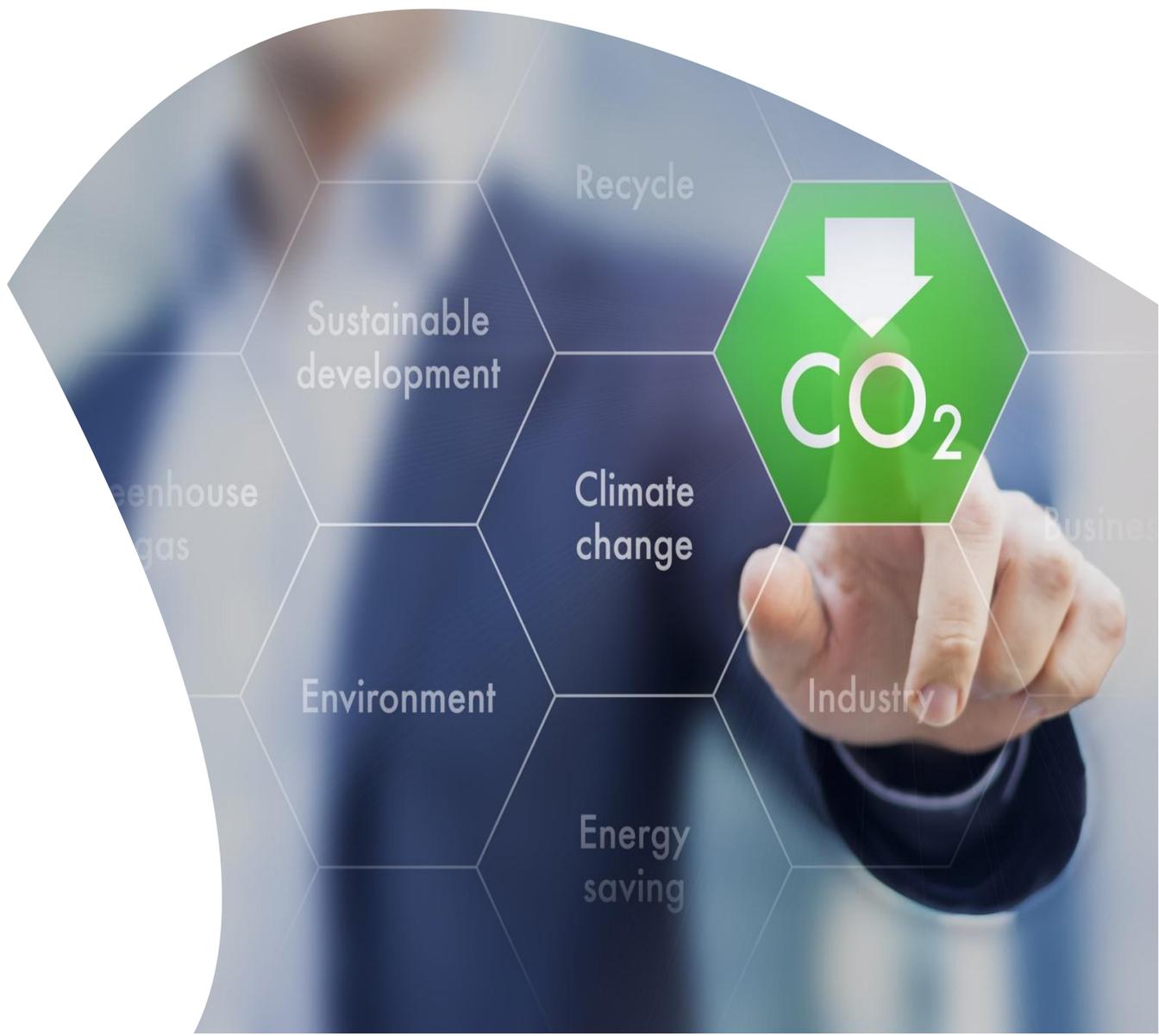


# SUSTAINABILITY REPORTING:

# HOW FINANCIAL INSTITUTIONS CAN DRIVE THEIR ENVIRONMENTAL IMPACT

**Data management implications of Portfolio impact  
as the global standard for sustainability reporting**





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# EXECUTIVE SUMMARY

## Mature sustainability reporting needed

Mutual funds that invest based on environmental, social and governance (ESG) criteria have passed the \$1tn milestone in 2018<sup>1</sup>. This highlights the landmark shift regarding sustainability reporting for financial institutions. In this point-of-view we will introduce our sustainability framework, founded on three pillars:

- sustainability reporting requirements
- sustainability modelling
- sustainability data management

Together they support the operationalization of corporate strategy on sustainability reporting for financial institutions, aligned with the global GRI standard. It is this standard, combined with the increased interest of stakeholders to compare portfolios on sustainability impact that drive the need for more mature sustainability reporting on portfolios.

It is a challenge to determine how “sustainability” needs to be measured. This is because reporting requirements of external stakeholders can be quite different from the data set that determines steering information for internal stakeholders. External stakeholders focus on the comparability of sustainability performance across portfolios to allow for benchmarking and informed decision making. Their request for information tends to differ from internal requirements for portfolio steering, tracking KPI’s and goal setting.

## Sustainability modelling

The ranking of clients implicitly assumes that a sustainability policy is in place. It is through this policy, and the corporate values embedded in it, that enables consistent ranking of clients. Especially when sustainability impact measurement is taken a step further than measuring for instance only a carbon footprint.

Often financial institutions start out with measuring sustainability impact on what is available in a sector. This approach soon reaches its limits when comparability of data between sectors and portfolios becomes more important. To be able to classify and rank clients on their sustainability impact, financial institutions need often to improve on data availability, data quality (especially completeness of data) and a uniform data model.

## Sustainability data management

Measuring only a carbon footprint (‘the financed footprint of portfolios’) is often difficult enough though, because of the lack of a uniform methodology at the client site. But it is only a well-founded methodology on sustainability reporting that allow financial institutions for comparability between portfolios and financial institutions. From our experience, sustainability measurement on a portfolio level significantly improves if meaningful distinctions are identified among clients. For instance, differences in supply chains. Especially the information gathering needs to be done in a controlled manner, thereby increasing the demand on data management to provide centralized, well documented and auditable key parameters.

Collaboration with clients on determining meaningful distinctions will also realize more ownership of sustainability data at the business lines within financial institutions. This in turn is necessary to have more accurate data provided in the initial application process. After all the application process drives the aggregated sustainability performance on a portfolio level. Our sustainability framework enables the road map for measuring the impact of portfolios on sustainability.

**A sustainable impact methodology must be transparent, credible and feasible**

- Platform for Sustainable Finance

1. Source: Economist, December 2, 2017



# 1. SUSTAINABILITY CHALLENGES

## Only 27% of banks report on the definitions of their sustainability metrics

Sustainability reporting starts by defining sustainability. Since many definitions exist, this can be challenging. Organizations such as the Global Reporting Initiative (GRI), United Nations (UN), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) each have their own definition of sustainability. Our research<sup>2</sup> shows that organizations have not embraced a standardized guideline for sustainability reporting, with the majority of banks reporting mostly on readily available data. Fortunately, organizations such as GRI have worked on harmonizing standards in sustainability reporting. This effort has been reflected in the GRI G4 Guidelines, which helps to relate GRI reporting to ISO standards and the UN Global Compact, amongst others. Harmonized approaches improve the collection, accessibility and quality of data. As a starting point in transforming sustainability reporting, incorporate a uniform definition of sustainability across all business lines of the financial institution based on a common methodology.

## EU High Level Expert Group

At a worldwide level, the World Business Council for Sustainable Development (WBCSD) and the Task Force on Climate-related Financial Disclosures are founded to accelerate the positive impact of sustainability and increase transparency on climate-related financial risk disclosures, respectively. As shareholders are increasingly judging firms on broader criteria than financial ones, investments that considered environmental, social and

But this global GRI G4 standard also demands impact driven reporting. Meaning that the sustainability impact is measured on those issues where a certain sector has the most impact on sustainability. For instance, CO<sub>2</sub> output for the energy sector and water consumption for cotton farming. Now this has huge implications for financial institutions with the ambition to measure the sustainability impact of their portfolios. It requires a broad spectrum of well governed, up to date parameters. To be able to make meaningful distinctions between clients, financial institutions often want to obtain data directly from the client. As most (non-listed) clients haven't reached (industry-wide) accepted standards on sustainability reporting themselves yet, most banks use either (sector specific) vendor data or templates that the front-office completes. The latter approach is to be preferred, as control of data quality is easier to obtain, especially in heterogeneous portfolios. So it didn't come as a surprise that the High-Level Expert Group on Sustainable Finance (HLEG) within the European Union set recently as a first priority 'establishing an EU sustainability taxonomy, starting with climate mitigation, to define areas where investments are needed most'.<sup>3</sup>

governance factors accounted for \$13.3trn of assets under management in 2012; that sum was \$22.9trn in 2016. Over a fifth of the funds under professional management in America fall into this category, up from a ninth in 2012.

This is also reflected by the many initiatives taken, as shown in Figure 1. For many financial institutions sustainability reporting is a journey with increasing stages of maturity, historically similar to risk and finance reporting. Currently

**The EU will need around €180B in additional yearly low carbon investments**

- *EU High Level Expert Group*

<sup>2</sup> Capgemini Invent research on sustainability reports 2017 of 14 leading pan-european banks

<sup>3</sup> (The HLEG provides advice on how to steer the flow of capital towards sustainable investments and guides financial institutions in taking the steps to protect the financial system from environmental risks.)



most financial institutions rely on external vendors for their sustainability reporting. This practice will soon reach its limit, and the next stage will demand a transformation of their processes as data management needs to be more integrated within the existing IT-architecture and reporting control framework to

reach auditable standards. In the next section, we present you our digital sustainability framework to give your financial institution all the knowledge and tools necessary to turn the internal and external challenges of sustainability reporting into opportunities.

**Figure 1 Influences on Sustainability Reporting Landscape**



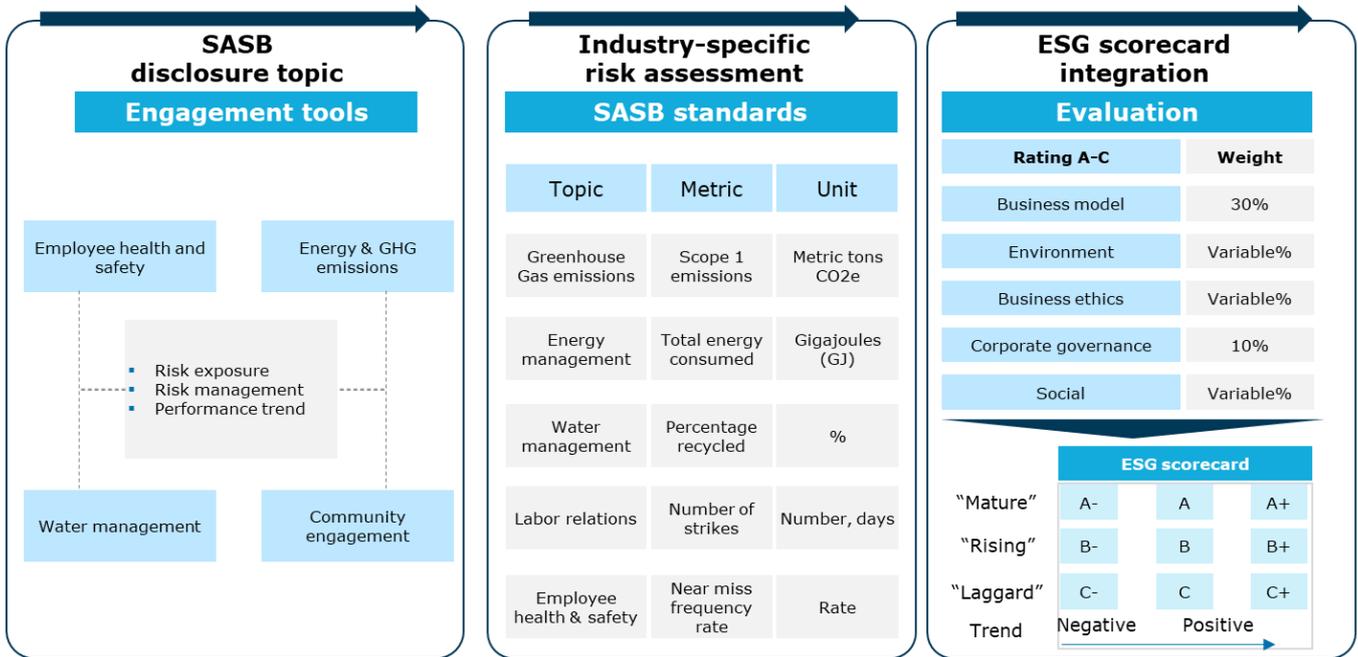


## Investing with responsible returns

### Example

A multinational Scandinavian bank is an excellent example of how responsible investment decisions are made. Before investing in a company, they assess the company through a ESG analysis in combination with Sustainability Accounting Standards Board (SASB) standards. It is a fresh approach on identifying data points that reflects a company's position on financial materiality of ESG issues. The SASB disclosure topics act as engagement tools for the bank as they go on site-visits as part of their ESG research. A thorough risk assessment can be conducted as information is disclosed on SASB standards. Using this input in combination with their ESG scorecard analysis leads to the decision whether an investment can be made with responsible returns.

## Assessing a mining company





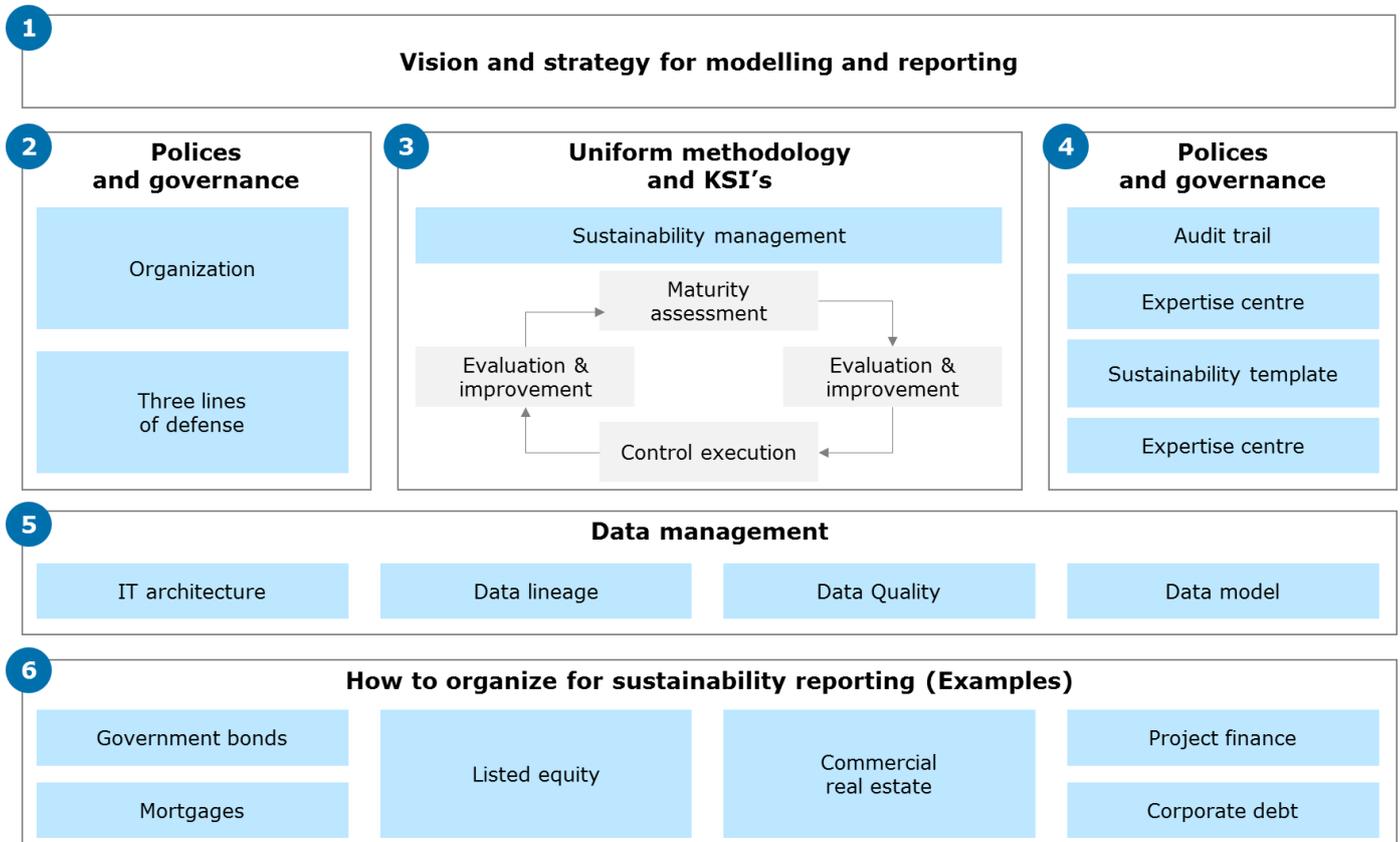
# 2. DIGITAL SUSTAINABILITY FRAMEWORK

Capgemini Invent introduced the Digital Sustainability framework (see Figure 2) to systematically and comprehensively provide a solution for modelling and reporting on the impact of portfolios. The framework supports financial institutions to realize an end-to-end approach on the sustainability performance of their portfolios. There are six building blocks that define the framework. The first building block is creating a vision and strategy for sustainability modelling and -reporting. Once this block is built, the next one is realizing related policies and governance. Implementing a uniform methodology along with key sustainability indicators (KSI's) is at the heart

of the third building block which acts as the safeguard of transparency and comparability of sustainability data.

Consistent data delivery is the guide of the fourth building block named process integration to enable rapid reconciliation with finance, risk and client data. The fifth building block of the digital sustainability framework is data management which addresses mainly the quality of data. We discuss the last building block to introduce the steering of the sustainability performance of your portfolios in line with your vision and strategy.

**Figure 2 Building blocks of a Digital Sustainability framework**





## 2.1. UNLOCK THE FULL POTENTIAL OF MODELLING AND REPORTING WITH A SUSTAINABILITY STRATEGY

Start your digital sustainability journey by defining a vision and strategy for modelling and reporting. Answer the question 'What do you want to achieve with sustainability reporting?' The answer matters. A strategy towards supporting clients to improve their sustainability performance needs a different approach and performance indicators than reporting on financed carbon footprint.

Also, ambitions differ: Do you want to implement a full ESG framework? The answer has a significant impact on your data collection

approach, and therefore also on the needed IT-infrastructure to capture, store, process and integrate this data. Last but not least it impacts also the organization needed to govern the data. In our approach we distinguish between financial institutions aiming for a standardized versus customized reporting environment. The latter providing a better platform to scale up towards auditable standards and generates insights to support client sustainability strategies but also requiring more organizational effort in people, processes and technology.

## 2.2. DATA GOVERNANCE AS A SAFEGUARD OF TRANSPARENT SUSTAINABILITY DATA

It is important to establish data governance to safeguard data lineage of predefined parameters of the sustainability reporting model and document every step in the process. It should be clear who is accountable for the data in which part of the process and where the data is coming from. On a central level the report is processed based on local data sets. Assigning data owners will help to overcome difficult discussions about local and central responsibilities in the sustainability modelling and – reporting process.

A clear data governance framework enables financial institutions to adapt quickly to new regulations while having the tools in place to be in-control. Audit trails are established to protect data quality and have clear data lineage. With a unified master data management platform, financial institutions are also capable to extend and analyze their data realistically at macro and micro level. It supports them to steer on sustainability goals and facilitates the reconciliation of the sustainability reporting process.

Clear policies and governance make a pathway for transparency of sustainability data. Transparent data management provides the opportunity for business lines to engage with loan portfolio clients on their sustainability performance. Financial institutions can initiate conversations with loan portfolio clients regarding their performance on sustainability and identify what ambitions (if any) exists. Given the speed of sustainability reporting developments, we expect that alignment of interests between clients and financial institutions will be organized similarly to the agreements that has been realized in the field of financial ratios for years. Financial institutions which want to generate a positive impact through their investment and loan portfolios have a need for reports that are accurate, complete and comparable. Insights in their clients' sustainability performance serve as the basis for setting realistic and understandable targets.

Make the effort worthwhile by having a digital sustainability framework in place that allows for a clear understanding and governance of the



relevant parameters and their sources. To both track and improve sustainability performance

through data that is both transparent and comparable.

### Governing sustainability

A large German Bank uses a sustainability checklist to assess all the factors relevant to a loan that may affect ecological or social risk.

It contains ten inspection criteria in four areas: environment, social, anti-corruption and competition/tax. The sustainability checklist is based on a four-stage traffic light system with levels ranging from exemplary (green = 1) to dubious (red = 4). The average of all the values determines the overall rating for the loan. If this figure exceeds 3.5, no loan is granted.

For the assessment of loan applications from sensitive industries, such as forestry and extraction of raw materials, the German bank uses its sectorial rules in addition to the sustainability check. Processing in accordance with the sectorial rules is an integral part of the sustainability check



## 2.3. MAKE PORTFOLIO MEASUREMENTS MEANINGFUL WITH A UNIFORM METHODOLOGY

A clear and transparent methodology to measure sustainability in a loan portfolio is the foundation for business unit support and provides financial institutions with a validation source for sustainability performance of their portfolios. The challenge is to find the right balance between a clear and internally (by the business lines) well understood model on one side and reporting demands on the other side.

The main objective is to obtain sustainability goals, such as a low carbon footprint, on a portfolio level by aligning the criteria with a single, embraced definition to compare different asset classes fairly and transparently on performance in the reporting framework. Secondly, a rating model is needed to compare CO<sub>2</sub> footprint with for instance Human Rights. To attain these goals however, it is important that borrowers and/or clients understand the way they are classified by financial institutions, so goals can be set realistically. This requires

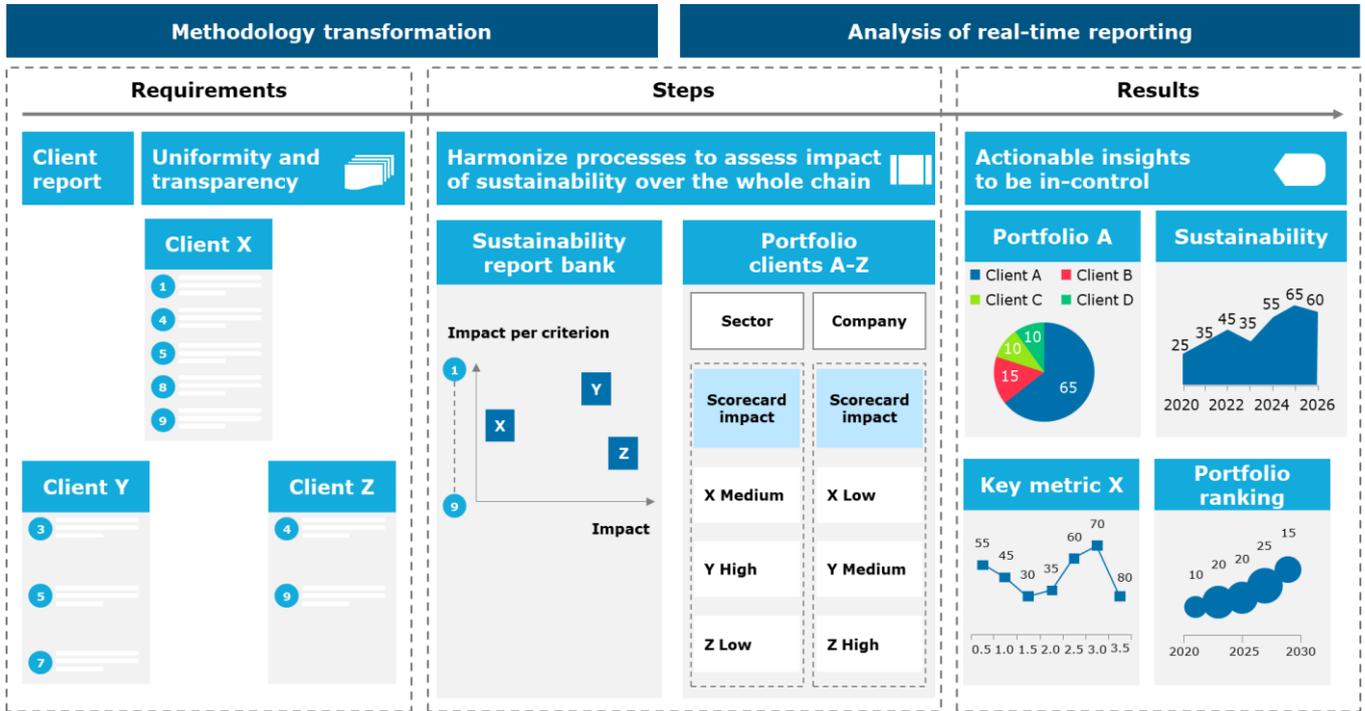
sustainability criteria to be controllable, relevant and transparent. Given the large share of SME enterprises in portfolios, often characterized by not having mature sustainability reporting capabilities themselves, the importance of a clear and simple digital sustainability framework is emphasized.

The goal of providing reports that enable investors to benchmark financial institutions on sustainability requires banks to gather client data on a uniform methodology. For instance, a LCA (lifecycle assessment) methodology. If left alone the Real Estate Finance business unit may report energy labels but doesn't take into account the recycling possibilities of the materials used in buildings at end of life, while the shipping department focuses on CO<sub>2</sub> emission labels of assets financed. Although this will enable comparison within sectors, and therefore is often a typical starting point in the sustainability reporting journey for financial



institutions, this will not realize any meaningful benchmarking between financial institutions, between portfolios or between sectors.

**Figure 3 Methodology for measuring impact of sustainability in a portfolio**



In many SME and mid-sized companies, the way sustainability related information is distributed and analyzed is still fragmented. Often, they are struggling to translate their business process to an ESG framework, and find it especially difficult to obtain sustainability related information across their supply chain. Therefore, we recommend the business lines of a financial institution to start with their own requirements for the sustainability performance of loan portfolios. Capgemini Invent helps to develop a relevant list of Key Sustainability Indicators (KSI's) that allows business lines to classify clients accordingly (see Figure 3). So, it is possible to filter on a set of sustainability criteria that meets the requirements of business lines. It is important to realize that often not all data needed may be available at the start. Well governed default values for sectors will often be needed to realize a client picture fit for benchmarking. Therefore specific tailoring by the front office is needed to ensure relevancy for especially SME

portfolios. As SMEs often do not produce sustainability related data themselves. For instance the financial institution can use default

parameters on portfolio clients, with front office making the default setting client-specific by filtering the impact on client characteristics such as local vs international sourcing. This allows financial institutions to improve decision-making by having optimized insights.



**Methodology example**

The platform Carbon accounting Financials (PCAF) proposed a harmonized methodology for measuring the carbon footprint of investments. Capgemini Invent supports financial institutions to bridge the gap between current co-existing methodologies and implementing a uniform methodology. Working closely together, we ensure that our clients accelerate their transition towards more sustainable portfolios

Clients should have the possibility to scope their sustainability reports on the areas that are



most relevant to them and overwrite standard industry benchmarks with more accurate data. This provides them with an incentive to work together with the financial institution on sustainability reporting. Before building dashboards and tools to track developments in a loan portfolio, two requirements must be met: a) the delivered reports are consistent and b) transparent. Consistency of reports helps business lines to understand their sustainability reports, and drives their engagement to deliver accurate data. Transparency is important because financial institutions need to know how calculations were performed to build sustainability reports that are comparable and consistent. This will enable them to run queries on specific sustainability issues, like CO<sub>2</sub>, and identify 'heavy users' in the portfolio. It also

greatly enhances the ability to monitor and track real-time reporting.

Through a uniform methodology a financial institution gains the knowledge to make informed decision-making based on KSI's. Which, in turn, improves approval processes. This usually triggers a start in dialogues with the clients in your portfolio. Therefore front-office needs training, but preferably, is also intrinsically motivated by the sustainability values. As it was historically often not a selection criterium in the hiring process, this change of mindset will need management involvement. And therefore earlier management buy-in. The energy and communication needed to realize this should not be underestimated.

## 2.4. INTEGRATING SUSTAINABILITY DATA IN YOUR BUSINESS PROCESSES

You are now halfway on transforming your sustainability reporting models as three building blocks have been put into place. The strategy is determined, the method is defined, and the governance of the process is carried out by your financial institution.

Based on our experience with integrating sustainability data in the existing IT-architecture, processes and governance structure, we make the following categorization:



### Data IT & Landscape

Quality of data processing using vendor models and/or internal IT solutions



### Client monitoring

Level to which sustainability impacts the onboarding and continuous monitoring clients



### Impact measurement

Maturity of measuring sustainability impact based on quantitative and qualitative information



### Reporting

The extent to which the topic sustainability is discussed in the annual report

**On data IT & Landscape:** a start is usually made with a leading role for external vendors. Often for many non-listed clients, data is missing. This is then complemented by sector specific default data. As the reporting stage becomes more mature, internal information is supplemented and more external data processed. More interfaces with finance / risk systems are needed to reconcile data frequently. Data lineage of sustainability data becomes more important as client data is sourced internationally. Within the financial institution central governance is needed to

realize a single source of truth set-up to maintain data and client rating integrity.

**Client monitoring:** at the start the frequency of updates relies on the number of updates by vendors often combined with manual enrichment solutions. Along the way this becomes more consistent due to the use of agreements between financial institution and clients. Next to that connections are realized with the KYC CDD process, securing consistent rating of the same client across systems and purposes.



**Measuring sustainability:** initially much effort is directed at the alignment of definitions across different vendors. Manual enrichment is needed to realize meaningful ratings for SME companies. Through this KSI acceptance by business is increased, but it requires a more elaborate governance structure as compliance / risk departments have to challenge these adjusted ratings as part of second line monitoring. By now the more mature financial institutions have developed internal rating models. But these require more training of the front-office to discuss the topic with clients and realize transparency. Templates for clients for self-assessment become part of the loan documentation phase. Especially SME companies need support to understand the methodology or realize sufficient creditable data (remember: most of the sustainability impact is usually in the supply chain!).

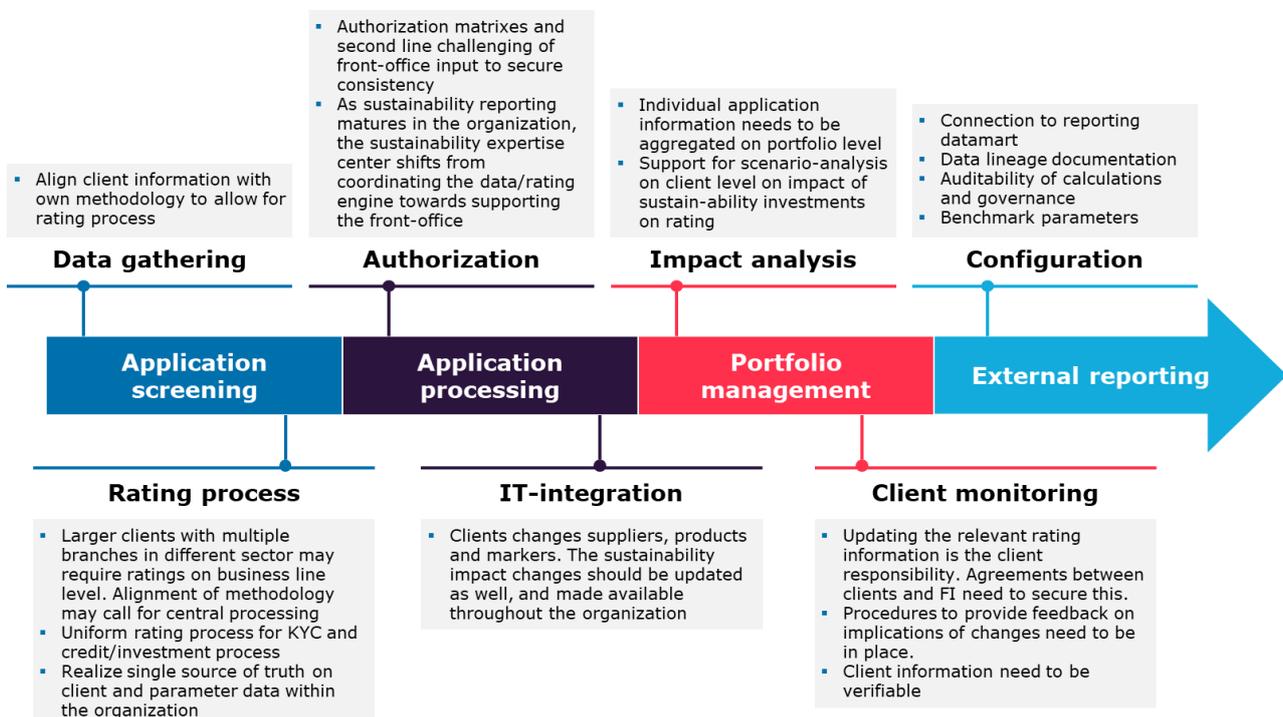
in the earlier phases, significant effort is needed to realize benchmarkable data. Because it requires transforming external data (reliant on vendor data) and the dedicated team size is small in this setting. Especially consistency of reporting across data warehouses is difficult to realize. Resulting in publication on sustainability that 'happen to be available'. As maturity stages increase, sustainability becomes more integrated in the reporting cycle of the portfolio. Reporting is more automated, more consistent and reliable. More sophisticated reporting allows for internal reports to be separated in frequency using tailored KSI's. (scenarios, impact assessment of new applications / investments)

As these different angles to integrating sustainability data are set in a process flow from initial application to portfolio reporting, a familiar picture resembling Figure 4 arises.

**Reporting:** because of the relative isolated position typical for sustainability departments

At Capgemini Invent, we experience that the integration of sustainable finance modelling, resulting in sustainability ratings, becomes increasingly part of the decision making in the credit approval process. The methodology enables financial institutions to run scenario analysis on the sustainability impact of portfolios and to conduct sustainability assessments for credit risk purposes as well. As tighter environmental, social and governance (ESG) criteria certain impact business models, some clients may need to take strategic decisions to uphold future cashflows.

**Figure 4: Integrating sustainability data in the reporting chain**





### How Capgemini is helping a large Dutch bank to improve the sustainability of mortgages

#### The situation

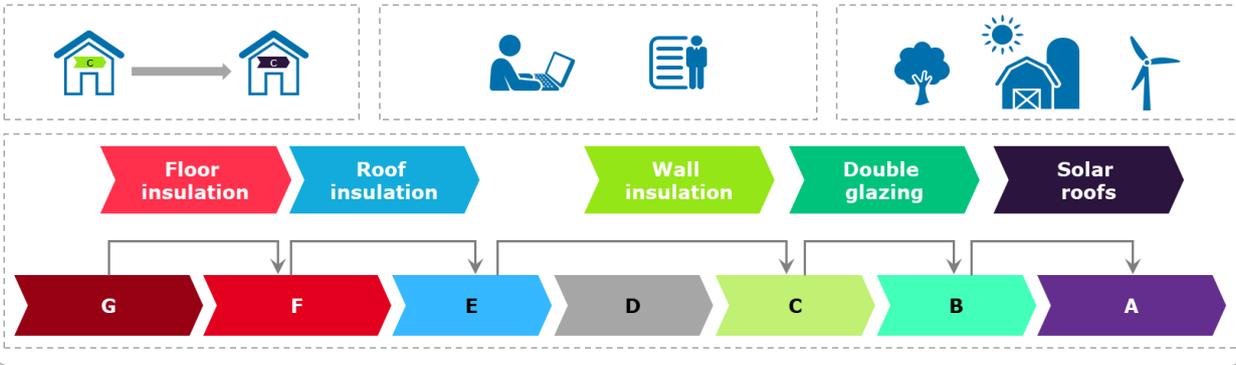
Green Bank has the ambition to have solely residential mortgages with energy label A by 2030. The average energy label of their houses was C at the moment. Their ambition and reality were a bridge too far and required enormous effort to bridge the gap. In order to reach their goals, the bank had to actively approach its clients.

#### The solution

Capgemini helps Green Bank to realize their climate goals by delivering a model which advises home owners how they can make their house more sustainable. Home owners receive a fact based advice and the results of the model show the costs of savings measures. As part of the customer experience, home owners can also view their payback period and the reduction in emissions when they enhance a more sustainable home. As 5% of the total CO2 emissions are released by Green Bank's residential mortgages, Capgemini's model helps Green Bank to achieve their sustainability goals by 2030

#### The Result

Besides a positive effect on the environment, an energy efficient home offers more advantages. Research by Capgemini confirmed that a better energy label to a lower credit risk as energy expenses are reduced. The model for sustainable homes offers great opportunities for both home owner and bank. Home owners enjoy a better value of their house while Green Bank enjoys lower financing costs.



## 2.5. EFFECTIVE DATA MANAGEMENT IN A MULTI-STAKEHOLDER APPROACH

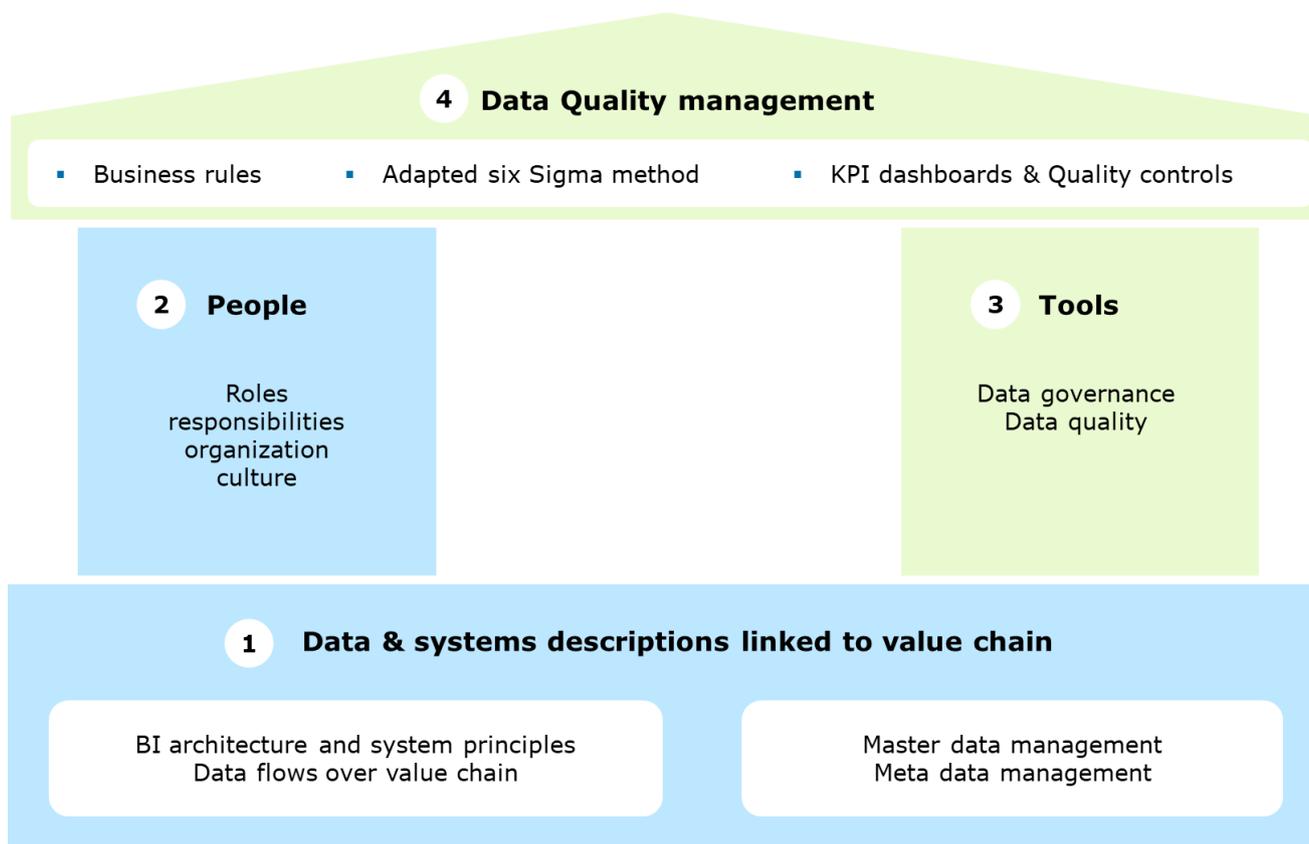
Data management plays a key role in the digital sustainability framework. A comprehensive data management structure facilitates interpreting the impact of loan portfolios in a multi-stakeholder environment. Financial institutions have a need for high data quality and quality-assured data to improve decision-making and support the sustainability reporting strategy.

Capgemini Invent developed a Data Quality Management Framework (see Figure 5) to allow for a more integrated approach. To ensure effective use of sustainability reporting, focus

on Data & Systems and People first. As this is pivotal to the initial design and structuring to capture the flow of sustainability data that runs through the supply chain of clients in a portfolio. Having the right data architecture and system principles in place enables you to assess clients in a portfolio on an individual level while individual scores can be aggregated to a value chain level. This means that business lines can compare the scores of portfolios to their KPI's / KSI's and have an incentive to steer the sustainability performance of their portfolio. Data quality is improved and sustainability reporting models become better understood.



**Figure 5 Data Quality Management Framework**



Source: Capgemini Invent, 2016

Using this framework we draw the following conclusions from experience

- **Data lineage:** using different vendors for multiple sectors requires strong data governance to provide demonstrable lineage. Maintaining data lineage and documentation needs support from data architects. This data lineage and mapping needs to be documented (preferably using flow charts), including the calculations involved along the way.

**Data governance:** understanding client’s data needs front-office involvement, as client interaction becomes more frequent. A uniform governance of parameters (threshold values on what is considered ‘above average’ regarding for instance phosphate usage in agriculture) is especially important in international operating financial institutions. Sustainability data in (international) supply chains is difficult to obtain reliably. Uniform proxies per sector may differ per country.

- Rating may expire, and alerts should be triggered that need follow-up and monitoring in the organization
- Sustainability information becomes tangible on Key Performance Indicators (KPI), Key Risk Indicators (KRI) and Key Sustainability Indicators (KSI). The combination of feedback from business lines and industry specific data triggers an iterative approach in improving data quality of portfolios as there is a stronger common interest.

**IT-architecture:** functional and technical specifications to maintain high frequent data exchange need more organization when the financial institutions operates in multiple countries

- Data security rules apply. Unless the financial institutions have uniform API’s or similar in place, data exchange is often realized through uploading vendor information periodically.

Finally, the Data Quality Framework becomes operational when controls are established,



dashboards have been developed and the input of data starts to show improvement

### Data Management Dilemma in the Shipping Industry

- A bank wants to reduce the carbon footprint of their loan portfolio in the shipping portfolio by 10%. The current sustainability report does not have different parameters to measure the carbon footprint of different loan portfolio clients. Even if the footprint of coasters is remarkably different from post panama tankers. If it is not possible to classify clients in the shipping industry correctly in applications, the target of 10% is impossible to operationalize reliably.
- Listed clients publish often consolidated information, which is of limited value when financing a specific asset.



Capgemini Invent offers the expertise and experience to enable financial institutions to effectively and efficiently monitor and report on the sustainability targets of their loan portfolios. Linking the reporting needs to valuable insights, alignment with all stakeholders (employees/network partners, clients, supervisors) is reached as the business lines within financial institutions gain a better understanding of the sustainability performance of their loan portfolio. Good data management supports data analytics to build stronger management frameworks and foster compliance to policy. Analytics and visualization often accelerate the drive to

improve insights within the financial institution. Reason why this is explicitly part of our approach (more on this in paragraph 2.6) Based on shared expertise (business and sustainability), business lines increasingly collaborate on sustainability reporting. The value of the underlying data can only be fully realized when decisions on the ESG impact of clients are integrated in the regular application process. After all the footprint on a portfolio level is based on decisions about individual applications. Setting targets on a portfolio level implies awareness at the onboarding stage as well.

## 2.6. WE ACCELERATE APPLYING YOUR SUSTAINABILITY REPORTING MODELS IN THE DIGITAL LANDSCAPE

Transforming sustainability reports allows financial institutions to:

- Better align them with their portfolio goals
- Deliver better insights to their clients
- Provide them with the benefit to better monitor and understand risks
- Perform an assessment on their climate related exposure for external stakeholders



With the support of our data management framework you can assess the current situation

and identify how to proceed. Start with homogeneous portfolios with high expected impact first. Use the results to identify where to proceed, based on several characteristics such as type of clients, data availability, data quality and reputational impact. This provides concrete direction to the business lines within your financial institution. Set the basis of your sustainability portfolio model by applying this approach from start to end using an agile way of working. The final step is to use the learnings and results for the next portfolio. It is also a useful tool to steer and control the sustainability reporting journey by ensuring



involvement and engagement of all stakeholders.

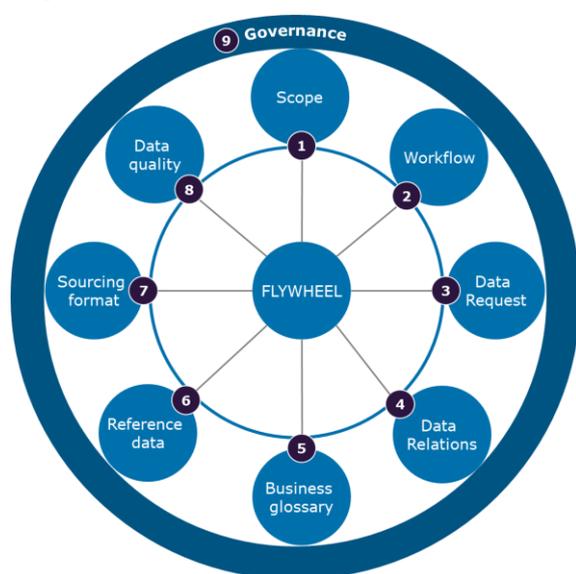
Collaborating closely together, we can support to design your data management principles for loan- and investment portfolios so that sustainability requirements are integrated into the application process. We ensure commitment of all key stakeholders by facilitating large group intervention sessions in our renowned Accelerated Solutions Environment (ASE). These sessions offer a unique opportunity to bring key stakeholders together to make decisions, define ownership and buy-in for the sustainability reporting journey in a matter of days. An ASE is also suitable for group interventions in case you wish to recalibrate your sustainability reporting strategy or activities.

At the end of your sustainability reporting journey, transparent reporting and mutual understanding through all business lines is achieved.

### To make a first start tomorrow and show results fast

So, what is the best way to kick-start improvements tomorrow? Start with a homogeneous portfolio that matters. This enables you to show convincing results quickly in your organization. We stressed multiple times in this paper that it is important to build

**Figure 6: The Data Management Flywheel**



at the start a foundation that will also allow you to scale up.

To prepare for the next scale-up phase we recommend realizing a central data warehouse as well as a centrally managed data repository (including metadata).

Capgemini Invent introduced the Data Management Flywheel to support this, see figure 6. Our Data Management Flywheel supports financial institutions in creating and acting upon sustainability reporting models of all portfolios as it takes into account requirements for data gathering, storage, processing and distribution in one sprint.

- The starting point here is to have a standardized data collection process in place which will lead to a single source of truth and a standardized workflow regarding the sustainability performance of portfolios.
- Next are the requirements for measuring the impact of portfolios. Data needs to be collected consistently. Your sourcing parties preferably delivering data in the same format. You could gather data for reporting in a single source of truth without complicated translations. It allows measuring the data quality with a single set of rules. And should reporting requirements change, your financial institution has a process in place to collect what is needed.

Applying the flywheel means creating an expertise center that processes sustainability reporting requirements into data requirements. The central body delivers a template that lists the global data definitions and data attributions needed. It also describes the sourcing process to guarantee that all clients in a portfolio's and their related supply chain deliver their data in a uniform way. A single language is used to ensure a common treatment of sustainability-based information and related reference data. The template is communicated to all sourcing parties to identify their capacity to meet the request and gaps are identified to optimize future data deliveries. Employ both technical and functional experts in your expertise center and ensure collaboration to create common understanding.



Our Data Management Flywheel helps your financial institution to smoothly integrate all processes by creating a sustainability template for the relevant reporting requirements which acts a single source of truth for all sourcing parties in your portfolios. Start applying this integrated approach in a small proof-of-concept with us, and you'll find that your reporting efforts are notably accelerated due to improved coordination.

## How to take the next steps

From our experience financial institutions have three focus areas for implementing and reconciling sustainability reporting with the ongoing business:

Reporting focus	Focus points		
	Data governance	Data Quality	Integration in BAU <sup>1</sup>
<b>Companies in portfolio</b>	<b>Engage suppliers</b> <ul style="list-style-type: none"> <li>Data agreements</li> <li>Methodology alignment</li> </ul>	<b>Checks in the chain</b> <ul style="list-style-type: none"> <li>Data validation</li> <li>Data completeness</li> </ul>	<b>Transparency</b> <ul style="list-style-type: none"> <li>Calculations performed</li> <li>Change management</li> </ul>
<b>Portfolio reporting Financial intuitions</b>	<b>Reconciliations</b> <ul style="list-style-type: none"> <li>Of data from various sectors/vendors</li> <li>Ratings/score cards</li> </ul>	<b>Check &amp; Balances</b> <ul style="list-style-type: none"> <li>Challenging outcomes</li> <li>Reviewing parameters</li> </ul>	<b>Configuration</b> <ul style="list-style-type: none"> <li>Connection with existing systems</li> <li>Documentation</li> </ul>
<b>KPI steering within financial institutions</b>	<b>Planning &amp; Control</b> <ul style="list-style-type: none"> <li>Setting and explaining parameter values</li> <li>Review calendar</li> </ul>	<b>Authorisations</b> <ul style="list-style-type: none"> <li>Include opinions within FI or update data</li> </ul>	<b>Forecasting</b> <ul style="list-style-type: none"> <li>Impact of new proposal</li> <li>Buy/sell/growth/ concentrations</li> </ul>
<b>External stakeholders</b>	<b>Validation</b> <ul style="list-style-type: none"> <li>Demonstrability of data lineage</li> <li>Consistency across</li> </ul>	<b>Benchmarking</b> <ul style="list-style-type: none"> <li>Comparability with market practice</li> <li>Meeting forecasts</li> </ul>	<b>Ad-hoc reporting</b> <ul style="list-style-type: none"> <li>Compliance / policy adherence reporting</li> <li>Data slicing capabilities</li> </ul>

<sup>1</sup>Business as usual

Based on this experience we offer three different modules for financial institutions to kick-start implementation:

Realize a uniform data model (taxonomy and glossary) combined with a uniform methodology, agreements and templates for clients, vendors and business lines. For SME portfolios additional effort is needed on data completeness to converse annual statements into sustainability impact using sector specific parameters.

The establishment of a rating model using policy guidelines and classification schemes.

Over time when more data is available, this can be used to realize an integration with the credit risk models.

Collecting reporting requirements from stakeholders and realizing market conformity for benchmarking. Additionally, business lines will have specific needs for KSI / KPI tracking. Sustainability data needs to be reconciled, and integrated in IT-systems, with client data for accurate portfolio steering. To support decision making, sustainability data needs to be gathered in the application stage, necessitating training for front-office and risk departments.



# 3. LET US KNOW YOUR NEXT STEP IN TRANSFORMING AND DIGITALIZING YOUR REGULATORY REPORTING

We are excited to hear about your thoughts and experiences in sustainability reporting. You can

take the next step and start a conversation today with our Capgemini colleagues.

## Competence group Data, Finance, Risk and Regulation in the Netherlands



### OUR CAPABILITIES



### DATA, FINANCE, RISK AND REGULATION (DFRR)

"Dare to take the next step in the disruptive regulatory driven world of Finance, Risk and Compliance"



#### ACCOUNTING & REPORTING INNOVATION (ARI)

"Innovate your reporting chains based on a digital vision and strategy and our building block approach"



#### INNOVATIVE DATA MANAGEMENT (IDM)

"Implement a data driven strategy for Finance, Risk and Compliance using new digital opportunities"



#### RISK & REGULATORY INTELLIGENCE (RRI)

"Create new and better insights based on a rationalised landscape of advanced and compliant models"



#### NEXT GENERATION COMPLIANCE (NGC)

"Define your next level compliance: integrate, innovate, monitor and control"



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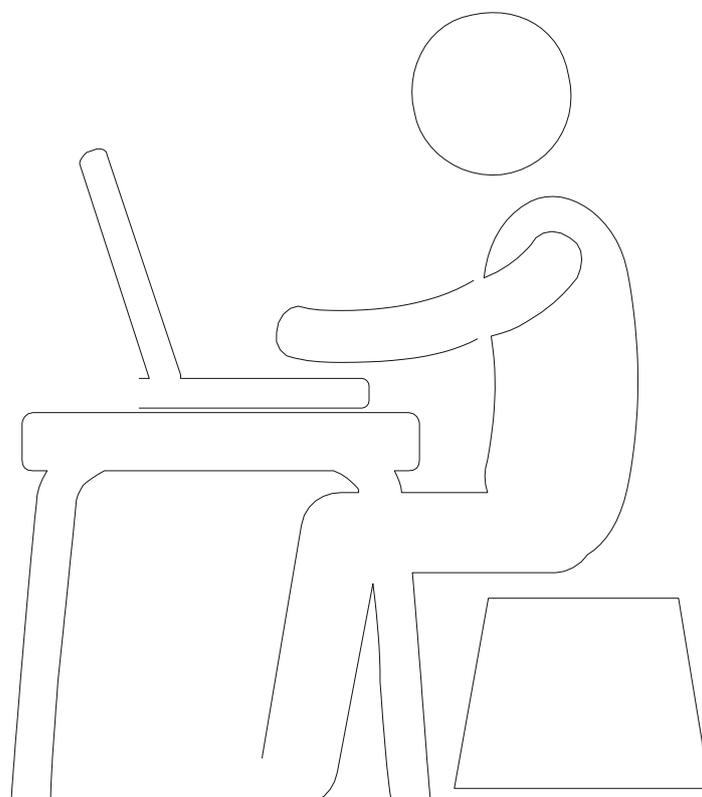
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## ABOUT CAPGEMINI

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A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of 200,000 team members in over 40 countries. The Group reported 2016 global revenues of EUR 12.5 billion.

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**People matter, results count.**