Banks are paying more attention to ESG. Here's why.

By Clinton Abbott

6 Apr 2023

Today banks are paying more attention to Environmental, Social, and Governance (ESG) indices for two key reasons. Firstly, a bank's ESG rating has become more important from a customer perspective. Customers want to associate themselves with a bank that shares the same personal values as they do in terms of environment and sustainability-related issues.

Source: Banking Exchange.

According to Boston Consulting Group's *Sense and Sustainability Report* 2022, 73% of customers are altering buying habits with the environment in mind, and 99% of millennials have at least some interest in sustainable investing.

The second reason is that a bank's ESG rating can now affect a bank's ability to access credit, and from a funding perspective this impact is felt more deeply on the African continent and in developing markets than elsewhere due to the strict parameters being imposed by the Development Finance Institutions (DFIs).

For African banks, understanding portfolio risk when sourcing customers means more control at the outset and a better outcome at the time of reporting or when the DFI wants to see if the terms of the loan have been met.The UK and other countries are bringing in regulatory frameworks to ensure consistency in ESG ratings' standards and this, in turn, will affect access to funding.

Banks being able to adopt the available technology to conform to this emerging regulation is one of the hurdles that they need to overcome. Over time average monthly reports will not be adequate for keeping track of this portfolio management, and this is why banks need the technology that feeds and reads into the system continuously, allowing them to pinpoint what product they should be offering to the market based on the risk.

It's important for banks to assess the quality of ESG policies as well as ESG conformance items that banks might want to use.

There's been an explosion in the market with regards to ESG rating agencies which can evaluate the company's performance across many ESG factors, such as climate change, human rights or board composition. However, relying on only one ratings method will give a one-sided view.

Banks must also look at listings such as ESG indices including the FTSE for a relevant understanding on what's happening. The Dow Jones, for example, is also starting to look at sustainability.

Due diligence pays off

An important consideration for banks is to avoid accusations of 'greenwashing' which is the process of using misleading or false information about a company's operations and/or products to deceive customers and members of the public about their environmental impact.

Court cases can result from 'greenwashing' and executives have been arrested for doing this, so there is no shortcut. Banks need to do ESG properly from the outset, forming the right partnerships and committing to a longer-term strategy which genuinely reflects their business ethos.

ESG windfall with expanded renewable energy tax incentive
Tsanga Mukumba and Jordan Moonsamy 13 Mar 2023

How can banks use key innovations in ESG technology to benefit their customers and grow profitability?

An ESG policy, if implemented correctly, can bolster profitability in the banking sector. Banks can position themselves as global leaders if they consider a long-term commitment to their ESG policy but understanding what it means for the whole organisation first is essential.

The priorities must be the following:

- A clear intention on what will be delivered by the policy, and how it will integrate with theoverall business strategy needs to be decided first.
- Appointing an ESG representative who can take overall responsibility for the implementationand delivery of the plan will ensure that it is kept on track.
- Identifying the products or services that can be tracked and reported on, for example greenbonds from emerging eco banks.

Following these initial steps, a tracking mechanism which follows a range of different ESG ratings alongside a portfolio risk assessment, can contribute to success. ESG is real and it is here to stay. It can support profitability and it can make a difference. If implemented well, it can do both which is why banks should embrace the opportunities it brings.

ABOUT CLINTON ABBOTT

Clinton Abbott is the senior vice president and head of product management at SunTec. Abbott comes with 25 years of experience of working with multiple core banking platforms across organisations such as Arise and Standard Bank group. He is a seasoned expert in the banking and technology industry and has played an instrumental role in effectively leveraging technology and innovation to transform banking systems across the globe.

- #BizTrends: The importance of financial inclusion and how the banking value chain will be reinvented - 19 May 2023
- #BizTrends: Banks are paying more attention to ESG. Here's why. - 6 Apr 2023
- #BizTrends: Dynamic segmentation will be the key to banks winning the customer experience in 2023 - 17 Feb 2023

View my profile and articles...