Go green. Stay competitive.
Sustainability for Banks
An impact to your business that needs to be managed

Banks under scrutiny
The recent financial crisis has put the Financial Services sector under the spotlight. The activities of Banks and other Financial Services Institutions are more than ever under scrutiny, not only by the local and international Regulators, but also by a wider public including clients, employees and investors. Expectations of society are high and this does not just relate to a more sustainable management of financial risks. The financial sector is expected to play a role in supporting national and international development goals and to facilitate the transition to a green and low carbon economy. This is a fantastic opportunity for the sector to prove its added value to society.

A multi-scale approach to coping with sustainable issues
For banks this means that a comprehensive approach towards sustainability is key to meet the expectations of the public, their clients and the markets. The complexity of the topic, however, requires a multidimensional approach to deal with ethical questions, environmental and climate issues, social responsibility considerations and financial risk management requirements.

Sustainability for banks: opportunities and risks
The need for Financial Institutions to increasingly engage in higher social aims and to support national and international development goals means that their core business – the provision of financial services – must be fit for a changing world.

The sustainability agenda presents both risks and opportunities to banks and other financial services institutions and there are strategic choices to be made around desired market positioning. Many players in the financial sector are willing to seize the opportunity behind the sustainability topic. They can’t ignore the basics of risk and compliance management in doing that.

“Sustainable Finance” is a term mainly used by banks, lobbying groups, industry associations and development agencies. In other words, financial capital and risk management products and services need to be provided in ways that promote or do not harm economic prosperity, the environment and social well-being.
Sustainability opportunities and risks

Delivering on Public Commitments
Many companies have made public commitments that they may not be meeting. These could include signing up to the UN Global Compact, the Equator Principles, the Carbon Principles, joining the 1% club, going carbon neutral etc. Risks: Reputation risk of not following through on commitments, loss of trust by stakeholders and regulators.

Transparency
A lack of appropriate transparency about products, charges, terms and conditions. Risks: Loss of trust by customers or other stakeholders, leading to a loss of market share.

Indirect Social and Ethical risks
Choice of customers and business partners is key to protection of a financial institution’s reputation. This includes not only effective management of regulated issues (e.g. Know Your Customer) but also demonstrating a strong ethical stand. Risks: Inappropriate business decisions, misleading stakeholders.

Corporate Responsibility
Data Quality
A new reporting area (e.g., via Business Reviews), with attendant risk that the data being reported externally is not as robust as other financial information reported.
Risks: Reputation, and diversion of management time.

Responsible Customer Management
Treating customers fairly, financial inclusion, financial education, transparency, pricing, sales practices etc are key issues for the financial services sector. Risks: reputation for mis-selling and mis-treatment, potential regulatory action, lack of trust by customers which can lead to a decreasing market share.

Ethical Conduct, Bribery and Corruption
Embedding internal Codes of Conduct, and the Banking Codes as part of “business as usual” has presented many financial services companies with significant challenges. Risks: Regulatory and civil claims plus absence of a systematic method of making ethical decisions, leading to reputational risk.

Sustainability issues facing the financial sector generally

Indirect Environmental Impacts
A major issue for corporate lenders: appropriate management of environmental risks in lending portfolios should reduce potential future losses / liabilities. Risks: Contamination clean-up costs, loss of security value / sale ability, increased severity or loss given default.

Environmental Management
Against a background of increasing regulation, finite resources and increasing costs (e.g. energy), companies are expected to manage measure and report on all of their environmental impacts.
Risks: Increased operating costs, adverse impact on brand if stakeholder expectations not fulfilled.

Climate change
A “hot issue” globally with lenders being seen to have a major influence on carbon reduction and insurers bearing the brunt of climate change losses. Greater reputational, regulatory and financial pressure expected, as climate change increases.
Risks: Failure to capitalise on new product development, collateral values impacted, energy costs increased.

Sourcing, Outsourcing and Off-shoring
What companies buy (eco-friendly?) and who they buy from (responsible companies?) is increasingly important. Whilst outsourcing particularly off-shoring, has become commonplace recently, it is not without risk.
Risks: To customer service quality, to the morale / stability of the domestic workforce and to brand / reputation.

Employee Wellbeing
The importance of equality and diversity, discrimination, work-life balance, security and stress management has become key for financial institutions. Proactive and effective management of these issues is essential.
Risks: Regulatory and civil claims, loss of productivity, staff morale, recruitment and retention difficulties.

Sustainability issues in the financial services sector have many aspects
Sustainability aspects are to be found and managed in many areas of financial services institutions. Core of any sustainability strategy is therefore the awareness of the relevant impact areas and the definition of appropriate risk management concepts for your organisation. In today’s fierce and challenging markets and with an increased public oversight and sensitivity towards failures in financial institutions any kind of shortcomings can lead to significant financial, reputational and organisational risks.
The issues

On Strategy and Policy Development
• Is my business model risky?
• Are key governance and sustainability issues integrated into my core business practices?
• What value is our sustainability programme adding to our brands and/or shareholder value?
• What is the impact of sustainability to my business?
• Do I have the right products and services in my portfolio to meet clients' demands for the future?

On Risk Management
• Do my decision-making people, structures and processes support our sustainability strategy?
• Am I making informed decisions at a client and transaction level?
• Am I more exposed to risky financial products in the market compared to that of my peers?

On capacity building
• Are my people ready to adopt sustainability practices?
• How can I embed sustainability into my people management strategy?
• What management information and KPIs are being used to measure and monitor sustainability?

On assurance
• Does my sustainability reporting meet local and international standards?
• Do I fully comply with local and international rules and regulation?
• How is my organisation positioned in key sustainability measures? What is the carbon footprint of my company?

How we can support you
PwC can help you in all aspects to be covered when it comes to mastering Sustainability for your company. Starting from an impact assessment over to the definition of a Sustainability strategy and the implementation of your Sustainability concept further to mastering all risk management aspects and provision of assurance, e.g. to your sustainability reporting – we can help you with our experience and dedication to this topic. Moreover, we can help you to prepare your organisation also by awareness building exercises and dedicated training sessions for your employees. We have a clear approach to address your issues:

On Strategy and Policy Development
• Development of a sustainability strategy that is aligned to corporate strategy and risk appetite
• Develop and implement advanced sustainability frameworks
• Integrate governance and sustainability issues into core business practices
• Conduct sustainability readiness assessments to identify impact to current business
• Complete the product range with sustainable and green products to secure market share and meet future client demands

On Risk Management
• Integrate sustainability policy frameworks into client acceptance (KYC), credit approval, capital allocation and underwriting processes
• Enhance decision support tools
• Sustainability risk mapping
• Provide on-demand Transaction Support to navigate through the complexities of environmental and social risks
• Benchmarking
• Awareness training/workshops

On capacity building
• Deliver capacity building training, e.g. Equator Principles and IFC Performance Standards workshops, sector specific workshops and executive briefings
• Enhance performance management systems and KPIs to include sustainability targets
• Redefine people strategy to include sustainability ambitions and plans

On assurance
• Provide assurance on sustainability reports
• Perform a sustainability assessment of the organisation
• Determine the carbon footprint and other sustainability KPIs for your company
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Financial Services
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Why PwC Luxembourg?
A multidisciplinary team of highly experienced professionals combining their expertise as strategic advisors, auditors and industry practitioners provide for a detailed knowledge of Sustainability aspects in the Financial Services industry in Luxembourg. The experience accumulated by our leading audit, tax and advisory practices together with the breadth and quality of our international network covering all the major areas worldwide ensure our potential for delivering first class quality projects on a cross country international basis. PwC Luxembourg has proved its highly dedication and leadership role in this sector. With the support of a worldwide team of experts such as e.g. its sustainability team, PwC has supported over the recent past numerous clients in establishing viable Sustainability solutions. PwC Luxembourg (www.pwc.lu) is the largest professional services firm in Luxembourg with more than 2,100 people employed from 57 different countries. It provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. It helps its clients create value they are looking for by giving comfort to the capital markets and providing advice through an industry focused approach.

Our people working alongside you

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