ITC INFOTECH

Business-friendly Solutions

No Looking Back for Banks on the ESG Journey

Need

If there is a high priority corporate agenda across industries that most leaders agree upon, it is around investments in the area of ESG (Environmental, Social and Governance). The financial services industry has a huge role to play in enabling this change. Bank's focus in this space is being driven not only by their internal sustainability agenda but also by way of demands from their customers, regulators, industry groups, colleagues and investors. Banks are expected to not only bring in the capital but also to motivate their customers to adopt sustainable work practices by leveraging the all-important concept of ESG risk within their risk management frameworks.

While broadly banks have included their commitment to sustainable development goals within their vision & strategy, there remains a gap between aspirations and reality on the ground. This is because

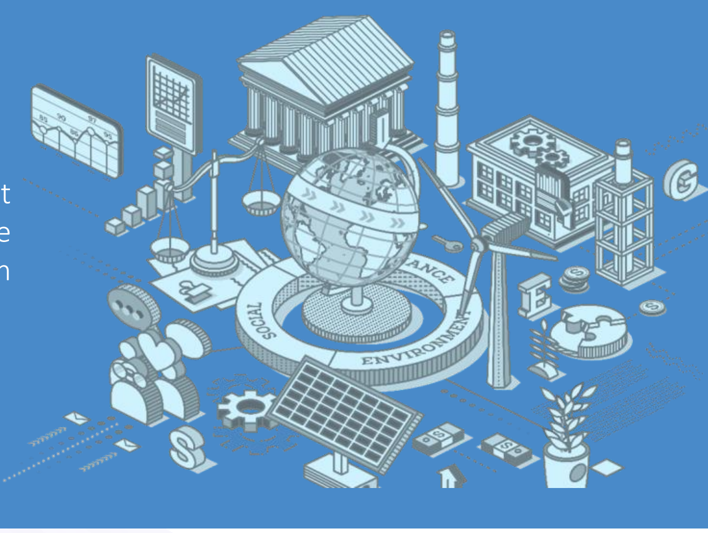
ESG aspects are inherent in how banks themselves and their clients do business and transactions. Moreover, individual sub elements within ESG are interrelated with each other, have different importance by industries and are difficult to accurately measure

The aberrations as ascertained by measuring KPI's within the ESG elements are typically dated and actions might impact client relationships - hence they are not acted upon quickly

With regards to banks own internal operations, most procurement teams have a gap in the tools, data, and processes needed to report on the supplier regulatory targets. They still have a challenge to understand how many of their vendors and partners are ESG-compliant and where they are in their sustainability journey

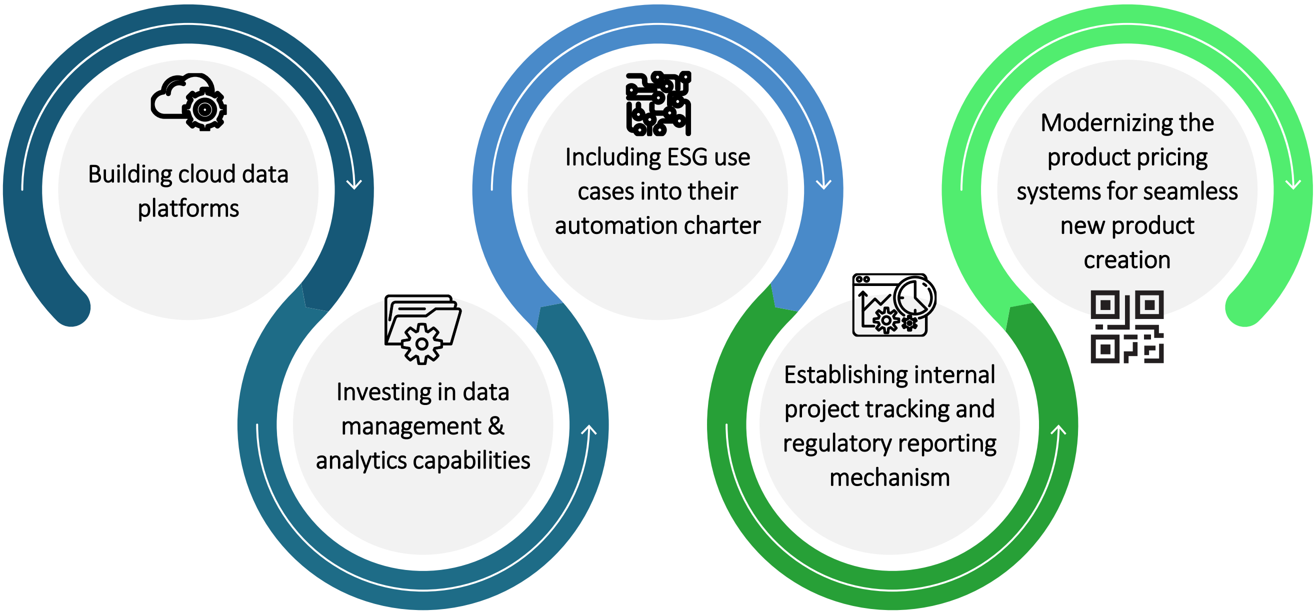
The good part however is that banks have realized that halfhearted commitments to ESG principles is both a threat and a lost opportunity and hence might even be critical for their own existence. Ascertaining direct and indirect ESG risks aided by regulatory mandates, specifically ones that incorporate sustainability criteria associated with climate change on institutions' balance sheets (i.e. physical and transition risk factors) need to be ascertained. On the other hand, banks cannot look the other way to the huge investments needed by companies and customers to fulfill their GHG targets.

"By 2050, the ESG financing and investment market is predicted to be at a $50 trillion or more figure as per analysis from Whiteshield based on data from Bloomberg, Sustainalytics etc."



Progress

Imbibing ESG goals and implementation behavior into the fabric of a Universal Bank is a complex and time-consuming task, a journey that most banks have started undertaking in the recent past. Leading banks have defined their ESG strategy and frameworks (refer to figure 1 & figure 2) and from a technology perspective initiated



Of the above, bank's investments in data and enabling capabilities has been the highest. Multiple data monetization use cases are being worked upon, ones that include negative & positive screening, thematic investing, creation of ESG AI risk models etc. However there needs heavy lifting where it comes to integrating & tracking ESG risk controls across lines of business, products & processes. This requires harmonizing KPI's by industries, defining thresholds and targets on predefined parameters, monitoring and resolving risk control red flags and intuitive reporting. The outcomes on this initiative can result in improving the profitability of asset portfolios that banks manage while mitigation overall risks.

Measurable ESG Initiatives Underway at Financial Institutions

Figure 1

ESG Gaining Importance across Financial Institutions

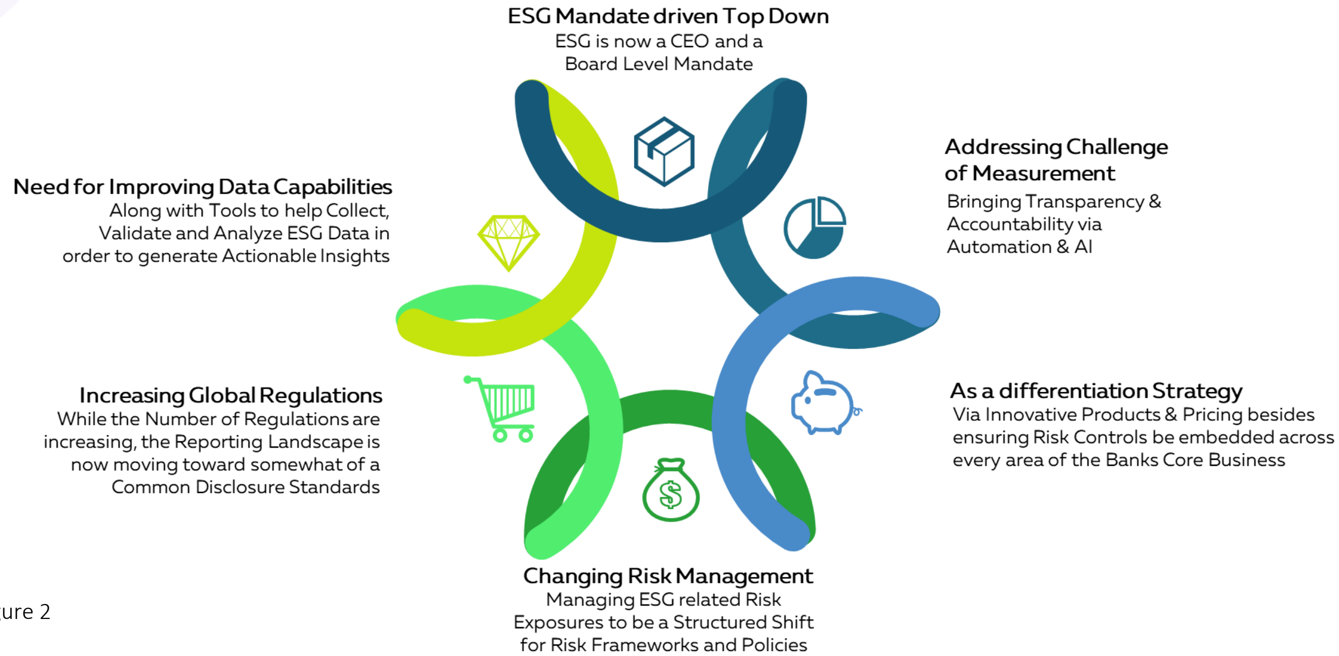


Figure 2

> *"It is hence no surprise that the globe spend on ESG data / analytics is set to increase from $2.2 billion in 2020, to $5 billion in 2025.*
> *- Burton Taylor Report*

> *"According to data from IDC,*
> *cloud compounding can reduce over 1 billion tons of carbon dioxide*
> *over the next few years when compared with legacy IT systems."*

Green Future

As the external regulatory requirements mature and the choice of technology platforms and partners evolve, the overall consulting and implementation spends in this space will increase by leaps and bounds each year. Investments in ESG and measurement of the impact will be very different across lines of business such as asset management, wealth, retail and corporate banking due to the inherent nature of services rendered to these target segments. However, all this will only be possible by way of collaborative efforts between banks and service providers keeping local communities and investors in mind. The coming few years will be critical for banks to walk the talk where it comes to their defined ESG paths. The technology foundations will be critical for success and the time to focus on those is now.

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