

INDIVIDUAL PROFILE

CHRISTOPHER STEANE

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IS THE FUTURE NOW?

This interview is based on an original recording for the Energy and Innovation podcast focusing on changes within the energy system. Each expert demonstrates both an in-depth understanding of their core area and also a broader vision of how the energy system changes. The material is useful for both teaching and research. It was created as part of a case study project of the Jean Monnet Chair in Energy and Innovation Strategy at Central European University.



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BY PROFESSOR MICHAEL LABELLE

Christopher Steane is the former Deputy Head of Wholesale Banking of ING bank. He worked for ING from 2010 until his retirement in October 2018.

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Can you explain to me your position because you were in ING before?

Yes, I retired from ING at the end of September after I'd completed forty years with Bearings Bank, and then ING. And in the last period, I was the head of wholesale lending in the bank. And I was also the champion for sustainability in the wholesale bank.

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How did you become a champion for sustainability?

Actually, I used to run an internal blog, and I used to write about myself, as well as about the business. One of the things I like is mountain walking and the environment. One of the junior members of the team, about eight years ago, responded and said, "Well, Chris, what is he doing about sustainability and global warming?" And at the time, the answer was 'not very much'. So, I initiated a project and asked for volunteers from around the world. And we got two teams, each addressing one of two issues: one of them addressing global warming, and one of them addressing other forms of sustainability. And they made some recommendations which I converted into policy.

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How difficult was it to put those ideas into a policy framework that the bank could use?

Well, what we were doing, what we ended up by doing was saying that there are three problems that we could at least think about: One being the energy transition, one being the circular economy, and the use of resources more generally, and one being water, because the Dutch, as you know, have a lot of investments in the water industry. And we decided that the one thing that we had to make sure was that everybody in the lending business would be involved, you know, so the idea that you get a small team, and he put him in a box with a green door, and they finance a few windmills. And then you say, well, that's crafted for us. That was not what we wanted to do. What we want to do is to engage with everybody. And so we asked each of our specialized industry sector teams to think about what sustainability meant in the context of their sectors and to create policies which would allow them to identify which of the companies in each sector were adopting more particularly environmentally sustainable practices.

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And how do you do that, for example, if you have a carbon-intensive sectors and customers who can move to other banks?

Well, if so, we've been at a conference today, and we have heard that even in extreme versions of the energy transition, we will continue to need to invest in the oil and gas industry, even if not the same, not as much as I think some of the people would wish to. And so in something like the oil and gas industry, you know, what we're really looking at is I mean, you know, fundamentally, of course, you're dealing with carbon-intensive practices. And you have to decide as a bank, whether you're going to do that or not. And what we, of course, have done is to focus on the renewable energy aside of the power sector and in developing the Financial Intelligence, if you will, to finance the technology as they emerge, so for instance, if we take that wind farm, we take offshore wind, okay. When this technology began, you know, one of my colleagues said, you know, if I take my bicycle, and I go put it by the sea, and I come back a year later, I can't ride it, because it's been completely deteriorated by all the salts and everything. So how is it that I'm going to put a turbine in the middle of the North Sea? And it's still going to work for 20 years? Yeah. So we have to spend a lot of time getting ourselves comfortable with the fact that the turbine manufacturers and the suppliers, the O and M [Operations and Management], guys could actually keep wind turbines operating in a hostile environment. And so you gradually build the knowledge as you do the practice.

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So it's not just the analogy of financing a project but actually how the project itself works and the technology behind the project.

Well, in order to be a proper sector bank, you need to understand properly what the stuff is that you're financing. Yeah. So going back to the point about the environmental side. So as I say, in the hydrocarbon sector, as I say you have to decide and you know, we're a big bank in the Netherlands we have to support that society, whether we like it or not. Dutch society is still 80% reliant on hydrocarbons as all the rest of us. Yeah. And so, you know, with that, we don't count that as being in us. We don't count that sort of support as being in our sustainable portfolio. But when we were approached by Shell to finance an LNG plant in Rotterdam, to supply LNG to the shipping industry to allow it to operate with LNG. In the local waters. You know, we stretched the or we went beyond the or we extended our project finance capabilities to allow us to finance that because partly because of course it was helping the transition of a very dirty sector.

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So even there, you could measure the difference between the bulk oil or the bulk fuel that they were using bunker fuel that they were using before to LNG. Much cleaner-burning fuel.

We've struggled to capture the measurement. I think most people have in terms of trying to develop metrics for their portfolio. And where we have ended up is a new approach, which we've developed with a group called Two-Degree Investing which seeks to assess your portfolio by reference to whether or not your clients are on the path towards a two-degree scenario. And today, this morning, the CEO of ING Academy Teacher has just announced that AMGs initiative has been joined by BNP. And so Ken and BBVA. So we've got four of the big banks in the global energy business, if you will, adopting our approach to at least the assessment and of course assessment is the beginning to work out how you could improve.



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You've really led this initiative on getting the metrics down and the assessment and the metrics to measure and understand your progress that you're making. So, there are other banks adopting this on their own.

That particular initiative. Yes, we've got three of the other big international banks to adopt. And we would like obviously, to see widespread adoption in the industry of an approach which with which we can explain ourselves to regulators and to the public at large.

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And can I go back and ask you the question about why you're writing this internal blog? And you're writing the internal blog including that you're out hiking. You're writing about hiking, but they became aware that you were environmentally conscious. And how did your colleague calling you out on your actions change your professional role? How did it motivate you to make sure that your bank changed?

Well, the more I thought about it, the more it seemed to be, and particularly obviously, the carbon transition. I mean, these are incredibly important matters for banks and for society at large. And at the same time, we were seeking you know, it's not a coincidence. We do believe. Although again, it took a long time to produce any qualitative results. Dealing with companies that are environmentally aware, they are generally the better-managed companies and they are generally holding an environmental awareness. Therefore, they are more sustainable in the business sense as well as an environmental sense. So, it aligned desire to create the best quality portfolio with a desire to help society make those transitions. And of course, it's very appealing both to it's motivating for our own staff, particularly the younger ones, who were very keen on this approach. And we certainly felt that it was or I felt initially that it was good business and I managed the end to persuade the rest of the bank, but that was the case as well.

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And what kind of resistance did you face within the bank? Or maybe resistance is...

No, it's not unfair. I think there were some of, you know, my corporate coverage people who said, you know our clients, they want financial services from us. They don't want to be told how to behave. And you know, they don't want to, we have a conversation with the finance director or the treasurer. They're not driving the sustainability or other strategy, what are we going to say to them? How do we have this conversation? How do we make it relevant to them? So my colleagues could see that possibly, for our own portfolio, but then they were concerned that we were going to exclude clients on environmental grants and you know what level they will right? We have developed over time policy, which has caused us to step back from having anything to do with financing the gold industry. Also, our policy from a year ago is now that we wish to disengage with any client who is more than 5% dependent on coal by 2025. And you can imagine that that includes some of the companies. Others, although some of the companies are organizing themselves to get to that point pretty quickly.

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And does that give a maybe an advantage to your competitor? There'll be some banks that will be financing the raw materials sector.

And you see in all of these things that yeah, if we persuade a lot of other banks not to finance the coal industry, the margins on coal loans will go up and the banks that are not feeling difficult about it will earn more money. But in general, actually financing the coal industry over the last ten years has not been a good place to be. It's an industry in deep transition, and it hasn't been good business.

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So even for the banks there's a large amount of risk, or there's another way, other areas to put your money basically

We run I mean, when I was at ING, our target was to manage the risks in the loan portfolio to an extent where for every 500 euros you lend, you could lose no more than one in the course of each year. Okay, okay. So that doesn't leave a lot of room for misjudgment.

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So maybe this goes a bit beyond the topic but the coal industry as a whole then maybe it's could be suffering from financing costs.

Yes, I think that many banks have in Europe at least have followed the lead all banks with any international footprint are under immense pressure from NGOs in relation to the coal industry. And many of them have, I think, a pullback to a greater or lesser extent.



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Do you think some of these activists that call for divestment of coal generation, for example, are they being heard then, in these boardrooms at banks around the world, not just ING, but other banks as well?

Oh, I think there is a broad perception that coal is a fuel that we should not be building new power stations. As a generalization. I'm aware, of course, that there are multiple coal plants under construction in China and in India supporting the economic growth of those countries. I saw only yesterday a report from an Indian research unit on developing the power to meeting power demand in India. This suggested that if they were to properly incentivize the growth of renewables, they would not need any more coal plants than the ones that are currently constructing.

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There is a global innovation index came out recently, and it looked at the ownership structure of I believe this was the report, the ownership structure of coal-fired power plants, and it's much more about state-owned entities, state-owned firms taking on the role rather than private companies owning the coal-fired generation or even mines themselves. So for me, that kind of reflects a shift in private money going to other technologies and the state has to step in to support.

Yes, I don't think that private money follows coal very much anymore.

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And so maybe to then conclude then other areas. So basically, you're looking at other opportunities, solar wind, are there certain areas that are more established than large banks would be interested in? Are they also interested in funding smaller, cutting edge technologies like energy storage?

Well, we are interested you know we are intermediaries. We are here to provide finance to businesses in society who have business models that are sufficiently robust to meet criteria about loss rates. Yes, we are interested in understanding how we can help finance. storage, and energy storage. And, I think those policymakers responsible for designing power policy in each country. Clearly, the issue with renewables is that the electricity when you get it is almost free. But it doesn't come when you want it to.

And the question for policy then is completely different from the way our powers system used to work. Can you so affect the demand side so that people can shift demand to when the electricity is available? Can you finance storage facilities? How is the storage paid for and is somebody that people need to work out business reputable, reliable business models because bank money is only part of the equation every project requires an element of equity risk capital? And the problem of course, in lieu of the factors is the equity risk capital because it bears all the risk, it's a lot more expensive. So the less of it you can use and the more bank debt you can use, the cheaper your cost of capital. And so with well-developed technologies in stable regulatory environments, perhaps You only need 10% of the cost as equity and 90% as debt. In less stable environments, it might be 60/40. And that makes a big difference to the cost of the electricity, if it's electricity.

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So the financing can really vary between country to country, depending on the reaction.

And depending on this, it's all about the perceived financials work to perceived risk.

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Assets perceived, rather than what actual risks, what you don't know.

You don't know what actual risk is, until after. That's the rearview mirror.





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