SUSTAINABLE FINANCE MAGAZINE

Issue #1

Events, webinars, publications
News from the world of sustainable finance

In the spotlight
Banking sector perspective of climate and sustainable finance

In the spotlight
Sustainable finance and climate change from the insurance sector perspective

Regulations and priorities for companies
Landscape of present and future regulatory initiatives and the most important steps to be taken

Deloitte.

MAKING AN IMPACT THAT MATTERS since 1845

Contents

04

Introduction
Financial firms have an opportunity to help society tackle climate-related risks in their role as investors, advisers, lenders to the real economy and insurers of catastrophic risks.

06

Sector news and insights
Recent conferences and publications related to the topic of climate and sustainable finance

07

EU Sustainable Finance Strategy (disclosure regulations)
Detailed descriptions of regulations and priorities for companies as well as ESG regulations timeline

12

Latest Deloitte thought leadership
How financial services can use ESG initiatives in practice to help build a brighter future for us all

14

In the spotlight - banking sector
European Financial Congress and commentaries by sector leaders

18

In the spotlight - Our Client success story
Bank Ochrony Środowiska

20

Unique position of insurers in the climate initiatives
Due to its role as a risk manager and one of the major investors, the insurance industry can promote economic, social and environmental sustainability.

24

In the spotlight - the insurance sector
VIII Congress of the Polish Chamber of Insurance

26

Events and publications
Deloitte conferences, webinars and publications

Introduction

The financial industry has historically played a number of fundamental roles in shaping the modern world.

The activities of the industry supported the development of the free market, economic expansion, improving the quality of life, personal and national security, and enabled individuals and organizations to save and invest. Fulfilling these functions requires the financial sector to constantly take care of its reputation and trust in the financial system and respond to the changing expectations of an increasing number of stakeholders. Today, the industry is at a key point in its evolution. In the face of climate change and the consequent changes in investment preferences, stakeholders expect financial institutions to contribute to a fairer and more sustainable world and to create a new face of the financial services sector in which profit and social impact can coexist.

Why now? The pandemic has reinforced the need to build a sense of purpose, strengthen confidence in banks, and help address global issues the economy faces, such as transformation in the face of climate change. The accumulation in the public debate of issues such as prosperity, development, social responsibility, justice, conflict, security, ecology and sustainable development has created a turning point in history. To continue to grow, the financial services industry needs to take care of making profits in tune with multiple stakeholders, keeping consumers at the center of everything they do. And these consumers are more concerned than ever about climate change and expect real action from business.

Halving global carbon emissions by 2030 and achieving zero emissions by 2050 requires major investment and the adaptation of entire economies to a more sustainable future. Achieving these goals will not be possible without the participation of financial institutions, which engage their capital in the transformation. Sustainable finance covers any form of financial services that takes environmental, social and corporate governance (ESG) into account in investment and credit decisions. The issue of sustainable finance is gaining in importance and a number of international and regional initiatives are emerging, and more importantly, policies and regulations in this area.

In recent months, regulatory changes regarding green transition issues have gained momentum, with both their number and complexity increasing. In 2021, the first requirements resulting from the SFDR Directive (Sustainable Finance Disclosure Regulation) on disclosure of information related to sustainable development in the financial services sector entered into force. Packages of delegated acts to the EU Taxonomy, a system of uniform classification of sustainable development activities, have been published. On 6th July the European Commission published its strategy for financing the transition to a sustainable economy, presenting a roadmap for the actions the EU plans to take over the next two and a half years. **And most recently, on December 9, the European Council has approved the long-awaited EU Taxonomy Climate Delegated Act, confirming into EU law the adoption of environmental criteria for activities that contribute substantially to climate change mitigation and adaptation**. It is an important milestone, providing essential momentum to channel sustainable finance towards projects and businesses that help reach our climate targets. And it comes into force on January 2022! Active work is underway on the amendment of the Corporate Sustainability Reporting Directive (CSRD), which talks about the disclosure of key environmental, social and corporate governance data, as well as the development of a uniform reporting standard. In an official communication, the G7 countries supported the further adaptation of reporting standards based on the 2017 TCFD (Task Force for Climate-related Disclosures) framework, which includes, e.g. strategy, risk management, and indicators and targets used to measure and manage climate-related issues.

More than 2300 signatories to the UN Principles for Responsible Investment (PRI), holding more than **$80 trillion** in collective assets under management, have committed to mainstream ESG considerations into investment analysis and decision-making. In addition, thanks to UN support, many funds have joined the net-zero asset owners alliance,

committing to transforming their investment portfolios into climate-neutral **by 2050.**

The rapid pace of change taking place in the modern world gives financial industry organizations the opportunity not only to create new pools of profits, but also to act in a more direct, personalized and socially responsible way. Financial industry leaders need to be ready to formulate and execute fresh ideas, take bold actions and decisions, and take on new roles. Financial firms have an opportunity to help society tackle climate-related risks in their role as investors, advisers, lenders to the real economy and insurers of catastrophic risks

We hope that the magazine will turn out to be an inspiring guide. Our goal with every issue is to provide you with evolving insights, research, developments, trends and more. Stay up to date on the latest topics around sustainable finance.

Irena Pichola
Partner
Leader of Sustainability and Climate Change Consulting
Deloitte Central Europe

Krisztina S. Nagy
Risk Advisory Partner
CE FSI ESG Lead
Deloitte Hungary

Ákos Lukács
Senior Manager
Head of Sustainability and Climate Change,
Deloitte Hungary

Przemysław Szczygielski
Partner
Leader of Financial Services Industry
Deloitte Poland

Sector News and Insights

EVENT:
COP26
CLICK

Government, business, and society need to work together to solve the climate crisis. The necessary investment is simply too vast: research suggests cutting emissions to achieve net zero will cost from $50 trillion and potentially up to hundreds of trillions. At COP26's ""Finance Day", leaders across government, business, and civil society discussed how to drive additional financial commitments and more importantly, how to deliver that capital to where it's needed most. In the past, business leaders have often viewed the move to net-zero as a costly and risky challenge. But the Finance Day discussions showed how powerful an opportunity this transformation can be for businesses that get it right.

Read more about Sustainable Finance at COP26 in our analysis

CLICK

Especially for the COP26 Deloitte has created Climate Exchange - global hub of insights and partnerships where people can share ideas and provoke debate, so we can inspire climate action around the world.

Check it out and get inspired –

Climate Exchange Hub

REPORT:
ECB economy-wide climate stress test

CLICK

The European Central Bank (ECB) published the results of its climate stress test analysis of the impact of climate change over the coming decades, looking specifically at the risks faced by banks because of climate change. For the first time, it included the impact on companies to assess the resilience of the economy overall.

The results show that there are clear benefits in acting early. The short-term costs of the transition are much smaller in comparison to the costs of climate change in the medium to long term. The early adoption of policies to drive the transition to a zero-carbon economy brings benefits in terms of investing in and rolling out more efficient technologies.

According to the bank statement, portfolios most vulnerable to climate risk are 30% more likely to default in 2050 compared with 2020 under the hot house world scenario: this increase is five times larger than the average increase under the same scenario. And although climate impacts are going to be concentrated in some geographies (heat in the South, floods in the North) and some sectors, such as mining and utilities, but it will affect the economy overall. This could also result in a 10% reduction in European GDP over the same period!

REPORT:
2022 ECB climate stress test methodology

CLICK

The publication outlines the main characteristics of the 2022 climate risk stress test exercise and provides banks with guidance on how to conduct the exercise. It sets out the process for the banks' submissions and provides a high-level overview of the quality assurance process for institutions participating in the exercise as well as some instructions on how to complete the stress test templates.

REPORT:
ECB: The state of climate and environmental risk management in the banking sector.

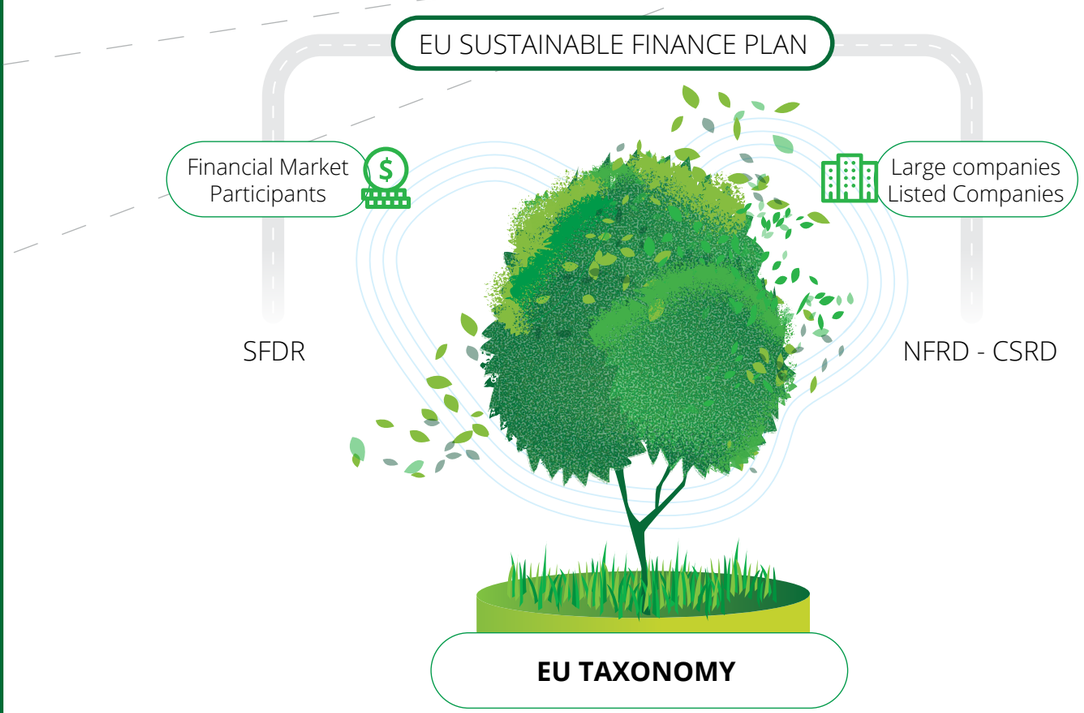
CLICK

The bank has published a report that provides a supervisory review of banks' approaches to manage climate and environmental risks as well as good examples practices that banks may adopt to mitigate climate-related risk. Reviewed institutions have started paving the way, but the pace of progres remains slow in most cases. It is expected by ECB that institutions to adopt a strategic approach and to take necessary steps as as outlined in a dedicated supervisory feedback letter.

EU Sustainable Finance Strategy (disclosure regulations)

The increasingly complex landscape of current and future initiatives and their relevant disclosure obligations will reshape how the financial services industry assesses and communicates sustainability-related risks and opportunities. Companies need to consider how they are or will be affected by current and upcoming legislative changes at both a national and regional level.

Introduction of new regulations, such as Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy as well as updates of existing ones, such as Non-Financial Reporting Directives (NFRD) to be replaced by the Corporate Sustainability Disclosure Directive (CSRD) aim to improve the overall transparency of disclosed information and ensure transparent reporting and assurance of reported information.



NFRD -> CSRD

Corporate Sustainability Reporting Directive

A draft of a directive on corporate sustainability reporting

WHO: All listed companies except micro + all large companies (2/3 criteria: balance sheet total EUR 20 million; net turnover: EUR 40 million; 250 average number of employees during the financial period

WHAT: ESG issues covered by the mandatory standard developed by EFRAG, including: business model and strategy, goals and progress, role of administrative and management bodies, policies, due diligence process, double materiality, main risks and methods of their management, measures

WHERE: mandatory ESEF digital reporting system

WHEN: 2024 (for the financial year from January 2023)

TCFD Guidelines

Developed by the Task Force on Climate-Related Financial Disclosures, appointed by the Financial Sustainability Board

The guidelines are addressed to businesses obliged to disclose non-financial data in line with Directive of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

New guidelines supplement the existing ones regarding non-financial disclosures.
Not binding yet, but their uses recommended by European Securities and Markets Authority.

EU Taxonomy

Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment, amending EU Regulation 2019/2088

A classification system of environmentally sustainable economic activities. It complements the information disclosure requirement included in SFDR.

WHO: Financial market participants (covered by the SFDR) and large companies (covered by the NFRD)

WHAT:% of environmentally sustainable management activities based on compliance with 6 environmental targets

WHERE: Interim reports, pre-contractual disclosures, on the website

WHEN: first taxonomic disclosures from 2022 (for 2021)

SFDR Regulation

Sustainable Finance Disclosure Regulation

Regulation of the European Parliament and of the Council (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

WHO: Financial market participants and financial advisers

WHAT: How are ESG risks included in the investment decision making process

WHERE: Periodic reports, pre-contractual disclosures, on the website

WHEN: Level 1 Disclosure (in force from 10th Mar 2021)

Level 2 Disclosure
ESA published information on the delay of the Regulatory Technical Standards (RTS) for the SFDR to 1 January 2023.

"The greatest challenge for all organizations that will be subject to the new Taxonomy and SFDR requirements is the uncertainty of the final versions of the delegated acts specifying disclosure obligations and applicable dates. In times of uncertainty, companies often wait, which leaves them little time for action once regulations are published. There are already many drafts of regulations on the market, and they are quite clear as far as the requirements for the organizations go. It is then possible to start the entire preparation process in advance to identify the gaps and implement the necessary steps and processes in the organization before the final versions of regulations are ready. By taking early action now and preparing for incoming regulations, companies can show industry leadership on emerging standards, start preparing processes for data collection and gathering KPIs that will be expected from regulators in the future. The time to act in now."

Marta Górecka, Manager, Sustainability Consulting, Deloitte Poland

Key steps for companies

NFRD -> CSRD

01. Workshops with the Management around defining topics of key importance for the organization in the field of sustainable development and responsible business, as well as the model of creating value in the organization - it often turns out that answering the simplest questions is the most difficult!

02. Implementation of appropriate IT systems for collecting non-financial indicators and cyclical management analysis of results instead of an extended process of accepting the content of the report when it takes place once a year

03. Beginning of the reporting cycle in the third and fourth quarter of year - so that the report could be published in the first half of the next year.

TCFD Guidelines

01. Education and awareness building - conducting one-day workshops to help build understanding and significance of climate change and climate-related financial information identified in the TCFD recommendations

02. TCFD Maturity Analysis - Identification of gaps indicating significant areas for action in response to TCFD recommendations

03. Development of necessary elements and reporting - verification of actions that can be taken in order to respond to TCFD recommendations and preparation of a report on climate change, in accordance with TCFD recommendations

EU Taxonomy

01. Follow up on EU discussions and share best practices per industry at EU level

02. Mobilise a multi-disciplinary taskforce composed of sustainability, accounting and operational teams

03. Review the adaptation of information and control systems to trace « green » CA, Capex and Opex per activity, project or geography

04. Structure and deploy efficient and effective operating processes (including internal/external audit) with a future-orientated perspective

SFDR Regulation

01. Conducting an assessment to ensure compliance with the SFDR in terms of level 1 and level 2 disclosures

02. Developing an approach in the field of level 2 disclosures, including the terms of adverse effects on sustainable development
- defining the process and system for collecting data on adverse effects on sustainable development in accordance with the RTS and their appropriate aggregation.

ESG Regulations

2015

Q4 The Paris Agreement - first **legally binding international treaty on climate change**, adopted by 196 Parties at COP 21 in Paris on 12 December 2015

2016

Q4 Establishing High-Level Group on Sustainable Finance (HLEG) by the European Commission

2017

Q3 Interim Report by the HLEG on "Financing a sustainable European economy"

2018

Q1 Publication of EC Action Plan for Financing Sustainable Growth

Q2 Publication of three legislative proposals, including the regulation on the establishment of a framework to facilitate sustainable investment (EU Taxonomy)

Q3 Establishing Technical Expert Group (TEG) by the European Commission

2019

Q1 Publication of the TEG report on climate-related disclosures

Q2 Publication of guidelines on climate-related disclosures

Publication of three TEG reports

- **Report on EU Taxonomy**
- **Report on EU Green Bond Standard**
- **Report on Benchmarks**

Q4 European Banking Authority (EBA): Action plan on sustainable finance

Publication of the Regulation EU 2019/2088 on disclosure of information on sustainable development in the financial services sector (SFDR) effective from 10/03/2021

11 December 2019 - Announcement of the European Green Deal

2020

Q1 European Securities and Markets Authority (ESMA): Strategy for sustainable finance

Publication of TEG final report

Q2 **Publication of the regulation** on the establishment of a framework to facilitate sustainable investment (EU Taxonomy)

Start of EC consultations on the European strategy for sustainable finance

The Regulation (EU) 2020/852 on th establishment of a framework to the facilitate sustainable investment (EU Taxonomy), and amending Regulation (EU) 2019/2088 was published in the Official Journal.

Q4 **End of green bond** standard consultations by the European Commission

2021

Q1 **10 March 2021 -** effective date of SFDR

Q2 **April 2021 package**
The European Commission published a draft Directive on non-financial reporting - CSRD (Corporate Sustainable Reporting Directive) - new obligations are to apply in 2024 for 2023

Climate Delegated Act (EU Taxonomy) -

Adaptation and mitigation delegated acts

July 2021 package:
Draft Delegated Act supplementing Article 8 of the Taxonomy Regulation

European Green Bond Standard (EUGBS)

A new sustainable finance strategy

Q4 **December 2021 package:**
Climate Delegated Act (criteria of the environmental objectives 1+2) and Delegated Act supplementing Article 8 of the Taxonomy Regulation published in the EU Official Journal

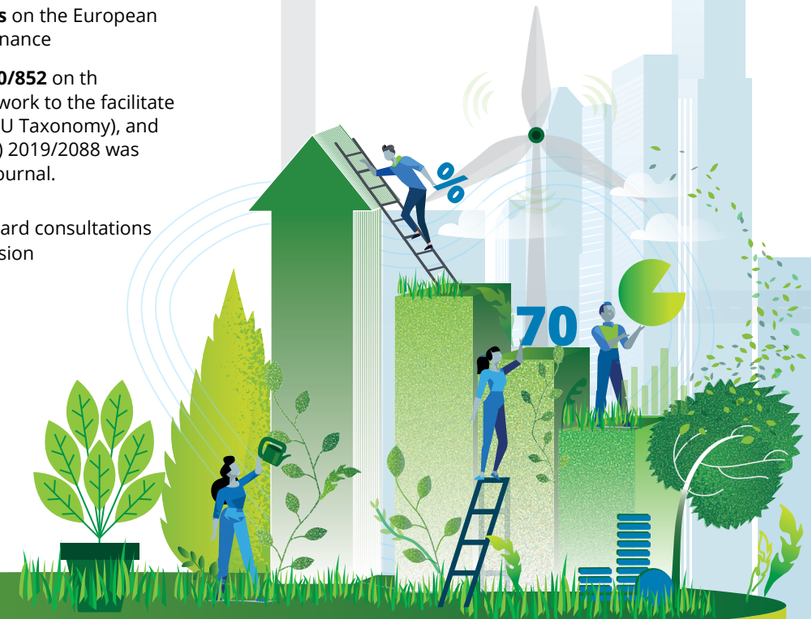
2022

Q1 **1 January 2022 –** expected applicable date for the Taxonomy Regulation regarding first two environmental objectives: climate change mitigation and climate change adaptation

2023

Q1 **1 January 2023 –** expected applicable date for the Taxonomy Regulation regarding other environmental objectives: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems

Application date of the Regulatory Technical Standards (RTS) under SFDR delayed to 1 January 2023



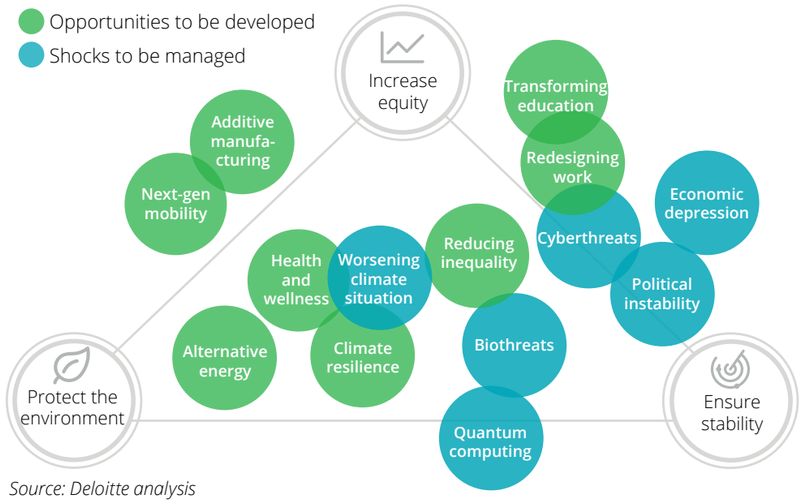
How to put ESG in practice? Latest Deloitte thought leadership

How financial services can use ESG initiatives to help build a brighter future for us all - Seeing the forest and the trees

A report from the Deloitte Center for Financial Services

Strong balance sheets and positive earnings forecasts are no longer enough for financial services organizations to attract investments, expand their business, and enhance their reputation. While these are important, stakeholders today are increasingly evaluating firms on an additional parameter: How seriously is the organization taking responsibility to address broader economic and societal challenges?

While different stakeholders are approaching ESG with varying levels of depth and industry focus, three aspects remain common: protecting the environment, promoting equity, and fostering trust and stability. And there's plenty of scope for financial services organizations to approach these areas by using innovative technology and exploring new partnerships to address major societal issues, make new markets, and generate profit in collaboration with multiple stakeholder communities while proactively rebuilding trust in institutions.



Source: Deloitte analysis

Instead of managing ESG in vertical silos (E, S, or G), leaders should shift to a multidimensional view to examine the risks and opportunities present in all three areas and across the broader jobs to be done. For example, addressing opportunities in next-gen mobility (through electric and shared or autonomous vehicles) can not only help address the issue of climate change, but also affect society more broadly by helping certain disadvantaged groups, such as those with mobility challenges or those who lack the financing to own their own vehicle, to experience greater opportunities to travel for work, shopping, or pleasure. Similarly, advances in quantum computing have the potential to increase cyber risk, impairing both society's and industry's ability to manage that risk. Addressing the challenges of health involves not only the development of products and services to make health care more affordable, but also financing green energy to reduce the effects of air pollution.

There are growing challenges that remain unresolved and offer tremendous opportunities for the industry to play an impactful and profitable role - climate adaptation and resilience, additive manufacturing, redefining the nature and role of work, reducing inequality.

Full publication can be accessed **HERE**

All publications by Deloitte Center for Financial Services can be found **HERE**

Centering around sustainability in financial services firms - Navigating risks, finding opportunities

A report from Deloitte Insights

In the near future, sustainable finance will become engrained in the business, and the integration of climate risks into day-to-day activities should become the norm. In many respects, incorporating climate risk into existing risk frameworks will be a unique, and sometimes disruptive, challenge.

This will be a different road for different players, but certain shared traits will define "climate-centered" financial firms of the future. Three factors should set climate-centered firms apart from their less-prepared

COMPETITORS:

01. Climate-infused governance and corporate strategy.
Firms will incorporate climate considerations into every strategic decision. They will institutionalize this mindset throughout the organization, and promote it more broadly through external partnerships and advocacy.

02. Targeted product and service innovation.
New offerings will address market demands for environmental sustainability and protection against climate impacts.

3. Enhanced risk management capabilities.
Climate-centric information should be expanded, which can enable firms to manage the financial implications of climate change on a day-to-day basis, generate new insights, and bolster reporting.

Elements of comprehensive climate program in financial services

01.
Governance, corporate strategy and disclosures

Clear escalation and decision-making framework for climate risks, as well as the firm's climate narrative in the market

- *"Tone from the top" and governance structure*
- *Climate risk alignment with long-term corporate strategy*
- *Effective climate-related financial disclosures*

Chief executive officer, chief sustainability officer, head of corporate responsibility, or equivalent

02.
Business strategy, products, and services

Development and adaptation of business strategy and operating models to a low-carbon economy

- *Resilience of business models to climate change*
- *Market segmentation and prioritization*
- *New products and services*

Head of sustainable finance or equivalent

03.
Risk and compliance

Clear escalation and decision-making framework for climate risks, as well as the firm's climate narrative in the market

- *"Tone from the top" and governance structure*
- *Climate risk alignment with long-term corporate strategy*
- *Effective climate-related financial disclosures*

Chief executive officer, chief sustainability officer, head of corporate responsibility, or equivalent

Source: Deloitte analysis

Full publication can be accessed **HERE**

In the spotlight – the banking sector

Climate-related transformation provides banks with enormous business opportunities

Key conclusions and quotes from the debate "ESG and climate-related aspects of banking", held during the European Financial Congress in Sopot.

Regulatory bodies in charge of financial services undertake comprehensive measures to make banks around the world aware of threats caused by the imminent climate change. **They should adjust their strategies and business models to reduce the climate-related risk**. Changing expectations of various financial market stakeholders and responses of the Polish banking sector to new challenges were discussed during the debate entitled "ESG and climate-related aspects of banking". The event, hosted by Deloitte, took place during the European Financial Congress in Sopot.

Challenges arising from the European Green Deal are enormous and the private sectors is among the key sponsors of the transformation, whose speed shall depend on actions and decisions of financial institutions that provide access to capital and thus may introduce additional requirements. Some of them shall address environment, social and governance (ESG) issues.

"This is an unprecedented moment: the Climate Sentiment Index developed by Deloitte indicates a rapid growth in social awareness of climate-related issues. Consumers begin to understand their potential outcome and be afraid of them. According to our survey, 81 percent of Poles are concerned about climate changes and as a result, ready to change their shopping or working preferences accordingly"

says Irena Pichola, Partner, Sustainability Team Leader for Poland and Central Europe, Deloitte.

On the one hand, investors pay more attention to the changing preferences of consumers, become more interested in green funding, and include sustainable development in their strategies along with economics. On the other hand, regulators focus on new standards regarding transparency, disclosures and information management.

"In order for the financial market to grow in line with sustainability principles, all shareholders of the ecosystem must perform an important task. Cooperation of many stakeholders: the public sector, regulators, financial oversight bodies and banks, will be crucial for the success of transformation and the entire agenda, as their interdependencies grow in visibility and importance. Further, please note that although the former regulations indicated a direction, certain gaps remained unfilled. If we fail to cooperate, we may be unable to reach the shared goal"

says Przemysław Szczygielski, Partner, Financial Sector Leader in Poland, Risk Management and Regulatory Consulting Leader, Deloitte.

ESG risk management

Taking care for environmental, social and governance related issues is not limited to regulations or formal restrictions introduced by politicians on various levels. Their financial effect on the economy, value chains and business models of individual companies, banks and their clients is also of importance.

"This is where the regulatory agenda meets the foundation of banking, i.e. our view of efficiency of financial projections that underlie our lending activity. Regulators use environmental requirements to accelerate decarbonisation, as costs of emissions grow. Risk managers must pay much more attention to the effect of direct or indirect emission costs on the feasibility of investment decisions"

says Marek Lusztyn, Deputy CEO, CRO, mBank.

Further, it is important to decide whether the existing investments remain reasonable in the environmental context. Due to its current existing energy mix and the use of bituminous coal, much more widespread than in the other European countries, Poland must do much more than the average EU state in this respect. As indicated by debate participants, emissions generated by the Polish economy to achieve GDP of EUR 1 million are three times higher than the EU average. Therefore, achieving the zero emission goal means that both Polish economy as a whole and Polish businesses have three times more work to do. Since from mid-2021 ECB Banking Supervision requires including the assessment of ESG factors in the credit risk determination procedure, its control shall become the focus of banking sector's operations.

Transformation as a business opportunity

The climate-related transformation means enormous business opportunities for the financial sector. Development opportunities are affected by the large scale of EU programmes, high profitability of renewable energy and technological progress.

"Civilisation progress assumes growing energy consumption. There is no other option. Fortunately, in such countries as Poland, where the share of the production sector in GDP is material, fast economic growth translates into more efficient use of energy. It improves owing to the introduction of new machines, processes or innovative management approaches

says Rafał Antczak, former Deputy CEO, PKO Bank Polski.

For the transformation to provide the desired business outcome, high precision of new regulations is necessary. Banks must know that the data collection process is transparent, and that the data are comparable and useful as reference. For example, the types of fuel used to produce electricity and qualifying as green must be clearly indicated; this will have a long-term impact on business decisions made by financial institutions.

Banks need to listen to their clients

"A bank should act not only as a provider of investment-funding instruments. It should also be a leader listening to needs of its clients and if necessary, advising them on whether and how they can reach the zero emission target or increase the efficiency of their energy consumption. Further, it should present solutions that combine technology with ecology or help in carbon footprint calculation"

says Marzena Koczut, Management Board Member, Bank Ochrony Środowiska.

Actions taken by management of financial institutions focus not only on the need to follow the current regulatory requirements, as they include ambitions of their leaders, who want to have a say when selecting the sustainability path for their organisations and contribute to their success. Despite many uncertainties, they want to focus on values that matter not only in business.

"EU budgets for energy transformation are so large that even the largest Polish banks may find their capabilities insufficient. At the same time, due to the scale of funding, this is a unique opportunity to rapidly grow the Polish sector. Despite differences of approach and perspectives, we have a shared goal to achieve; cooperation is our biggest chance and hope to succeed"

says Przemysław Szczygielski

The recording of the debate can be accessed **HERE**

European Financial Congress, September 2021, Sopot

In the spotlight – Our client success story

Bank Ochrony Środowiska – 30 years of sustainable finance

Bank Ochrony Środowiska is a unique financial institution, not only across Europe but globally. Although the term 'green bank' was only coined in the late first decade of the 21st century by the Obama administration, BOŚ – celebrating its 30th anniversary this year – embraced the concept of green banking at its very inception. After all, the idea to engage in and support environmentally friendly projects is not only embedded in our bank's name but underlies its key mission. Sustainable finance has been an inherent part of the business model adopted by BOŚ, as illustrated by several examples from our earlier history and not so remote past.

Since its inception, BOŚ has been engaged in assessing the environmental impact of projects it chose to finance. To that end, the bank hired its first environmental specialist as early as in 1991.

This was followed by the creation of a dedicated team, which grew steadily over time. At present, we have a dedicated business unit and access to the expertise of a group of environmental advisors working together with our staff to support the bank's clients across Poland. In the same year, BOŚ signed an agreement with the National Fund for Environmental Protection and Water Management (NFOŚiGW) to set out the rules of preferential loans for projects aimed to protect the environment. Thus, what is still seen as something of a novelty in the world of finance has been put into successful practice by BOŚ for three decades now. In 2008, our bank was Poland's first financial institution to undergo an audit examining its climate impact and to embark on measures designed to mitigate its carbon footprint. In 2009, the Foundation of Bank Ochrony Środowiska was set up with a commitment to promoting environmental protection and sustainable development. These are just a few examples showing that the vision of BOŚ was always well ahead of global trends.

Obviously, given the rapid pace of global changes, complacency and failure to act would be a major mistake. Amid the green transition, which is expected to be a key driving force behind European economy, sustainable finance is no longer seen by the banking sector as an attractive differentiator but is becoming a mainstream must-have. The changing global trends are also reflected in specific legal regulations (such as the EU taxonomy or the non-financial ESG reporting regime), which additionally set the direction of changes in the face of the green transition.

This trend is clearly visible in the offering and initiatives of BOŚ. Last June the bank announced its strategy for 2021-2023, placing the main focus on further expansion of the breadth and depth of its capabilities in sustainable, green finance. Additionally, the bank has underscored its increasing commitment to partnering with various institutions and to supporting the goal of climate neutrality through both EU and national mechanisms. Based on the objectives that underlie its business strategy, this October BOŚ also unveiled its ESG strategy, in addition to releasing its first ESG report. Starting from 1 January 2022, every financial institution will be obliged to report its portfolio content in terms of the integration of ESG factors along with 64 related indicators. The resulting strong correlation between ESG factors and financing will have knock-on effects felt by an increasingly wide spectrum of organizations. BOŚ is ready to comply with these new requirements, our ESG experts lending their advisory support also to the bank's business partners.

The spirit of sustainable finance manifests itself in the key financial products offered by BOŚ. Take 'Kredyt Czyste Powietrze' – the loan product granted under the government-backed scheme to improve air quality and reduce GHG emissions, or 'Mój elektryk' – with BOŚ pioneering a product that covers a portion of electric vehicle lease costs for its business and institutional clients. We also have special loans to finance solar photovoltaic systems. Finally, our clients are offered preferential margins if they take out mortgage loans to buy flats on housing estates that meet environmental sustainability standards. These are just a few examples showing that BOŚ is not only actively engaged in flagship public programmes to achieve climate neutrality and has developed an offering of products capable of meeting the vital green finance needs of its retail and corporate clients, but that it often plays a pioneering role in the field.

Internal initiatives are also an essential part of sustainable finance. Bank Ochrony Środowiska has been particularly active and successful in minimizing its own impact on the environment. In 2020 alone, our carbon footprint was reduced by 49% year on year, 97% of the energy used by BOŚ comes from renewable sources, and our water consumption and waste volumes have also been steadily reduced. We consider such efforts to be equally important as the delivery of attractive green finance products to our clients.

Effective management and development of our bank cannot be locked in the 'here and now'. We need to think at least one or two steps ahead, especially when it comes to sustainable finance. That's the reason why BOŚ has recently joined two initiatives of strategic importance to the future of Poland's energy industry. One is the 'Sectoral Agreement for the Development of Offshore Wind Energy in Poland', providing a framework for public administration bodies and local governments to join forces with existing and prospective investors and with offshore wind farm operators. The objective is to create optimal conditions for Poland to emerge as a European leader in offshore wind power generation in the coming decades. The other one is the 'Polish Hydrogen Agreement', an interministerial initiative coordinated by the Ministry of Climate and Environment to engage both public and private entities in building a hydrogen economy in Poland. In both cases, BOŚ has been a member of the respective working groups since their establishment, aspiring to be among the most active signatories. Needless to say, the bank is also interested in financing prospective wind farm and hydrogen projects to increase the share of renewables in Poland's energy mix.

Thus, sustainable finance forms an integral part of both internal and external activities of Bank Ochrony Środowiska. For thirty years, our experts have made efforts to improve the effectiveness of initiatives undertaken by BOŚ in creating positive environmental impacts, while generating the desired financial returns.

It's a continuous process that requires openness and a focus on searching for innovative, better solutions, where opportunities and constraints of the financial, legislative or technological nature need to be considered at all times. Additionally, the European Green Deal is fundamentally changing Europe's development paradigm. On the one hand, we are very happy as this direction is fully aligned with our own values. But we also feel we need to ramp up our efforts even further.

Marzena Koczut
Management Board Memeber
Bank Ochrony Środowiska

Unique position of insurers in the climate initiatives

Insurers hold a unique position in the climate change debate because, unlike any other sector, climate change risk affects both the asset and liability sides of the insurance balance sheet. Moreover, insurers have amassed decades' worth of expertise in extreme risk pooling and management. Insurers are, therefore, simultaneously both more exposed to financial risks from climate change than many other financial institutions, and uniquely positioned to manage and mitigate the catastrophic effects that climate change could have on the economy and society.

Due to its role as a risk manager and one of the major investors, the insurance industry can promote economic, social and environmental sustainability.

Katarzyna Średzińska, Manager, Sustainability Consulting, Deloitte Poland

The enormous capital flows and a long-term horizon of investment and insurance activities can help move from focusing on short-term profits to building a green and inclusive economy. Insurers can advance sustainability through their underwriting decisions, investment choices and by engaging with clients on ESG issues. The industry has the potential to create the right products that ensure, on the one hand, appropriate protection for customers, and, on the other, appropriate rates of return for investors.

According to two-thirds of the survey respondents described in the Deloitte report "Midyear 2021 US insurance outlook: Most carriers primed for growth as economy rebounds", the market will focus even more on ESG issues. The environmental area is of particular interest, and the insurance industry is already striving for climate neutrality and changing its strategies to help stop climate change. In line with numerous government declarations, some of the companies have already set timelines to reduce their emissions to zero. There are also global initiatives to strengthen the contribution of the insurance industry, risk managers, insurers and investors in building resilient, inclusive and sustainable communities and economies on a healthy planet. Net-Zero Insurance Alliance (NZIA) was established under the auspices of the UN PSI as part of the Environmental Protection Program, fostering the cooperation between the United Nations and the global insurance industry. All members of the alliance are signatories to the UN principles of sustainable insurance (Sustainable Insurance Principles - PSI). PSI serves as a global framework for the insurance industry to address environmental, social and governmental (ESG) risks and opportunities.

Product innovation related to climate change

Insurers are in a strong position to influence the pace and nature of the transition to a low carbon economy and seize the opportunities created by climate change through products, risk pooling expertise, investments, shareholder management and proactive fair treatment of consumers - handling damages in a sustainable and ecological manner, including, for example, disclosure of the risk related to climate change and offering green products.

Jiří Fialka, Partner, Leader of Insurance Advisory Services, Deloitte Central Europe

The answer to ESG and climate issues in the insurance industry should be an appropriate insurance offer, supporting, inter alia, low-emission transport, environmentally friendly photovoltaic installations, heat pumps, small and large wind farms, as well as advisory services and audits for clients carrying out decarbonization.

Insurance companies play a key role in supporting zero-emission technological innovation, according to the report **"Climate product innovation within the insurance sector"** prepared by Deloitte in cooperation with the University of Cambridge. Thanks to the activities of the industry, the social awareness of environmental issues increases, and insurance products can support ecological projects also implemented in other sectors of the economy.

The insurance industry is increasingly looking at environmental issues and striving for climate neutrality. In line with government declarations, some of the companies have already decided that they want to reduce their emissions to zero. The industry is considering how to change its strategies so that its actions help to contain climate change. Insurers' efforts are already visible, but a more proactive approach is still needed. Companies from the sector may become transformation leaders, but it is necessary to modify existing products, as well as create new ones - more innovative, technologically advanced and green.

The industry is considering how to change its strategies so that its actions help to contain climate change. Insurers' efforts are already visible, but a more proactive approach is still needed. Companies from the sector may become transformation leaders, but it is necessary to modify existing products, as well as create new ones - more innovative, technologically advanced and green.

Marcin Piskorski, Actuarial and Insurance Leader, Deloitte Poland

The authors of the report identified the key stakeholders thanks to which innovative products for the climate are created faster: state institutions, customers, policymakers and regulators, the insurtech industry, related sectors and shareholders. The selection of these groups made it possible to distinguish nine key areas in which innovation of insurance products may mitigate the effects of climate change.

01. Enabling and incentivizing low carbon choices

02. Mainstreaming the encouragement of climate mitigation through efficient and resilient reinstatement

03. Implementing environmentally sustainable claims servicing

04. Enabling capital flows towards green solutions through risk transfer solutions

05. Creating removal-based carbon offsets through natural capital protection

06. Scaling emerging and existing low carbon and net-negative technologies and start-ups

07. Supporting the sustainable decommissioning of carbon-intensive assets

08. Develop risk advisory services to support clients' understanding and approach to climate change mitigation

09. Developing solutions to increase legal liability for climate and environmental litigation

These actions will help both insurers and regulators create a more level playing field and a stable market for all stakeholders involved - finding a balance between ensuring affordability and availability and managing financial stability.

In the spotlight – the insurance sector

Sustainable approach completely changes the way we think about the development of the insurance business

Key conclusions and quotes from the debate “Will the post-pandemic reality be green?” during the 8th Congress of the Polish Chamber of Insurance.

Growing public awareness of the dangers of climate change and increasing costs of losses caused by weather anomalies motivate business to include ESG (environmental, social, governance) factors in business strategies. Due to its unique position as a risk manager and at the same time a leading stock market investor, the insurance industry has an important role to play in this regard. The panel discussion participants discussed the challenges facing the sector and its specificity in the context of climate risks.

Insurers’ knowledge of the potential risks and potential for disasters, and their ability to manage these issues, puts companies in this sector in a unique position. The insurance sector has been active for a long time in integrating climate risks and adapting the business model to the challenges of climate change, and these activities have started to accelerate since the Paris Agreement in 2015, which established some frameworks and common goals. Since such a great transformation requires significant funds and huge investments, it is also a tremendous opportunity for the insurance industry to adopt proactive strategies to support the necessary changes.

“Human activity has led to climate change, which is confirmed by the most important scientific analyses, including recently published report of the IPCC, the International Panel on Climate Change. The social awareness of this phenomenon is also growing - in Poland, according to the report „Mapa Ryzyk Polaków” there are only 14 percent of those who consider global warming as a myth. Our society expects a more active attitude and greater business responsibility, also from the insurance sector ”

Irena Pichola, Partner, Sustainability Team Leader for Poland and Central Europe, Deloitte

“The insurance sector is not waiting for regulations because life is ahead of them. We are very much aware of climate change and the processes that are taking place around the world due to global warming and societal challenges. We are on the front line. And this shows how big a role the insurance sector has to play. By choosing who and what we insure, we can influence climate policy. Especially that we are financially affected by payments due to fires, floods, storms ”

Adam Uszpolewicz, president of the Aviva group in Poland.

In the insurance industry, the concept of sustainable development is evolving. It is not only focusing on how environmental, social and corporate governance issues affect insurance and investment portfolios, but also how the activity of the industry itself affects the environment and society. The aim of the activities undertaken is to protect the business against the impact of climate risks, but at the same time to use the potential related to the pursuit of environmental goals. The more so because the ESG agenda is associated with enormous funds for investments supporting the transformation of the economy.

According to the participants of the debate, it is necessary to assess the places where the activity of the industry and its contractors are exposed to risks. This may limit the market, but if these activities are undertaken in such a way as to build relationships with customers, help them through the process of change, it may turn out that the industry becomes a trusted partner for many of them.

Education and innovation

According to experts, the sector has a significant educational role to play in the area of sustainable development and environmental factors. Especially that direct contact with customers during operational activities allows such knowledge to be effectively transferred. Activities inside the organization, among employees, are also extremely important - from changing simple everyday habits, through verifying the approach to business procedures, to assuming greater responsibility by sector leaders, company presidents and managers to increase the credibility of the efforts made.

Thinking about how to address the needs of enterprises and consumers who, through products, can be educated and encouraged to take certain actions: change attitudes towards prevention, a different way of liquidation of damages, the involvement of technology. The space for innovation is very large. More of this type of reflection creates opportunities for building a new approach within individual institutions.

Economic growth is crucial for our sector. Such an economic model leads to a continuous increase in consumption, which in turn gives rise to such phenomena as higher air temperature or growing greenhouse gas emissions. Therefore, the concept of “growth” should be redefined. It is worth considering whether, instead of the GDP indicator, it is worth establishing another indicator that would show whether we are going in the right direction for the climate. The insurance sector can gain a lot if the business model of the economy and enterprises changes. After all, you can produce the same, but differently, with possible environmental benefits in mind

‘says Mario Zamarripa, director for sustainable development of the ERGO Hestia Group.

Deloitte events and publications

Deloitte Banking Risk & Regulatory Academy III

What's new on the Supervisor's agenda? How to prepare for the 2022 ECB Climate Risk Stress Test? Join us at the Deloitte Risk & Regulatory Academy and get your questions answered!

5 webinars driven by our best subject matter experts who will navigate you through the galaxy of Risk & Regulatory issues in the Financial Services Industry.

Learn more:

CLICK

REPORTS

Climate change and insurance
How boards should respond to emerging supervisory expectations

CLICK

Sustainable life-insurance business

CLICK

Inclusive and sustainable insurance

CLICK

It's not easy being green: Managing authentic transformation within sustainable investing

CLICK

Deloitte Climate Exchange Knowledge Hub

CLICK

CHANGING CLIMATE IN BUSINESS WEBINAR SERIES

NEW

PL

ESG strategy in the banking sector
Challenges and best practices in the preparation and implementation of green strategies in banks

11.01.2022, 10:00-11:00

CLICK

PL

Decarbonization of enterprises in accordance with the Science — Based Targets methodology: How to start and define goals?

26.01. 2022, 14:00-15:00

CLICK

WEBINAR RECORDINGS

ENG

ESG ratings — what are the challenges and opportunities for companies?

CLICK

PL

How insurance companies may grow with ESG topics?

CLICK

The green future of the financial sector - challenges and opportunities for banks inthe context of ESG factors and climate change

CLICK

ESG EXPLAINED

Environmental, social, and governance (ESG) issues are now hot topics on the business agenda and increasingly a requirement for investors, employees, and customers. And it is a complex, ever evolving concept that is here to stay. Subscribe to our article series exploring ESG from the very basics. So far, there are three articles, with much more coming.

Don't miss the upcoming articles, subscribe!

CLICK

#1

What is ESG?

Although ESG is on the rise, many are puzzled by what the three pillars - environment, social, and governance - exactly entail and how to report on them. We have the answers: read our short, but detailed guide!

CLICK

#2

Where do you start with ESG reporting?

Let us navigate you through the ever more complex landscape of global goals, regulations, and stakeholder expectations that ESG reporting is a part of and is affected by.

CLICK

#3

What are the challenges in ESG reporting?

Understanding which ESG-related metrics you should be collecting is a real challenge. Learn more on how to streamline your ESG data collection and your entire ESG process!

CLICK

Newsletter: Sustainability Insights

Sustainability Insights newsletter is a source of knowledge for organizations that want to consciously build their value through active management of their impact ecompassing environmental, social and governance factors. Read and subscribe to our newsletter, and learn how to tackle local and global socio-economic challenges.

CLICK

Contacts

Irena Pichola
Partner
Sustainability Consulting
Central Europe
ipichola@deloittece.com

Dimitrios Gorianitis
Partner
Financial Services Industry
Central Europe
digoranitis@deloittece.com

LOCAL CONTACTS

BULGARIA

Sevinch Nuri
Senior Manager
snuri@deloittece.com

Ekaterina Hristova
Director
ehristova@deloittece.com

CZECH REPUBLIC & SLOVAKIA

Raul Garcia-Rodriguez
Director
rgarciarodriguez@deloittece.com

Martin Kubacka
Director
mkubacka@deloittece.com

HUNGARY

Akos Lukacs
Senior Manager
aklukacs@deloittece.com

Krisztina S.Nagy
Partner
ksnagy@deloittece.com

LITHUANIA, LATVIA, ESTONIA

Gediminas Minkus
Director
gminkus@deloittece.com

Andris Liepins
Director
aliepins@deloittece.com

POLAND

Irena Pichola
Partner
ipichola@deloittece.com

Przemysław Szczygielski
Partner
pszczygielski@deloittece.com

ROMANIA

Sorin-Dumitru Elisei
Director
selisei@deloittece.com

Andrada- Gabriela Tanase
Director
atanase@deloittece.com

SLOVENIA

Kim Turk Mehes
Senior Manager
kturkmehes@deloittece.com

Luka Hrobat
Manager
lhrobat@deloittece.com

MAGAZINE EDITOR:

Ewa Suszek
CE Sustainability Communications Lead
esuszek@deloittece.com

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, legal, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 263,900 professionals make an impact that matters, please connect with us on Facebook or LinkedIn.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through nearly 6,000 people in 41 offices in 18 countries.

© 2021. For information, contact Deloitte Central Europe.