



ESG essentials: A risk-informed transformation journey

November 2024



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Distilling ESG to its core

The myriad of standards across Environmental, Social, & Governance (ESG) can be simplified into three key interconnected principles. These principles should be embedded into decisions and interactions across the organisation to manage risks and identify opportunities. We use an established ESG Materiality Assessment approach for identification of the most relevant risks and opportunities for each organisation.

Risks include action, or lack thereof. Key examples include...

- Climate Risk
 - Physical risk due to temperature change, catastrophes
 - Transition risk due to evolving expectations, market demand, evolving regulations
 - Liability risk due to climate-related litigation
- Multiple and evolving expectations around multiple topics (Diversity, Equity and Inclusion (DEI), and governance)
- Sustainable Finance regulations, including green and impact bonds



Opportunities include...

- Provide financing for businesses that target renewable energy, water conservation, green buildings etc.
- New revenue streams via products and services that incorporate ESG goals and principles (e.g., impact bonds, green bonds), or benefit from increased demand due to social or geopolitical trends linked to evolving ESG dynamics
- Increase investor confidence through board risk oversight and defined culture
- Enhance awareness of risks and preparedness for near or future challenges

Additional complexity is derived from duality of risks:

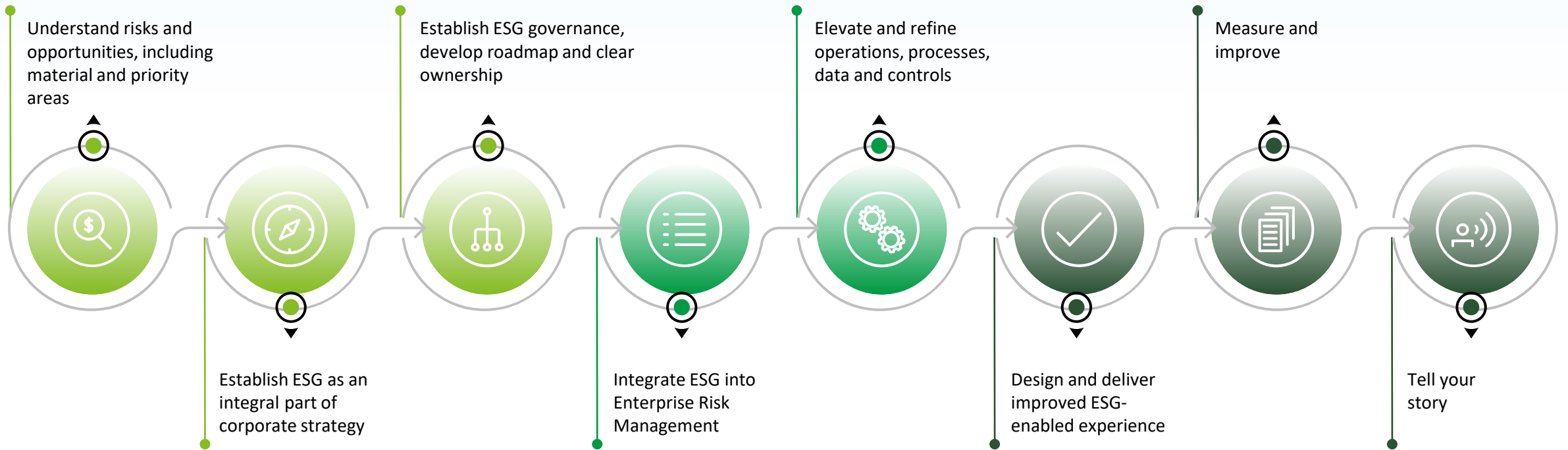
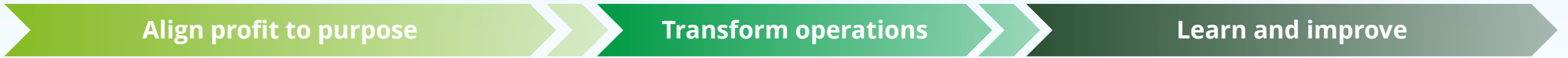
- 1 How the organisation impacts the external environment.
- 2 How the external environment affects the organisation.





End-to-End ESG transformation journey

We take a comprehensive, end-to-end approach to ESG transformation, drawing on our expertise across every stage of the journey. While many organisations are still in the early phases, we are well-equipped to guide them through the entire process.



ESG transformation across all functions in an organisation

Strategy

- Integrating ESG factors to drive innovative and brand-enhancing strategies, including strategic choices across the value chain
- Designing strategies which meet the evolving needs of clients and deliver competitive advantage through ESG -creating sustainable value and driving the low carbon transition

Sustainability function

- Establishing sustainable finance programmes which add-value, deliver positive impact, and support delivery of firm's strategic objectives
- Provide thought leadership and help align teams by engaging, educating and connecting; and coordinate ESG-related activities

Front Office (Markets & Products)

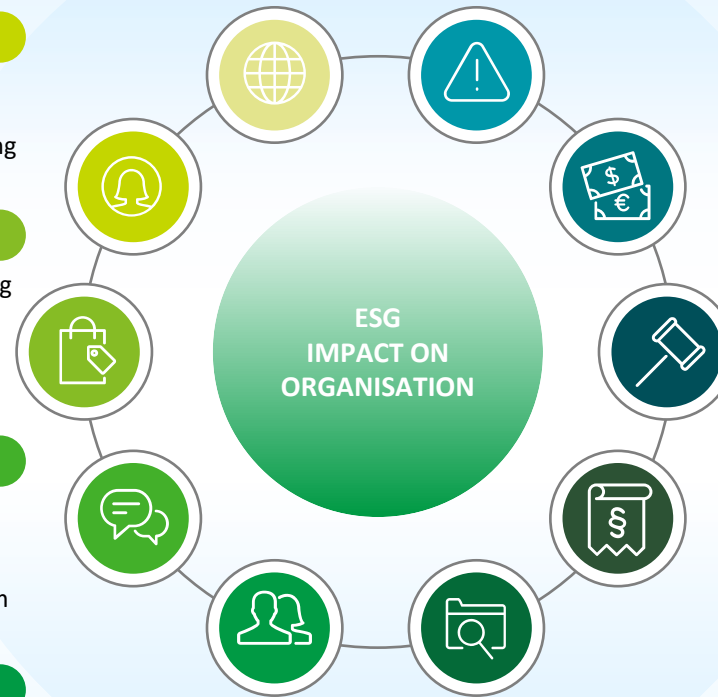
- Identifying client, counterparty and transactional ESG risks, and integrating these into investment, underwriting, and lending decision-making
- Understanding customers ESG preferences, and incorporating these into the sale of products, and provision of advice, in a rapidly-developing regulatory environment

Communications

- Optimising strategic communications to stakeholders to navigate changing expectations and credibly demonstrate prioritisation and management of ESG risk and opportunities
- Providing transparency over firms' product offerings to avoid risks from green and impact washing

Procurement & HR

- Prioritising and measuring opportunities for cost savings, risk mitigation, and reputation enhancement and implement solutions to reduce resource inputs and wasteful outputs
- Investing in leading practices around employee health and safety, diversity, equity, and inclusion, and development to attract, retain and incentivise talent to innovate, drive productivity and deliver on the business strategy



Risk

- Identifying, managing and responding to latent and emerging ESG risks
- Integrating ESG risk capabilities into existing risk and control frameworks
- Enhancing existing risk modelling and stress testing capabilities, for ESG-related risks

Finance

- Incorporating ESG-related risks into investor engagement, pricing, forecasting and budgeting, capital-allocation and annual reporting

Legal

- Understanding and managing risk and liability considerations related to ESG performance – e.g., inadequate, or inaccurate disclosure of material financial risks
- Interpreting the credibility and transparency of sustainable finance products, in the context of the risk of 'green' and 'impact-washing' and resultant mis-selling implications

Compliance

- Broadening the integration of ESG performance into the existing management control frameworks to support compliance around ESG risk
- Maintaining current with the rapidly evolving and complex regulatory ESG landscape

Internal Audit

- Integrating ESG risk and compliance considerations into the internal audit plan to instill discipline and enhance controls related to material ESG risks



Understand risks and opportunities, including material and priority areas

To build a strong ESG strategy, it is crucial to understand the current state and identify key focus areas, including material and priority issues.

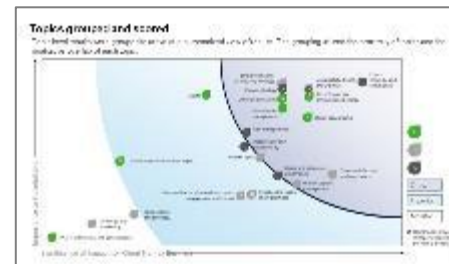
Activities

- **Understand the firm’s current state and broad ESG aspirations:**
 - **Identify key stakeholders for the programme efforts** to evaluate ESG issues and associated business impacts
 - **Conduct workshops** with the key stakeholders
 - **Gather and review documentation** to understand the current state and supporting technology platforms
- **Perform materiality assessment** that identifies the most relevant and material impact areas, specific to business footprint
 - Using proven decision-science methodology, assess stakeholder input, score for priority, and synthesise results into decision-useful visuals for what matters most to stakeholders, the business, society, and the planet
- **Benchmark performance on material ESG topics relative to industry peers and ESG leaders**
 - **Compare current state platforms and processes** for material ESG topics (as identified through materiality assessment) against industry leading practices to identify gaps and opportunities for improvement
 - **Outline maturity model** based on target benchmark

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- **Conduct stakeholder workshops**, perform documentation review to understand and explore current state and future needs
- **Develop Materiality Assessment Matrix**, provide a synthesised view of ESG topics and visualise the issues that matter most to stakeholders, to the business, and to its ability to operate
- **Provide ESG Competitive Benchmarking**, including high-level trends and insights on material ESG topics, with leader and laggard examples and company profiles

Sample outcomes



Materiality Matrix



Peer Benchmarking



ESG
IMPACT ON
ORGANISATION



Strategy



Sustainability
Function



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Products)



Communications



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Internal Audit



Compliance



Legal



Finance



Risk



Establish ESG as an integral part of corporate strategy

To implement ESG successfully, it's essential to integrate ESG priorities into the overall business strategy. By aligning the company's purpose with business value, you can influence behaviour and drive the adoption of ESG principles.

Activities

- **Define an integrated ESG strategy:**
 - **Identify ESG strategic options and capability enhancements**, based on targeted impacts and needs
 - **Evaluate strategic priorities** according to the business, environmental and social value framework, including expected impact, cost, revenues, probability of success, alignment with aspiration
 - **Establish distinct strategic ESG 'where to play' options** by engaging key stakeholders
 - **Detail "how to win" strategies** for the chosen priorities
- **Understand alignment of ESG within existing strategy**
 - Evaluate opportunities to coordinate and integrate ESG within all facets of the business (e.g., planning, decision making, performance management)
- **Formalise ESG strategy integration into the firm's vision** to generate long-term value for all stakeholders

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- **Execute strategic workshops** to identify **prioritised strategic options** for firm's ESG strategy, including 'Where to Play' and 'How to Win' choices.
- **Recommend go-forward strategy** based on identified strategic options and action plan
- **Establish key pillars and framework** that will guide the implementation of ESG strategy overtime
- **Develop an executive-level business plan** that articulates forward strategy, execution roadmap, and value to stakeholders

Sample outcomes



Summary articulation of future strategy (i.e., Choice Cascade)



Detailed strategic options



Strategy implementation roadmap



ESG IMPACT ON ORGANISATION



Strategy



Sustainability Function



Front Office (Markets & Products)



Communications



Procurement & HR



Internal Audit



Compliance



Legal



Finance



Risk



Establish ESG governance, develop roadmap and clear ownership

ESG strategy, data, outcomes, disclosures, and both internal and external reporting should be managed and overseen just like any other core business function.

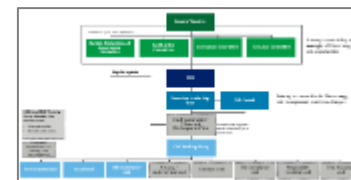
Activities

- **Define ESG governance objectives:** evaluate potential or desired outcomes:
 - Review existing Board governance documents (e.g., Board Committee Charters and organisational charts) to **identify current Board level ESG ownership**
 - **Establish a system of governance** to support ESG strategic framework, including roles and responsibilities, oversight structures, and disclosure mechanisms
- Leveraging materiality outputs, **outline multi-year ESG programme priorities and cross-functional execution** roadmaps, including designated owners to drive action against strategy and targets
 - Develop a **stakeholder engagement plan** to build awareness, support, and identify champions
 - **Develop an executive-level business plan** and investment case
 - **Align leadership and the organisation** behind the chosen strategic pathway

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- **Recommend governance structure**, including roles and responsibilities, oversight structures and reporting mechanisms
- **Design sustainability committee charter**, including the role and oversight of the specific sustainability governance structure
- **Conduct Board/Executive education sessions** on ESG
- **Create high-level strategic roadmap**, including specific milestones and activities to reach strategic goals and/or implementation of ESG initiatives
- **Develop a communication strategy** and plan detailing for how programme progress will be shared and messaged with the broader internal and external stakeholder group
- **Develop a detailed multi-year execution roadmap** that captures initiative mandates and sequencing

Sample outcomes



Recommended governance structure



Recommendations on sustainability committee charter



Execution roadmap



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Risk

Integrate ESG into Enterprise Risk Management

Integration of ESG into the overall risk management framework enables firms to focus and respond to risks that are of material significance, while balancing the strategic roadmap and growth aspirations.

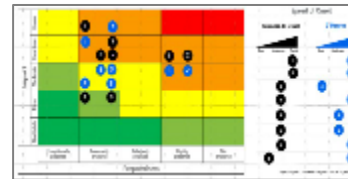
Activities

- **Identify, assess and prioritise ESG risks and opportunities** (informed by materiality assessment outcomes)
 - Analyse existing risk taxonomy for **addition of identified ESG risks to the risk taxonomy**
 - **Establish comprehensive ESG risk inventory** developed through a well-governed risk identification process
 - **Define ESG-related risk metrics** to track the potential impact at portfolio or segment level in line with its strategy and risk management process
- Based on the outcomes of the materiality assessment, **integrate priority ESG topics into enterprise risk management (ERM) practices**, and establish processes and controls
 - Facilitate **integration of ESG** risks into the broader risk management framework
 - **Integrate ESG risks to the firm's risk appetite statement**, including exposure limits and thresholds to ensure it is appropriately assessed
 - Ensure that the **integration of ESG-related risks into existing risk management processes** is proportionate in the context of the company's other risks, the materiality of its exposure to ESG-related risks, and the implications for the company's strategy

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- **Conduct ESG risk identification and assessment**
- **Assess comprehensive ESG risk taxonomy and develop inventory** through a well-governed risk identification process
- **Recommend on ESG risk metrics, exposure limits and thresholds**
- **Conduct ESG Risk Integration Workshops**
- **Articulate detailed ESG Integration Roadmaps**

Sample outcomes



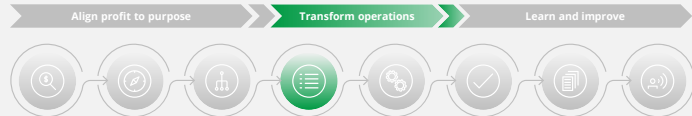
Risk Identification



ESG Risk Taxonomy



ESG Integration Roadmap



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Strategy



Sustainability
Function



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Risk

Refine operations, processes, data and controls

Elevating ESG requires the use of timely, consistent, reliable, and verifiable data; unlocking the utility of ESG data requires robust data management and controls.

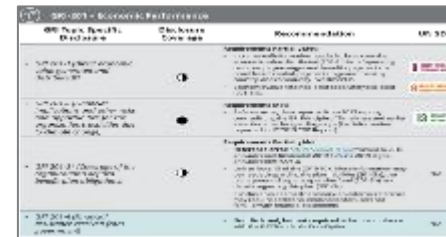
Activities

- **Review existing operations and processes**
 - **Identify operational gaps and bottlenecks** required for ESG strategy implementation
 - **Implement solutions, address gaps and refine the processes and controls** required to deliver continuous improvement
- **Define data architecture** to determine the data collection, standardisation and reporting capabilities necessary to support selected metrics.
 - **Identify gaps in data existence, quality, and ownership, and potential implications.**
 - **Identify key users of ESG data and KPIs**, including internal and external stakeholders, to plan for effective flows of information
 - **Establish processes and procedures** for collecting and consolidating ESG data and **identify responsible parties** for ESG data collection, and reporting
- **Assess the effectiveness of internal controls** over the ESG data collection, processing, and reporting process
- **Ensure adequate controls** are in place to capture ESG risk data that is accurate, reliable, timely, complete, and decision-useful

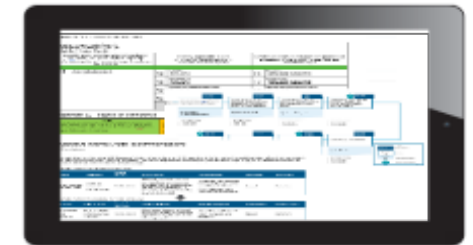
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- **Conduct gap assessment** to identify inherent gaps in data, processes and controls, and provide recommendations on potential operational upgrades
- **Develop a governance structure** to assess internal processes and controls, manage external ESG data discrepancies, and ensure reporting readiness

Sample outcomes



Gap assessment



“ESG Canvas” for managing and controlling data on KPIs



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Risk



Design and deliver improved ESG-enabled experience

Using strategy as a map and materiality as the compass, design products and services to deliver impact for all stakeholders.

Activities

- **Translate ESG vision into product and services themes** - areas in which to focus product/solution development efforts
- **For each focus area:**
 - Determine how to develop/ modify product and service offerings to meaningfully and credibly incorporate ESG
 - Define product objectives and key characteristics
- **Assess existing stakeholder journeys and experience and define how ESG fits into the overall journey:**
 - Develop a high-level end-to-end stakeholder journey (clients, employees, advisors) and when/how ESG services fit into workflows, quality and risk management, and client experiences
 - Define the future ESG experience and capture 'moments that matter' incorporating feedback across stakeholders and SMEs
- **Identify ESG research and expertise gaps** for in-house investment research, benchmarking, product design, reporting, and communication

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- **Using materiality assessment, work with key internal stakeholders** to identify potential areas for ESG integration
- **Develop ESG-led journey use cases** for target stakeholders
- **Implement feedback collection mechanism** to evaluate whether the current product lineup is positioned to meet stated client ESG investment needs
- **Establish the necessary data architecture** for robust ESG reporting
- **Recommend a refreshed offering menu** incorporating ESG principles

Sample outcomes



Stakeholder feedback questionnaires



ESG-led customer journey use cases



Product & services inventory



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Strategy



Sustainability Function



Front Office (Markets & Products)



Communications



Procurement & HR



Internal Audit



Compliance



Legal



Finance



Risk



Measure and improve

A structured approach to monitoring and measuring ESG goals and targets is needed to ensure continuous improvement in product offerings and facilitating strategic decisions in the long-term.

Activities

- **Monitor ESG products/solutions** after implementation, manage and review their risk profile, and assess whether they are meeting intended investment, operational, strategic, and regulatory objectives and requirements
- Establish or refine **goals and targets for priority ESG topics**
- **Assess and refine decision-useful ESG KPIs** for strategy implementation, for products and services, and for tracking progress towards goals
- **Establish models** for ESG risk quantification and scenario analysis
- Plan and define the **methodology and frequency** for monitoring, benchmarking, and reporting
- **Develop change management processes** to identify and assess any regulatory, market, and and/or business changes that may have impact on ESG products

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- **Impact measurement and social impact forecasting**, including tracking the ESG strategy change impact, adoption of the strategy (through success metrics) as well as feedback loops
- **Develop ESG Scorecards** for scoring risks measured across all ESG dimensions for different business segments to guide and strengthen sustainability efforts
- Recommendations for ESG based risk models
- **Change Management Plan**
- **Tracking key themes and KPIs** -track and monitor enterprise ESG data to support decision-making

Sample outcomes



ESG Scorecards and Impact Classification



Impact and change dashboard



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Strategy



Sustainability
Function



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Finance



Risk



Tell your story

Effective ESG-related financial disclosures are crucial for stakeholders' decision-making. Utilising the right disclosure channels ensures that stakeholders receive relevant, accessible, comparable, and timely information.

Activities

- **Assess and establish 'what needs to be' disclosed.** Disclosure decisions can be based on:
 - Priority and material topics identified through materiality assessment
 - Applicable regulatory disclosure requirements
 - Investor/Stakeholder priorities, and/or
 - Risks and/or benefits associated with the proposed disclosure
- **Evaluate and establish communication channels for disclosure**, in accordance with the firm's regulatory context, as well as business strategies
- **Develop a regular cadence of timely disclosure** in accordance with a recognised standard
 - Conduct detailed and executive report readout with stakeholders
 - Communicate to stakeholders in ways that are accurate, transparent, and easy to digest
- **Integrate ESG into the internal audit plan**
- **Evaluate the type and level of external assurance** to support effective governance and meet stakeholder expectations

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- **Recommendations for a communication strategy and plan** for employees, clients, advisors and other stakeholders
- Recommendations on **key considerations for external communications**
- **Disclosure strategy** aligned with firm's overall ESG strategy
- **ESG reporting readiness**
- **Embedded Assurance** work with Internal Audit teams to identify risks and gaps in the various ESG integration efforts
- **Establish and recommend dedicated ESG training programmes** and protocols for incentives and disciplinary actions; Assess ESG-related skills, knowledge and capabilities; modify talent and hiring practices as needed

Sample outcomes



Roadmap and guidebook to help firms report the business value of their impact activities.



Tailored communication plan



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Strategy



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