Deutsche Bank AG

Goldman Sachs Carbonomics Conference

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Transcript

Speakers:
Christian Sewing, Chief Executive Officer
David Solomon, Goldman Sachs

David Solomon: Christian Sewing. Much more graceful entrance.

Christian Sewing: Well, I learned how to not do it, but sorry for that.

David Solomon: No. No problem. Okay. So Christian is a member of the bank's management board since 2015. You've been the CEO since April of 2018. Long distinguished career in the bank, working across Frankfurt, London, Singapore, Tokyo, and Toronto. And sustainability has been a big focus for you at Deutsche Bank. And so we're going to have a conversation just a little bit about how you think about making your business more sustainable. And so I'll dig right in because we've got a limited time. Global security issues, the Ukraine, Israel, as well as the macroeconomic environment that we're wrestling with, inflation, supply chain, have reduced the focus on sustainability a little bit. Against this backdrop, how can we all continue to ensure a successful transformation into a more sustainable economy and society?

Christian Sewing: Well, first of all, David, thank you very much for the invite. And before we come into the deep content, I really do believe that with conferences like this, we can ensure that the topic remains on the top of everybody's mind.

And at the end of the day, you said something very important that you are actually quite optimistic about what is coming. If you think about what has happened in the world over the last two years with the awful war in the Ukraine, we had an inflation which we all haven't seen for the last 30 years. Against that backdrop, actually, there is still a high focus on sustainability and that makes me optimistic that we are going into the right direction.

But there are my view, four or five items which we need to really press on in order to further foster this topic. Number one, it's all about an as much of aligned framework we have to achieve globally as we can, because I think the framework and the policies around sustainability, which we have for the time being, are not that aligned. And that brings a lot of uncertainty, in particular with consumers, but also with corporates, but at the end of the day, also with us banks.

Number two, transition financing. I think it was a mistake how we have built the taxonomy. The taxonomy which we have built didn't start with transition finance. Now everybody is more and more focused on that. But we need to have a clear transition finance taxonomy in order to actually advise our clients how to get from here to there. That is the most important and we should put focus on that one.

Number three, it's a question of capacity, in particular, in Europe. If I think about the amounts involved, which we need in order to get the Green Deal done, we simply can't do it with public finances. Look at my home country, what kind of discussion we have for the time being in Germany with the 60 billion budget issue.

We also simply can't do it by providing the balance sheet only coming from the banks. We need the European capital markets. The European capital markets union is a prerequisite to get the Green Deal done, and hence it's another foundation to really focus and force the sustainability.

And number four in my view is the leadership. And the leadership is coming from people like you, obviously the politicians, and it must come from the industry. And therefore, again, if I look at the conference, I just said it to Chris, the lineup of speakers you have in particular from the corporate world is first class. If we, together, work on this item, then I do think we will see that there will be even far more focus on that topic going forward despite all the events we see in this world.

David Solomon: Sure. If we dig in a little bit just on this issue of capital and the availability of capital, we need more risk capital developed into new sustaining technologies. Can you talk a little bit about where you think the capital can come from, how important it is for government to work with the private sector? How do we really get an acceleration of risk capital focused on trying to drive more sustainable solutions?

Christian Sewing: Well, in my view, it must come from these three sites. Number one, there must be always obviously the involvement of the public sector because you also have industries, you have technologies where you see the positive impact in 10, 15, or 20 years, and you and I know that this is very hard for us to finance that simply from a risk point of view.

Secondly, if I look actually at the private capital which is available, then I do think that there is sufficient capital available. The problem is in what kind of framework can it be provided, for instance, in Europe? And therefore, I'm always saying we need one capital markets union in Europe, that we have one regulation for capital markets in Europe so that we have, so to say, one liquidity pool, one framework, one set of rules. And I would say this would make a big difference.

Number three, we need to think about innovative items. We are working with the World Bank. We are working with KfW in Germany. We are working with the EIB in order to provide pools of credits, pools of new products to our clients to give a diversity of financing to our clients.

I'll give you one example. We are working with the EIB on a 400 million or 500 million program to actually support small-sized and medium-sized enterprises in Germany to get their green transformation done. For that, we need obviously leverage from the bank, we need credit from the bank, but we also need certain guarantees which can be provided by the EIB to get this transformation done.

And therefore I think it's these three parts, bank balance sheets, European capital markets, public debt, and private partnerships and public partnerships.

David Solomon: So let's talk about partnerships. You're a founding member of the Net-Zero Banking Alliance. Talk a little bit about how this partnership and other partnerships with institutions, governments, and organizations are driving impact.

Christian Sewing: Huge impact for two reasons. Number one, it's for me a little bit all about self-regulation in particular when it comes to the topic, which I referred to at the start, and that is transition finance. I do believe if we have, I think in that forum we have now 40% of the most important banks involved, or even more of the most important banks, but 40% of the global banking system. If we can agree on transition finance, on the framework, that obviously brings the world a big step ahead.

Secondly, I do believe the chance to actually exchange views and exchange expertise on that level brings us again ahead when it comes to sustainability frameworks, policy frameworks, and to build a common understanding how we are actually getting this transformation done.

So from a Deutsche Bank point of view, we are a big fan actually of the Net-Zero Alliance. And I do believe the more banks we get into this forum, I think we have a chance actually in particular to focus on transition finance.

David Solomon: There are very different approaches across the Atlantic when we get toward talking about this issue in depth. You're a global bank, you're running a big bank, how are you dealing with those differences as we deal on both sides of the ocean?

Christian Sewing: It is difficult. I think in this regard, actually, it is a little bit easier and less complex in Europe because you have one taxonomy. I'm not saying that this is now the dream of taxonomy one would wish for, but at least you have a kind of a common understanding. If you come to the US, you know better than I do that you have also different attitudes, so to say, from state to state.

On the other hand, in the US you have with the Inflation Reduction Act, a huge initiative actually to get investors into the country. And when I see what and how many German corporates and European corporates have actually switched investments from Europe to the US, it is for us as Deutsche Bank also a great opportunity obviously to advise these clients, to finance these clients.

The problem again is that we are, and I think this fuels the uncertainties with investors, but also with our corporate clients, that you have these different standards, that you have different frameworks, and that even then in the US you have states with a different attitude to ESG and sustainability.

Now on the one hand, this is a threat and this is a concern or a challenge. On the other hand, I think it's a big opportunity for global banks like we are to actually advise our clients. In my view, ESG and sustainability is one reason for the return of real bank relationship management and advisory to our clients because we can actually guide our clients through all these different taxonomies and frameworks, and that's what our role is.

David Solomon: Talk a little bit, just when you think about your own strategy, how is sustainability really anchored in your broad strategy? Elaborate a little bit on how, as an individual institution, you're thinking about it.

Christian Sewing: Look, when I took over in 2018 or 2019, I would lie if I would say it started with sustainability, but it started with something else at Deutsche Bank. We made the mistake that Deutsche Bank actually left, so to say, the direct translation from German to English is the middle of the society.

And I think it was absolutely imperative for this bank in 2019, when we announced our transformation, that the people feel in the private bank, in the corporate bank, but also in the investment bank that Deutsche Bank is back in the advisory and in the financing and in the investment business for the society.

Now, if you define that, what your role in this society is, if you then talk to corporate clients, to private clients, sustainability is one of the top three items which is on their mind. And actually it started in 2018 with the private wealth management. I could see in every second meeting with our private wealth management clients, in particular with the new generation, that they looked into the portfolio, which they got from their parents that they need to change something.

I said it's such a big topic that next to all the other goals which we have, forget about the financial goals for a second, that from a qualitative point of view that what people really think about, ESG and sustainability is core. And that's what we then centered into the qualitative strategy in 2019 of the bank.

We built a central group with a chief sustainability officer who is with us today, reporting directly to the CEO. Because I think in particular, if you do something new and to put your focus on this, you need to have a direct line, not only into the management board, but in my view, the CEO must drive this. And then we started to work with each of the four businesses on sustainability goals, be it in the investment business, in the financing business.

And actually, we went more and more not only focusing directly on our clients, but it resulted in a third pillar, and that is that we became a kind of a think tank also in Germany on advising, for instance, the government or advising other stakeholders, what else can we do actually in order to promote Europe in this area as a continent which is hopefully leading the pack.

And therefore, Deutsche Bank's role is not only limited to financing or giving the investment advice to a private wealth management client, but actually I see ourselves as a key ingredient, as a critical ingredient that Europe can drive in ESG and sustainability on a path where hopefully we are an industry leader. And this is ever more important, in particular, if you think about the competitive landscape which we are dealing with at this point in time.

David Solomon: Shifting gears a little bit. That was a pretty fulsome answer to how you think about supporting your clients broadly. How do you think about doing business with hard to abate industries such as thermal coal? How do you deal with or how do you think about clients that are particularly high emitting? How are you thinking about that and balancing that?

Christian Sewing: Well, I'm glad you asked this question and we have had long, long discussions, but again, the Net-Zero Alliance helps us a lot, because I think it's all about, David, to get the right transition plans for obviously the high emitting industries, and that's what we have done. We have worked now on seven transition plans for seven industries, pretty detailed, and we are breaking that then down on the clients within these industries.

And the most important, again, and therefore I think this is another reason why banks are so much in the middle and play a key role in the overall transformation to green, because we have the relationships. We know our clients. We know their strengths and their weaknesses, and we also know how we can actually finance their transition. And that's exactly what we are doing.

And I have to say that with the vast majority of the clients, by the way, not only with the DAX companies or the CAC-40 companies, with the listed companies, but also if you go into the backbone of the German industry, i.e., the family-owned and mid-cap clients, the attention for transition finance, the attention how we get from brown to green is getting bigger and bigger.

And therefore, the response to our initiatives, to our relationship measures, talking to us and we can actually discuss critical items with them, is actually very convincing. And it makes me very confident that the economy will get disturbed.

Now, to your question, what actually happens with clients who are not moving at all? The ultimate answer is at some point in time, if there is no response at all, we would exit. And this is actually the part of our transition plan which we have for each industry, but also for each client.

But what we can see is with the relationship management we have and with the coverage we have that honestly, this is the absolute rare exception because people want to go from brown to green and they need a key advisor. That is the role banks can play, and that is the role, why I said in 2019, Deutsche Bank must be at the forefront of this transition relationship management. We must build and train our people and we can really see the success these days.

David Solomon: And so, as you look through the decade, do you see the change over the next six or seven years as being-

Christian Sewing: Exactly right.

David Solomon: ... really material on this front?

Christian Sewing: So if you look at our transition plan, it's obviously from industry to industry a bit different with the reduction plans we have, but overall, you can actually see that our first critical timing point is 2030. So six, seven years from now.

And I think we also need to give our clients the time actually to go through their own operations and think about how can we come from here to there. Forcing them to do that within two or three years is exactly the wrong way. This is also something which our politicians need to understand, our regulators need to understand.

Because, David, I can do a pretty nice job in order to decarbonize my balance sheet, but it doesn't help at all the society, it doesn't help at all the world because these clients will find an alternative financing somewhere else, and that's what we need to avoid. If we bring quality in the coverage to our clients and help them on their transition, I think this is the best for the clients and this is the best for world.

David Solomon: Yeah, we have to solve the fundamental problem-

Christian Sewing: Exactly

David Solomon: ... over some period of time. You mentioned just briefly, the regulatory environment around all this. As a heavily regulated financial institution, how are you seeing the regulatory infrastructure play a role in directing this and framing this? What are you concerned about in the context of the way the regulator's looking at this issue?

Christian Sewing: Look, on the one hand, I think there is actually a good exchange. If I think about in particular with my home regulator, with the ECB, the discussions we have on ESG, on sustainability financing, on taxonomy, it's a fair, it's a constructive and is a discussion which in my view goes into the right direction.

If you ask me about the biggest worry, it's exactly that we don't get the time for us, and in particular for our clients to ensure that we have the time to transition. And if, if, I'm not saying that we get it, but if it would result in kind of penalties for us as banks in whatever shape, whether that be capital add-ons or even financial penalties, then actually you put a risk to the transition of the world. You put a risk to the transition of our clients. And I think that is where we need to focus on.

But I have to say, if you have an educated discussion with the regulators, and I can see that the expertise on the regulator side is actually increasing by the day, I think we have a big, big chance actually to avoid that. And again, I'm also arguing with our regulators, in particular in Europe, it is a huge chance for Europe.

There are not so many industries and technologies left anymore where Europe is leading, that is still an industry despite the Inflation Reduction Act, where Europe actually can compete. And therefore, we shouldn't do the mistake that we put a framework, a policy, a regulation in place, which actually is threatening this competitive advantage.

David Solomon: Sure. Sure. Well, Christian, we appreciate your being here to kick off the conference. Thank you for your time. Thank you for your thoughts. Let's all thank Christian Sewing, the CEO of Deutsche Bank.

Christian Sewing: Thank you very much.

David Solomon: Appreciate it. Thank you. Good to see you.

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