

Environmental, Social and Governance (ESG)

Relevance in Banking



ESG acronym stands for Environmental, **Social and Governance**

ESG is a framework, that provides a lens to help assess the extent to which business organizations work towards creating a positive impact on an Environmental, Social and Governance level



Environmental

How do organizations manage... energy, waste, pollution, climate change, etc.



Social

How are organizations dealing with... health and safety, equal opportunities, values & partnerships, etc.





Governance

How do organizations incorporate... business ethics, compliance, board independence, shareholders' democracy, etc.

There are several reasons why banks focus on ESG



Increased Revenues and reduced Costs

Business Potential



Improved Access to Capital

Improved Capital **Market Prospects**

Sustainability and Social Responsibility Report, 'Transition towards green banking', Mar 2020



Increasing Regulatory Requirements Reduced Risks and

improved Compliance



Emboldening Brand Value and Ethics

Non-financial aspects

Source - Forbes article 'Why ESG Should Be Embedded In Banks', Nov 2021; Arthur D Little 'Value drivers for green banking', Sep 2021; Asian Journal of

They even market sustainable products and services



Loans

i.e. Loans for individuals to install energy-efficient and climate-smart equipment, vehicles



Charge lower insurance premiums for

eco-friendly actions like using an electric/hybrid vehicle and recycled parts when repairing a damaged vehicle

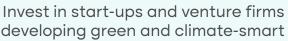




Use green bonds including asset-backed securities and mortgage-backed securities to finance green projects and

Securitization

refinance existing green assets **Brokerage and Market-making**



technologies





Buy/sell green bonds and carbon credits on a client's behalf to facilitate and promote green investments

Technical Assistance Offer advisory services with fees or on a pro-bono basis for the financial



Carbon financing is a funding tool that places a financial value on carbon emissions and allows organizations wishing to offset their emissions to buy carbon credits earned from

An emerging funding tool is Carbon Financing

sustainable projects



Company A

needs to meet

its emission cap



carbon offsets How carbon offset works

It invests in an

emission

reduction

produces

project that



Develop a roadmap

for the ESG journey

It receives carbon

credits for its

investment

Source - The board of IOSCO Report 'Voluntary Carbon Markets', Nov 2022; Mintz Report 'Carbon Credit and Carbon Offset Fundamentals', Nov 2022; Climate Change Committee (CCC) website; MeetGreen website

Implementing ESG entails tough challenges

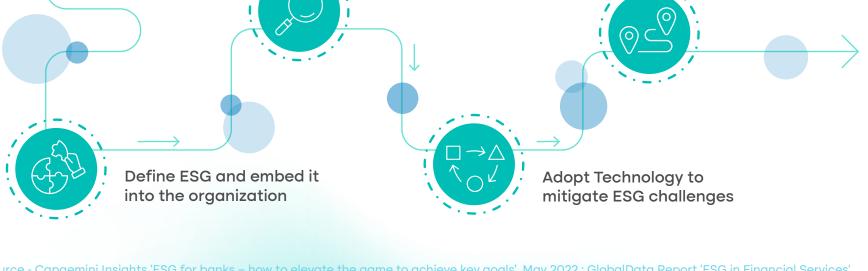
Risks & Challenges



The ESG Roadmap

offering products

Identify the suitable ESG



Source - Capgemini Insights 'ESG for banks - how to elevate the game to achieve key goals', May 2022; GlobalData Report 'ESG in Financial Services', July 2021

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