platform for dialogue between the real economy and the financial sector, recruit new core actors, increase visibility among political decision makers, private institutions and interested members of the general public (national and international) and further expand internal capacities.

#### RESEARCH PLATFORM

It will take a strong base of knowledge and systematic data collection to create a green and sustainable financial sector. The Cluster will focus its energies on the improvement of data availability, quality, accessibility, standardisation and usefulness as well as on public-sector data collection. It will also support the development, standardisation and operationalisation of sustainable finance methods.

#### KNOWLEDGE PLATFORM

As the green and sustainable financial sector is becoming more and more mainstream, the process of exchanging knowledge must be simplified, thus the Cluster plans to share new guidelines, methods and instruments through publications, workshops, conferences and collaboration with financial market actors.





# 1 Building bridges – a strong network for sustainable finance

The cluster's main objectives are to create transparency and support standardisation within the framework of sustainable financial structures. It can achieve these goals only in close collaboration and open discussion with all actors involved. In these terms, the development of a broad network is the key to its success. The financial sector, real economy, politics, civil society and academia must join forces to secure the establishment of a future-proof financial system – on national, European and international levels.

## 1.1 The Sustainable Finance Committee of the German Government

The Sustainable Finance Committee of the German Government advises the federal government in the development and implementation of its sustainable finance strategy. It was given a mandate by the German government on 6 June 2019. Under the mandate, which runs until the end of Parliament's current term, the Committee has two primary goals: to bundle existing expertise and to foster a dialogue among key actors. Its members are practitioners from the financial industry, the real economy, civil society and academia.

The sustainable finance strategy is designed to help the financial sector to finance real-economic activities necessary to achieving the United Nations' Sustainable Development Goals and the objectives of the Paris Climate Agreement. In this process, sustainable finance will significantly help Germany to shore up its competitive position. In addition to devising the sustainable finance strategy, the Committee advises the German government with regard to its positioning in national, European and international discussions about sustainable finance. Furthermore, recommendations for enhancements to the financial system's own risk and opportunity management are developed for the purpose of adequately reflecting extra-financial indicators in the areas of the environment, social affairs and governance.

The Cluster supports the work of the Sustainable Finance Committee and assists with the preparation of recommendations to the German government by sharing expertise and organising key event formats like the Sustainable Finance Summit Germany 2019 and the European Sustainable Finance Summit 2020. The Cluster's management team also serves as the head of the Committee.

## 1.2 The Financial Centres for Sustainability initiatives

The International Network of Financial Centres for Sustainability (FC4S) works to support and promote collaboration on central questions in the area of green and sustainable finance in financial centres around the world. It was created by the United Nations in September 2017 in Casablanca and has 30 members.

Regional networks have now been formed within the FC4S.

The Cluster is active in the FC4S on both the international and European levels. On the international level, discussions with peers throughout the world are maintained. These discussions create opportunities to learn from one another.

In Europe, the European hub of the FC4S coordinates the work of European financial centres. In this process, the opinions and points of view of individual centres about various issues are bundled via the European hub for the purpose of a dialogue with the European Commission and European Supervisory Authorities (ESAs). Special issues like the skills agenda and the digital green finance agenda are also systematically promoted. The Cluster continuously contributes to ongoing processes. FC4S is in an ideal position to globally share the information developed as part of the Cluster.



## 2 Support for a sustainable financial data environment

**For the Cluster, the availability of relevant and consistent sustainability-related data is a key success factor for the growth of a sustainable financial sector in Germany.**

Access to data and the quality of this information in the area of sustainable finance are vital for measuring sustainability risks and their impact on the long-term financial performance of assets and financial products. With the help of an improved database, the status of sustainability and the sustainability ambitions of companies can be evaluated and compared more easily.

The Cluster's work is designed to contribute to joint efforts to increase the data availability and consistency of sustainability-related information. The Cluster promotes the provision of understandable, usable and beneficial data and works to ensure coherence between reporting practises and data usage.

### 2.1 Measurement of investment volume

The Cluster strives to promote the measurement of meaningful, sustainability-related data on investment volume. These data will facilitate a deeper understanding of the development status of sustainable financial markets in Germany. Over the middle and long term, this should help to promote the creation and expansion of Paris- and SDG-compatible financial markets in Germany. The Cluster will call for these data to be made publicly available.

The Bundesbank and the German Statistical Office are important discussion partners for such a plan. For instance, the German Statistical Office conducts studies on energy requirements and use or on investment in climate protection and renewable energies. The Bundesbank has recently intensified its focus on sustainable finance and assumed a leadership role in the Network for Greening the Financial System (NGFS). The Cluster is confident that both institutions will contribute their expertise regarding data collection and processing to efforts to increase the level of transparency of the investment volume in green and sustainable financial products.



The market for green and sustainable financial products has grown strongly in recent years. The number of providers of these products and the range of various product types is increasing. In light of this growth, up-to-date and complete figures about green and sustainable financial products are difficult to obtain or are not available at all.

The Cluster will work to create more transparency in the market for green and sustainable financial products. A publicly accessible inventory of green and sustainable financial products is scheduled to be developed for this purpose.

## **2.2 Comparison of data streams with the EU action plan and the German strategy for sustainable finance**

The Cluster plans to harmonise information streams with German and European political leaders for sustainable finance. In 2018, the European Commission issued the EU action plan for financing sustainable growth. The action plan is designed to steer capital streams towards sustainable investments, manage financial risks arising from climate change, environmental destruction and social questions, and foster transparency and a long-term perspective in the financial system. The German government has also asked the Sustainable Finance Committee to develop a recommendation for a German strategy on sustainable finance.

The financial centre of Germany will have to release sustainability-related information based on new standards and reporting requirements and to evaluate sustainability-related risks. To do so, financial institutions will need new, comprehensive and high-quality sustainability data. In its work, the Cluster focuses on the creation of the necessary data streams and is working with its stakeholders to develop solutions.

## **2.3 Definition of relevant KPIs throughout the value chain**

As sustainable finance enters the mainstream, it is expected that the sustainability impact of individual investments and their derivative instruments along the value chain will be understood and measured. The necessary KPIs have yet to be standardised, and their relevance has not been universally grasped. Relevant KPIs are necessary to measure the extent of financial markets' focus on the objectives of the Paris Agreement and on the Sustainable Development Goals.

The Cluster will promote the definition of KPIs along the value chain. Efforts to initiate a dialogue with members of the Cluster, other relevant stakeholders and actors in the real economy will be undertaken for the purpose of understanding the current status, identifying existing deficiencies and jointly developing solutions. In cooperation with members of the cluster, academics and regulators, standardisation will be driven forward and the application of relevant KPIs along the value chain will be defined.



## 3 Collaboration with actors from the real economy

The Cluster sees a need for intensified dialogue and closer collaboration between the real economy and the financial sector. The aim is to create an improved understanding in the financial sector about the needs of the real economy in order to better establish the structures needed for sustainable finance. Conversely, the financial sector can communicate its point of view to the real economy and adapt it to the realities of various economic sectors. In this process, the Cluster plans to play the role of dialogue and network platform.

### 3.1 A stronger dialogue with the real economy

The integration of sustainability considerations will require closer collaboration between the financial sector and the real economy. Key sustainable finance challenges such as unsatisfactory access to adequate data, a shift towards a future-directed financial assessment model and the heterogeneity of approaches used to analyse sustainability-related risks will require joint solutions to be developed. The necessary dialogue has not been extensively cultivated up to now and lacks, in part, the necessary depth.

For this reason, the Cluster has committed itself to fostering the dialogue on sustainable finance with representatives of the real economy and thus expanding its role as a crucial tie between core actors. An ongoing exchange will be enabled through the organisation of events and workshops.

The Task Force on Climate-related Financial Disclosures (TCFD) has drawn up a list of recommendations for a voluntary and consistent publication of climate-relevant information. Today, the TCFD recommendations are viewed around the world by investors, lenders, insurers and other interest groups as an important set of guidelines. In Germany, the Cluster has set up the TCFD Think Tank to support the practical implementation of this framework.

The Cluster has already published a number of studies in which, among other things, it explored the following topics in-depth: the use of scenario analyses on the basis of various socio-economic paths, a deep dive on physical risks and guidance regarding the application of the TCFD recommendations. As part of the work conducted by the TCFD Think Tank, the Cluster will concentrate on developing sector-specific KPIs. The work will also include representatives of the real economy in various dialogue formats.



## 4 The next level – mainstreaming sustainable finance

In 2019, Germany was the world's fourth-largest market and Europe's second-largest market for green bonds for the third straight year. Green bonds totalling nearly USD 20 billion were issued. This volume underscores the important role that Germany plays in a sustainable finance context. But it will not be enough for the country to assume a leading position in this area. Efforts must now be concentrated more intensely on the systematic integration of sustainability-related risks and opportunities as well as on the steering of capital streams that will facilitate the transition to a climate friendly, environmental and socially focused economy. The Cluster wants to support the financial sector in encouraging the development of green and sustainable products and the establishment of the relevant capacities.

### 4.1 A deeper understanding of focussing portfolios towards the Paris climate goals

In the Paris Climate Agreement, the world community committed itself to keeping the increase in average global temperature to well below 2°C (3.6 °F) above pre-industrial levels. Germany is striving to become climate-neutral by 2050. To achieve this goal, the country must end its dependence on fossil fuels and work to become a low-carbon society. The necessary transformation will have an impact on financial institutions' portfolios. To support the global climate targets, it will therefore be necessary to anticipate sustainability risks and impacts and to rigorously gear portfolios towards (inter)national requirements. At the moment, the degree to which portfolios are prepared for this transformation and have been aligned with the climate goals is quite varied.

Methods for measuring a portfolio's alignment with the Paris climate goals have indeed been developed, but they are used infrequently and the methodologies themselves still need to be harmonised. In its role as a knowledge platform, the Cluster intends to do its part to standardise measuring methodologies and to make them easy to use for its members and the financial centre of Germany.



## 4.2 Wider range: emphasis on a European focus

Political dynamics on the EU level are serving as a driving force behind the development of sustainable finance in Germany. The Cluster is contributing to relevant processes in order to help actively shape the European sustainable finance agenda.

### **Updating the report “Shaping the future – green and sustainable finance in Germany” with a stronger European focus**

The Cluster issued the report “Shaping the future – green and sustainable finance in Germany” in August 2018. The report examined the sustainable finance environment of Germany as a financial centre at the time on the basis of an empirical market study. Since the report’s release, a strong momentum in the area of sustainable finance in Germany has been observable. To detail the current market dynamics, the Cluster plans to prepare a follow-up report. A second empirical market study will be conducted this year for this purpose. The second study will also have a stronger European focus.

### **Intensifying the European dialogue at the European Sustainable Finance Summit**

Since 2017, the Sustainable Finance Summit has brought Cluster members and financial market actors together with representatives of politics, academia, business and civil society. The forum offers an opportunity to discuss current developments and analyse further need to strengthen the sustainable finance system. The objective of the summit in 2020 will be to foster European dialogue on sustainable finance.

## 4.3 Higher ambitions: voluntary pledge by the German financial sector

The voluntary pledge issued by the German financial sector is designed to strengthen its international competitiveness. The German actors in the financial sector who have committed themselves to climate protection include several Cluster sponsors. With total assets of €5.5 trillion and more than 46 million clients in Germany, the signatories intend to align their loan and investment portfolios with the goals of the Paris Climate Agreement. This represents a major step forward in the effort to turn the financial centre of Germany into a leading location for sustainable finance, a goal set by the national government at the beginning of 2019. The Cluster welcomes the climate pledge and wants to support its sponsors in implementing it.

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