

EXPERIAN INNOVATION WEEK



Creating value through ESG

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ESG impact in EU economy



2015



2015



2018



2019



2020



2021

United Nations Sustainable Development Agenda

- ✓ 17 sustainable development goals, 169 targets
- ✓ Climate change mitigations

Paris Agreement

- ✓ International response to climate change
- ✓ Cut temperature increases

European Commissions' plan for financing sustainable growth

- ✓ The financial sector will be key to transit to a climate neutral economy
- ✓ Sustainability in risk management
- ✓ Transparency and long-term actions

European Commission's Green Deal

- ✓ Ensure sustainable economy
- ✓ Cut carbon emissions to 0 by 2050

European Central Bank's "Final guide on climate-related and environmental risks for banks"

- ✓ Climate and environmental risk become part of the banking supervision process
- ✓ Includes *physical risk* for assets and *transition risk to low carbon economy*

European Banking Authority's "Report on management and supervision of ESG risks for credit institutions and investment firms"

- ✓ ESG risk to become part of banks' business strategies, governance, risk management and supervisory reporting.



ECB Guide on Climate Related and Environmental (CR&E) risks - Key pillars and supervisory expectations

Business Models and Strategy



□ Business Environment

Understand the impact of CR&E risks on the business



□ Business Strategy

Integrate the CR&E risks in the business strategy

Governance and Risk Appetite



□ Management body

Consider CR&E risks when developing business strategy and objectives



□ Risk appetite

Include CR&E risks in the risk appetite framework



□ Organizational structure and reporting

Responsibility for CR&E risks, the 3 lines of defence. Reporting CR&E to management

Risk Management



□ Risk management framework

Incorporate CR&E risks indicators as categories in the risk management framework:

- ✓ Credit risk at all stages of the lending
- ✓ Operational risk
- ✓ Market risk
- ✓ Liquidity risk



□ Stress testing and scenario analysis

Include CR&E risks in the baseline and adverse scenarios

Disclosure



□ Policies and procedures

Disclose information and key metrics on CR&E

Experian Green Rating Proposition

Experian can help to implement ESG regulation into the credit risk processes of banks with a solution combining data, analytics, consultancy and platform



ECB Guide on Climate Related and Other Environmental (CR&E) risks

Impact of physical and transition risks on risk management

Risks	Physical Risks		Transition Risks	
	Climate	Environmental	Climate	Environmental
	<ul style="list-style-type: none"> ❖ Extreme weather ❖ Chronic weather patterns 	<ul style="list-style-type: none"> ❖ Water scarcity ❖ Resources scarcity ❖ Pollution ❖ Biodiversity loss ❖ Soil deterioration ❖ Other 		<ul style="list-style-type: none"> ❖ Policy and regulation ❖ Technology ❖ Market sentiment
Credit	PD and LGD of sectors and geographies vulnerable to physical risks		Energy efficiency standards may trigger high adaptation costs and low profitability, leading to higher PDs and lower collateral values	
Market	Severe events may lead to shifts in market expectations, repricing assets and causing market volatility		Transition risks may generate sudden repricing of securities and derivatives	
Operational	Banks' operations may be disrupted by physical damage to branches and offices		Changing consumer sentiment towards climate issues may lead to reputational damage for the bank	
Other (liquidity, business model...)	Liquidity risks – customers withdrawing funds to repair damage to properties, facilities, etc.		Transition risk drivers may affect the viability of some business lines and lead to strategic risk for some business models Abrupt repricing of securities may depreciate the banks' high-quality assets	

