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ESG Maturity Assessment
Key Insight for Banks

Banks are at the forefront of some pressing issues of our time, but most have yet to turn their ambition into concrete actions. As global crises in public health, social justice, and climate change escalate and collide, now is the time for banks to deliver on their ESG initiatives.

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Small Steps into the right direction

Many banks have been participating in industry bodies that are perpetually refining carbon accounting and reporting standards and hope that more consistent standards will produce an immediate, tangible impact.

In the upcoming months, banks should establish tangible criteria to achieve their emission reduction goals. They are also expected to solidify their stress testing and credit risk modelling procedures, amplify efforts to help clients manage physical and transition risks; and enhance their disclosures on climate-related risks and opportunities.

Another priority should be embedding climate risk into the bank's own operations and creating new performance metrics to measure progress. By holding themselves accountable to these standards and constantly revalidate / calibrate their ambitions, banks should be able to reiterate their purpose to customers, employees, and society.

In addition: While environmental aspects of own operations, business and disclosure are currently the main focus of ESG initiatives, the social and governance perspective must not be disregarded.

The carbon market opportunity

According to some estimates, the global carbon trading market could be worth US$ 22 trillion by 2050. Banks can play a fundamental role in expanding these markets through their expertise as market makers, commodities traders and operators of back-end services and infrastructure.

Some financial institutions are exploring buying and selling carbon credits through the blockchain. They could also be tokenized for easier tracking and verification of carbon offsetting activities. Banks could then facilitate trading and settlement of these carbon tokens, both in the primary and secondary markets, and participate in issuing traceable green bonds and developing new securitization instruments based on cash flows of future electricity sales.

Seeing green: Finding and capturing new sources of value

Globally, most banks have vowed to direct capital flows to green projects and reduce their portfolio exposure to carbon emissions. But while many are facing mounting legal, regulatory, and ethical pressure to wind down fossil fuel financing on a quicker timeline than their current trajectories, climate-friendly banking can also unlock new sources of value and opportunities for revenue growth.

The explosive demand for green products and investments globally across all sectors of the economy could create ample opportunities for banks-from lending to trading.

Banks should also play a leading role in continuing to innovate on sustainable finance through products, such as target-linked bonds or loans, ESG-linked derivatives and exchange-traded instruments.

Current hot topics for banks

Through our research, roundtables, and projects we observe the following main challenges for banks:

- The measurability of ESG impacts, i.e. the creation, compilation and consolidation of the data basis
- Establishing broad ESG-related knowledge to deploy the own sustainability strategy and to act as an advisor for existing and new customers
- The development of new ESG-compliant products and services e.g., taxonomy-compliant financing offers in corporate banking
- Embedding ESG objectives into corporate goals and related clarification of governance for management within the company
- Persisting pressure from different regulators to provide reliable transparency on ESG throughout the group

Fig. 1 – Fields of Action for banks to fully integrate ESG into their corporate structure

Our proposition for you – get transparency and direction – fast and solid
From our various ESG projects we have developed an ESG maturity assessment tool.

With little effort, various potentials of an efficient, risk-oriented, and consistent ESG-organization can be derived.

Based on our Deloitte ESG operating model, we assess each of eight defined pillars, differentiated between ESG value drivers and ESG enablers, for a sound ESG strategy.

The results of the ESG maturity assessment can then be examined in greater depth as part of a strategic ESG Workshop, called ESG Lab. In this lab, concrete action can be worked out, and a consistent company wide ESG roadmap can be drawn up in which the company's various initiatives are brought together and prioritize.

Fig. 2 – Example of ESG Maturity Assessment comparing as-is and to-be state with state of competitors

„Many banks are currently investing significant time and effort in implementing the extensive requirements of the regulatory authorities. However, a large number of projects are often not coordinated and do not contribute to a shared ESG strategy and roadmap."

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