



Sustainable Finance

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Why it's so hard

Sustainability Summer School 2026

Bo Becker

MSc Course “Sustainability and Responsibility”



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Sales Misconduct at Wells Fargo Community Bank

What Wells really excels at [...] is managing its employees well, providing the right incentives to entice them about pushing what the bank has to offer.

— *The Economist*, September 14, 2013¹

Wells Fargo, America's third-biggest bank by assets, castigated John Stumpf, its former boss, for tolerating sales practices that led to the opening of 2m-odd ghost accounts.

— *The Economist*, April 12, 2017²

On September 8, 2016, Wells Fargo bank of San Francisco, California announced a \$185 million settlement with three United States regulatory agencies over widespread misconduct in sales practices at its consumer retail banking arm, the Community Bank (see **Exhibit 1**). From 2011 to 2016, Community Bank employees had opened more than 2 million unauthorized customer accounts and credit cards and sold products and services to customers under false pretenses to boost sales figures.

The settlement sparked an uproar among the public and press. Wells Fargo's shares fell from \$48.77



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Zurich Insurance: Fostering People Management Practices

By early 2016, Zurich Insurance's (Zurich's) chief human resources officer, Isabelle Welton, had devoted two years to implementing initiatives to strengthen the quality of the company's human capital. She and her team aimed to transform Zurich's organizational culture, ultimately to improve overall performance, by focusing on five sets of people practices: (1) developing managers more aggressively, (2) prioritizing diversity and inclusion, (3) implementing a global job model used to drive data analytics, (4) strengthening recruiting and hiring, and (5) building a well-vetted talent pipeline. By the time the global Swiss firm welcomed Mario Greco as its new CEO in March 2016, Welton and her team had secured some early wins, but all five people practices were still at relatively early stages. Growing them would require more time and funding at a moment when Zurich's overriding aim was

SURAJ SRINIVASAN
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Digging for Gold: Paulson & Co.'s Activism in the Gold Sector

It was September 13, 2019, and John Paulson (MBA 1980), founder of the New York hedge fund Paulson & Co., and Marcelo Kim, a partner at the firm, were meeting in Paulson's office. Kim, specialized in metals and commodities had joined the firm after completing his BA at Yale in 2009. He had come in to discuss the Shareholders' Gold Council (SGC) second research report that had been released the previous day. Paulson and Kim had launched the SGC a year earlier as a nonprofit coalition of investors in gold mining companies dedicated to promoting corporate governance best practices throughout the industry. The new report, titled, "The \$13 Billion G&A Opportunity," highlighted what the SGC viewed as excessive administrative spending across 47 gold mining corporations and recommended significant consolidation among small and mid-sized gold companies.

SSE MSc Course “Sustainable Finance”



Intended Learning Outcomes

After completing this course, students should be able to:

- Understand the challenges and trade-offs that arise in integrating sustainability into an organisation's business.
- Identify material stakeholders of firms and assess their often conflicting interests.
- Assess the critical role of investors and financial markets in evaluating, rewarding, or penalizing corporate decisions to adopt sustainable practices.
- Evaluate the broad spectrum of investment approaches, methodologies, and frameworks in socially responsible investment.
- Understand the role of sustainability disclosure by firms and the challenges in systematically measuring these efforts.
- Reflect on the broader role of business and finance in society and its potential for positive social and environmental impact.

1. Introduction
 2. Case: Unilever's New Global Strategy: Competing through Sustainability
 3. Guest: Helena Fagraeus Lundström, Chief Sustainability & Strategy Officer, X Shore
 4. Case: Patagonia
 5. Case: The Rise Fund: TPG Bets Big on Impact
 6. Guest: Jan Ståhlberg, Founder and Managing Partner, Trill Impact
 7. Case: Aviva Investors
 8. Case: OpenInvest
 9. Guest: Markus Mild, Assistant Vice President, European Regulatory Strategy, Nasdaq
 10. Case: Goldman Sachs: Making an Imprint in Impact Investing
 11. Guest: Catharina Belfrage Sahlstrand, Group Head of Sustainability, Handelsbanken
 12. Case: Generation Investment Management
 13. Class: A Review of Sustainable Investment Practices
 14. Case: JetBlue: Relevant Sustainability Leadership
 15. Industry case: Sustainable Bonds, Alexis Cousins, Sustainable Finance Advisor, Debt Capital Markets, SEB
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Possible reasons for investors to consider sustainability

- Avoid risks
- Create long-term shareholder value
- Create positive impact

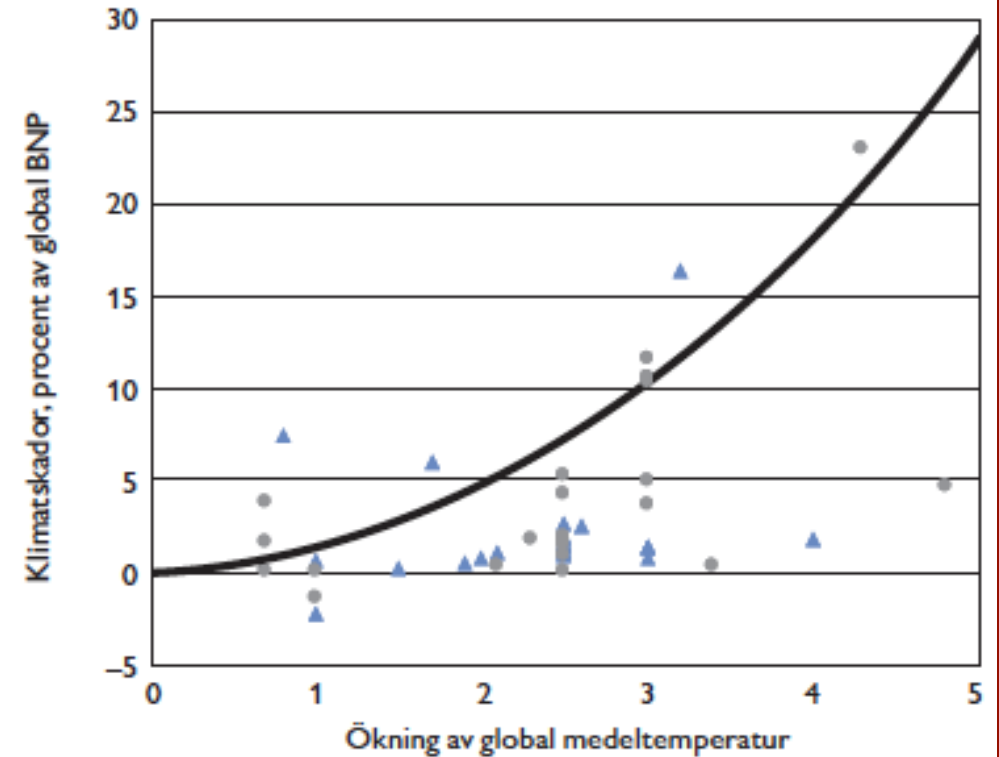
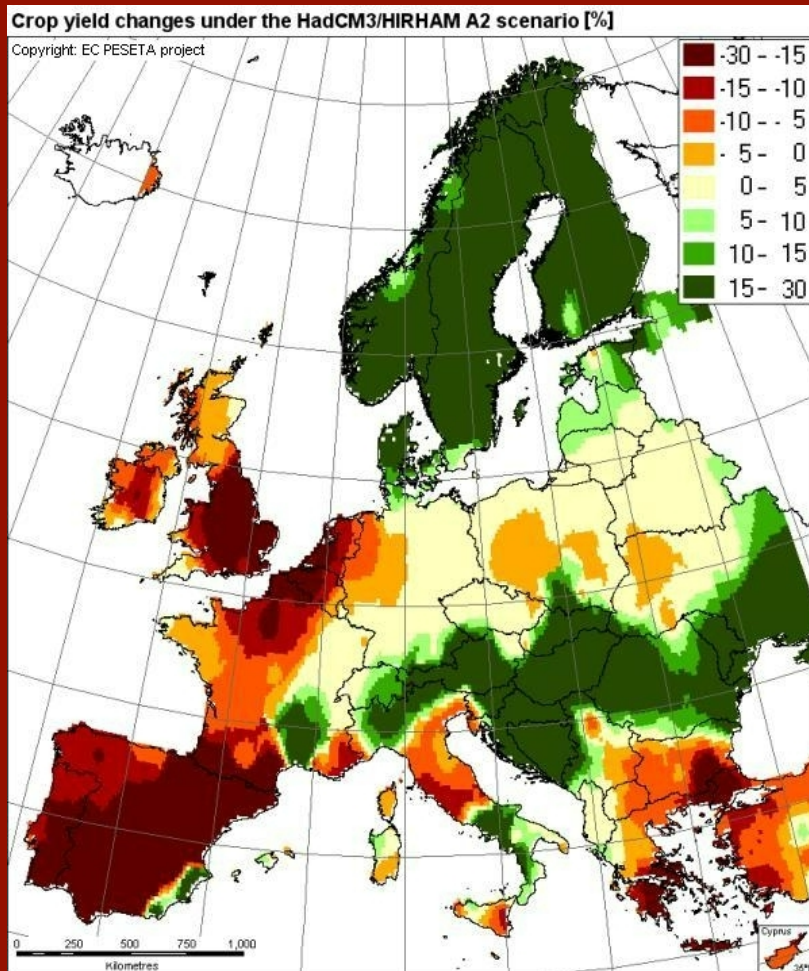
Agenda

1. ESG risks
2. Impact vs. returns?
3. Green finance
4. Impact measurement

Risks related to climate change

- Physical risk: profitability of lending negatively affected by climate (borrower cash flows)
 - Sea level rise → flooding
- Regulation risk: the imposition of new rules and regulations related to climate hurts profitability of lending
 - Carbon pricing → lower cash flows in polluting firms
- Sentiment risk: lending profitability affected by borrowers' ability to do business in the face of changing attitudes
 - Rising concerns about fish stocks → wild fish production less profitable

Average physical risks are modest (in some areas) and slow (globally)



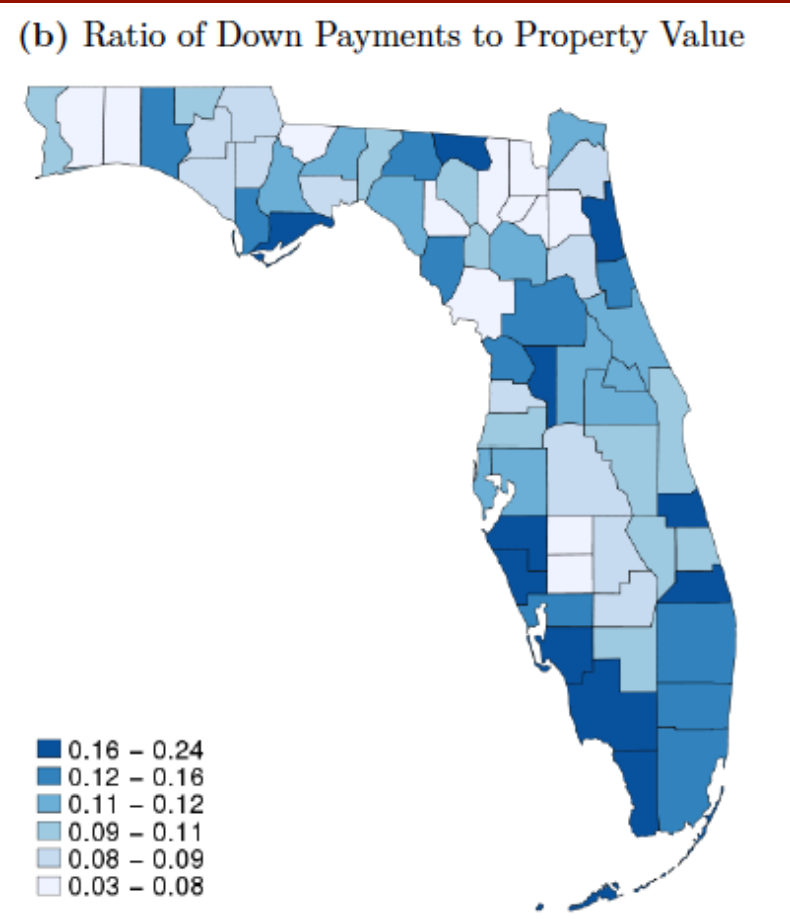
Figur 9 Studier av globala klimatskador.

Källa: Data från Howard och Sterner (2017).

Example: economics losses of drought variable



Low flood risk for bank balance sheets even in Florida



Sastry (2021)

How Bad Are Weather Disasters for Banks?

Kristian S. Blickle, Sarah N. Hamerling, and Donald P. Morgan

Federal Reserve Bank of New York Staff Reports, no. 990

November 2021

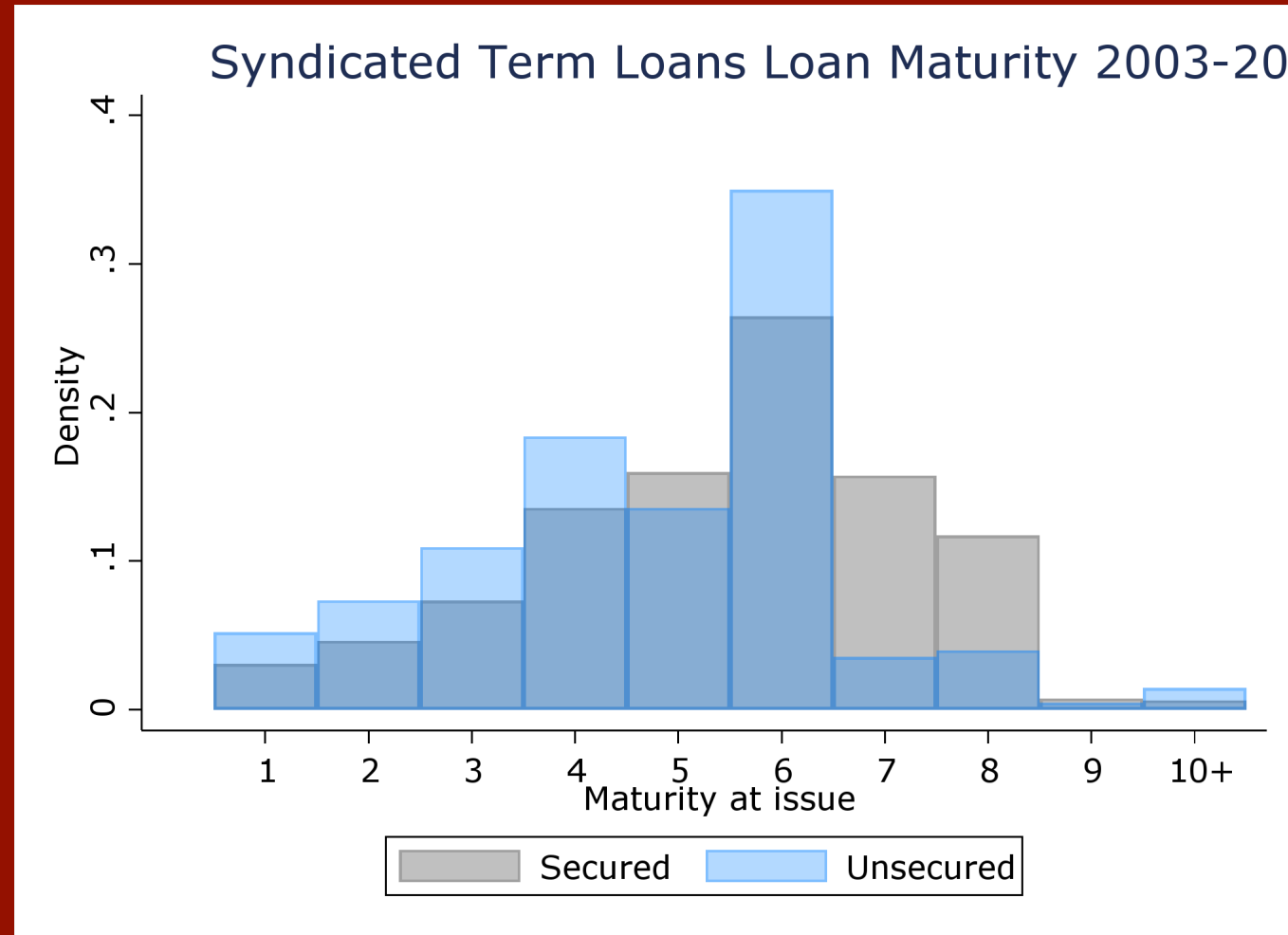
JEL classification: G21, H84

Abstract

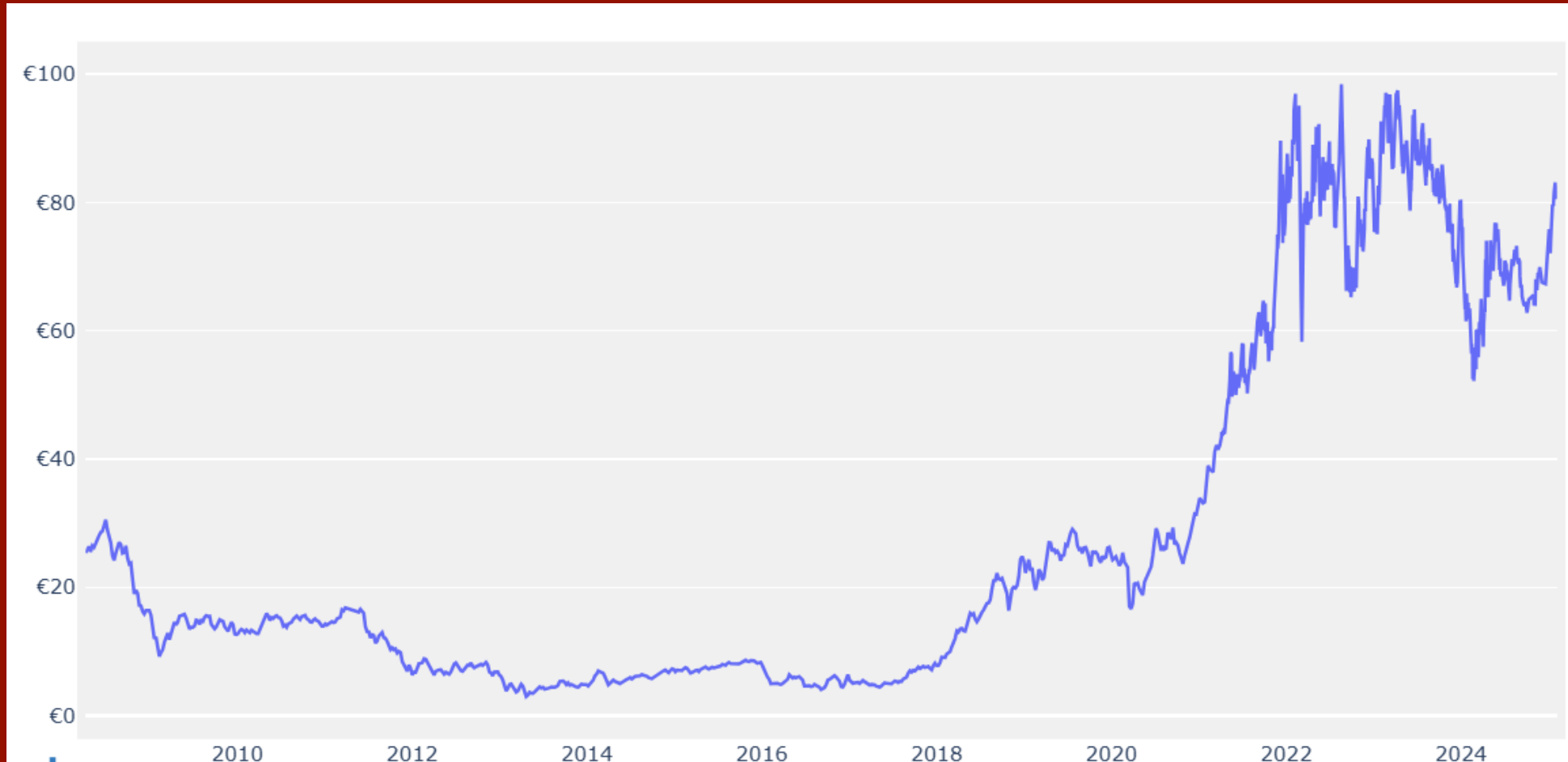
Not very. We find that weather disasters over the last quarter century had insignificant or small effects on U.S. banks' performance. This stability seems endogenous rather than a mere reflection of federal aid. Disasters increase loan demand, which offsets losses and actually boosts profits at larger banks. Local banks tend to avoid mortgage lending where floods are more common than official flood maps would predict, suggesting that local knowledge may also mitigate disaster impacts.

Key words: hurricanes, wildfires, floods, climate change, weather disasters, FEMA, banks, financial stability, local knowledge

Less than 1% of bank loans have maturities >10 years



Regulatory risks



Source: ETS price, 2010-

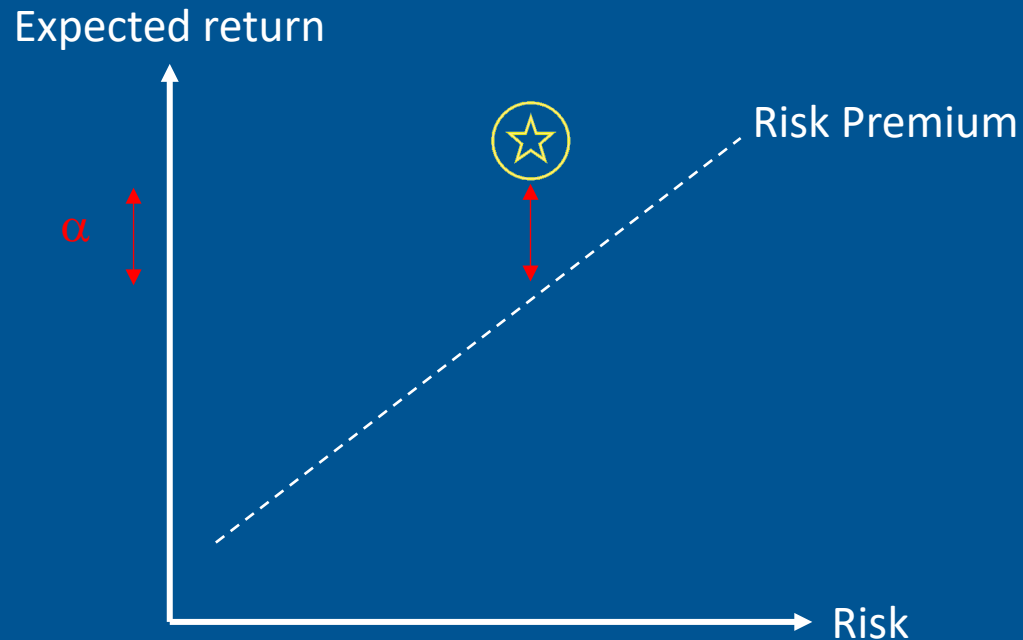
Sentiment risk



A framework for connecting impact and profits

- Return and risk expectations for sustainable finance
- Allow investor skill (e.g. active management)
- Assess impact on firms

Expected returns



- Risk is associated with higher returns
 - Equilibrium argument of Sharpe (1964), Lintner (1965)
- $R = \alpha + \text{RISK PREMIUM}$
- Alpha is difficult to produce
 - Skills / capabilities
 - Ex: hedge fund collecting data
 - Regulatory advantage
 - Ex: bank or insurance permit
 - Longer horizon
 - Ex: pension plans investing in VC

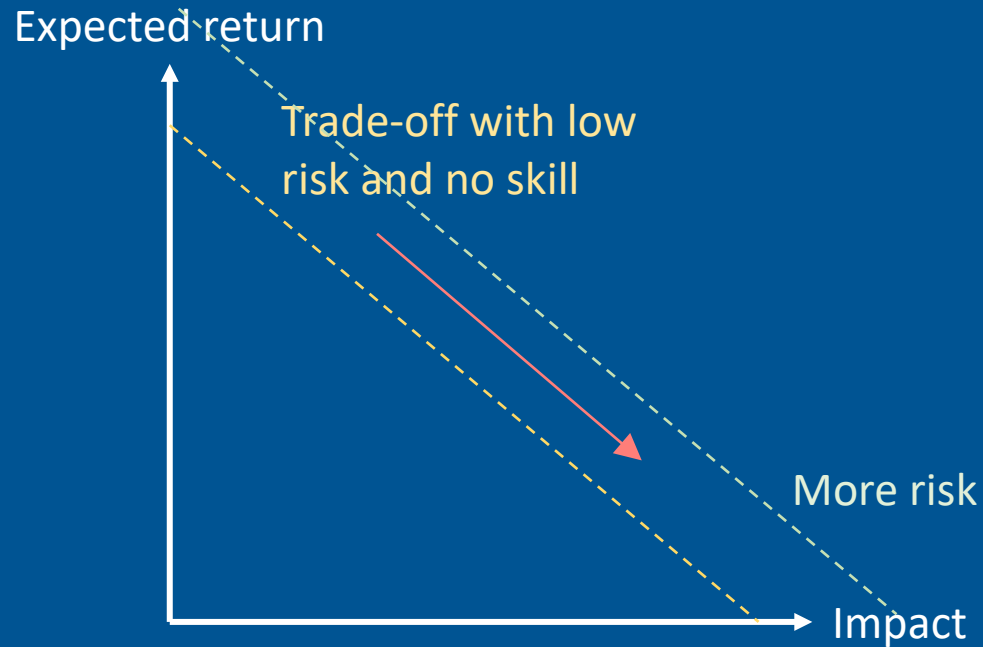
Including sustainability in the model of capital markets

Skill + Risk

= Impact + Return

- Investments produce three things: risk, expected return, and third-party impact
- Trade-offs expected between all four
 - Higher return available for high risk, high capability, or low sustainability
 - High sustainability available for high risk, high capability, or low returns

How to create impact



Investors can create impact by offering better terms (and receiving lower expected returns)

Easy? Hard? Do you want to?

Sustainable finance – a few quick examples

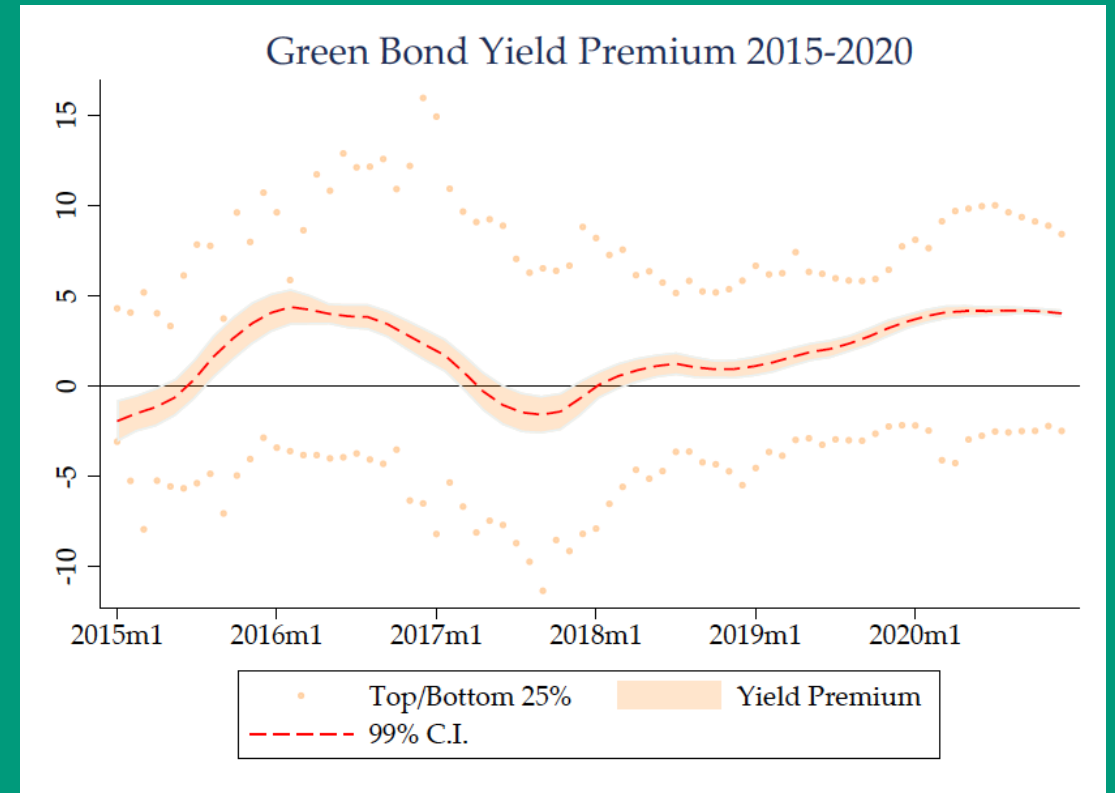
- Corporate bond market
- Private equity / venture capital

Carrots and sticks in financial markets

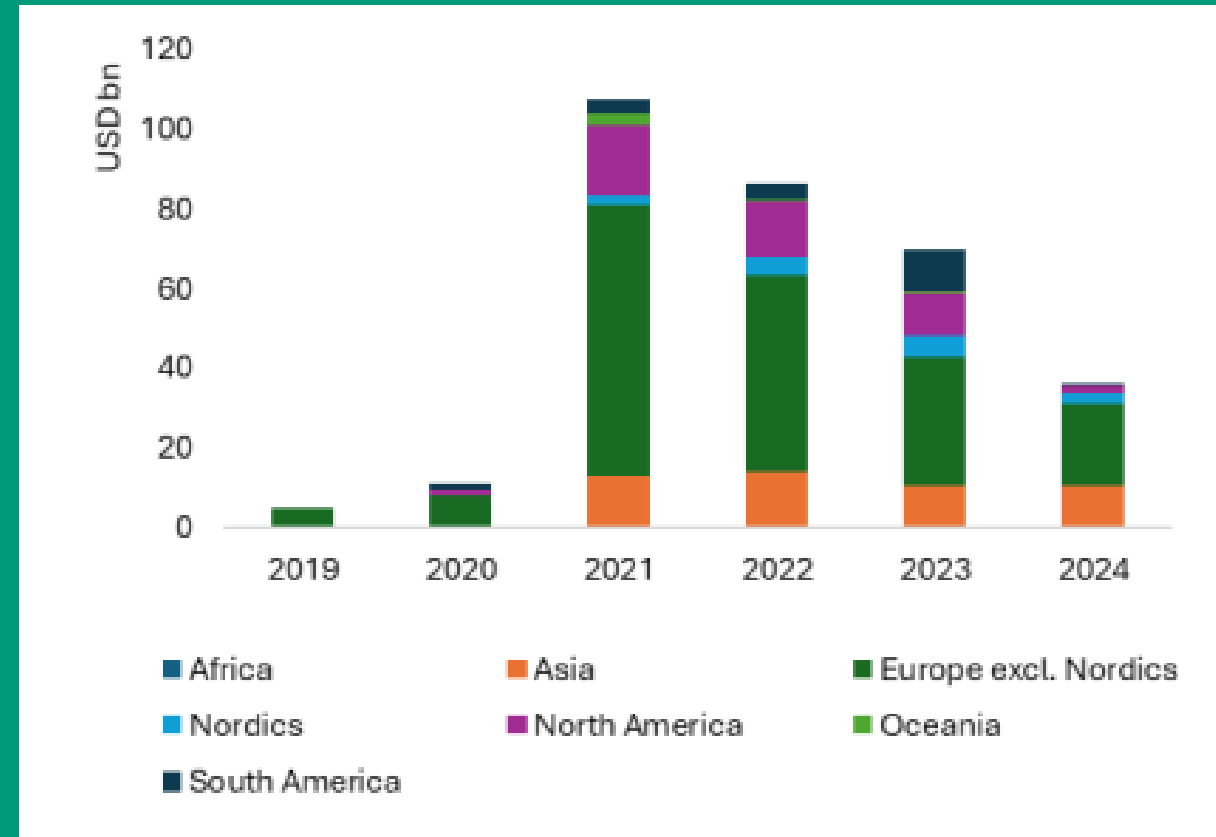
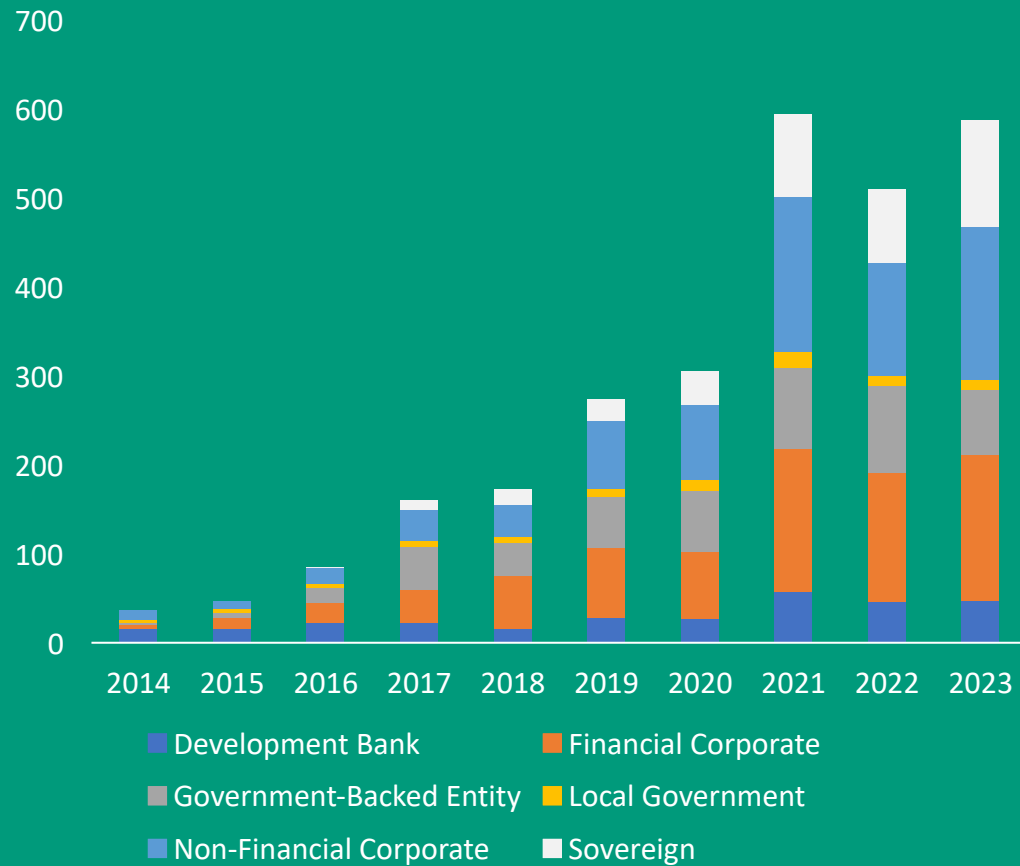
- If you offer a firm worse financing terms than other investors, it will decline the offer. If you offer better financing, it will say yes.
- Therefore, it's easier to lower cost of capital (help) than to raise cost of capital (hurt) of firms
- Implication 1: impact easier through helping “good” firms than hurting “bad” firms
- Implication 2: for good firms, one favorable investor may be enough. For bad firms, impact requires concerted action by many
 - Public markets collect a lot of investors → difficult to have impact

Example 1: Green Corporate Bonds

- To date, sustainable credit pricing is very similar to regular credit (of same borrower)
 - Return for investor is effectively the same
 - Cost of capital for issuers is effectively the same
- Cost of capital difference of 5bps is small: impact likely modest

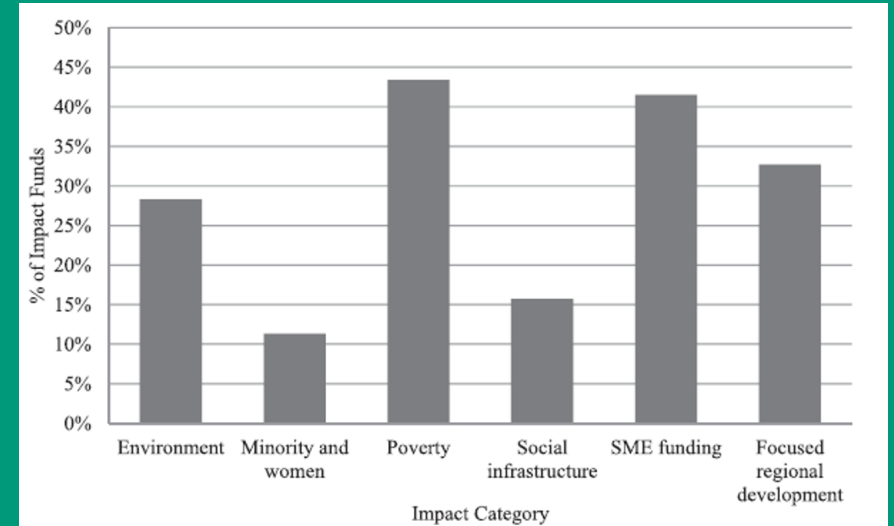


Green bonds and SLBs



Ex 2: Venture Capital

- Many VC firms are focused on impact
- Targeting “good” firms, ignoring “bad” firms
 - Recall easier to have impact in direction
- Zhang (2021): matching between impact-oriented investors and businesses with weaker profitability outlook / more sustainable models
- Barber Morse Yasuda (2020): Impact funds earn 4.7 percentage points (ppts) lower internal rates of return (IRRs) ex-post than traditional VC funds

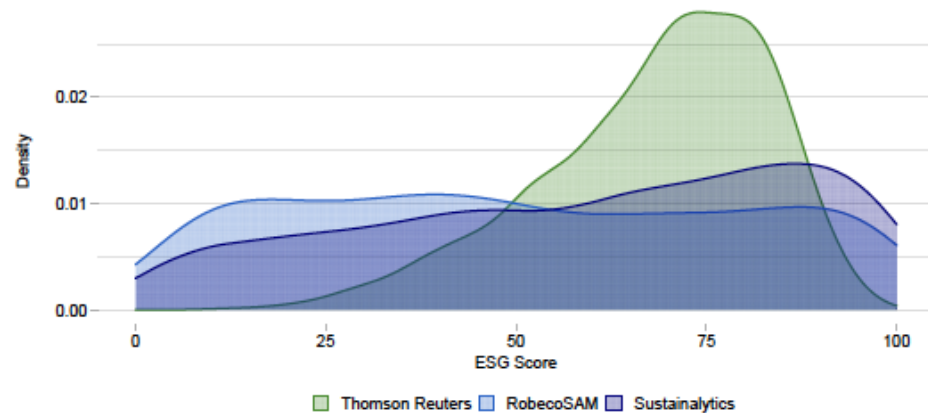


Impact measurement

- With no measurement, willingness to pay goes away, as well as ability to produce impact
- Reporting without consequences
 - “CO₂ is very poorly reported to the market” James Salo, Head of Environmental Research & ESG Modelling, S&P Global, Nov 2021
 - “BP exclude their stake in Rosneft” Andrew Grant, VP Climate Solutions, Moody’s, Nov 2021

Impact measurement challenges

Figure 4. ESG Score Distributions



Source: Bloomberg and Refinitiv Eikon (2020)

Table 3. Correlations between ESG Ratings

Pair of Scores	Correlation
RobecoSAM vs. Sustainalytics	0.72
RobecoSAM vs. Thomson Reuters	0.65
Sustainalytics vs. Thomson Reuters	0.65

Note: The correlations are the Pearson product-moment correlation coefficients.

Source: Authors' calculations using Bloomberg and Refinitiv Eikon data (2020)

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Some take-aways

- Physical climate risk for creditors are minor, regulatory risks important but contained, sentiment risks difficult to predict and potentially large
- High financial returns, low risk and having impact are connected: more of one typically means less of the others
 - (Breaking this trade-off requires some skill or advantage that others lack)
- How to achieve impact?
 - Offer good terms = accept lower (risk-adjusted) returns
 - Measure impact: use of proceeds, ratings, purpose