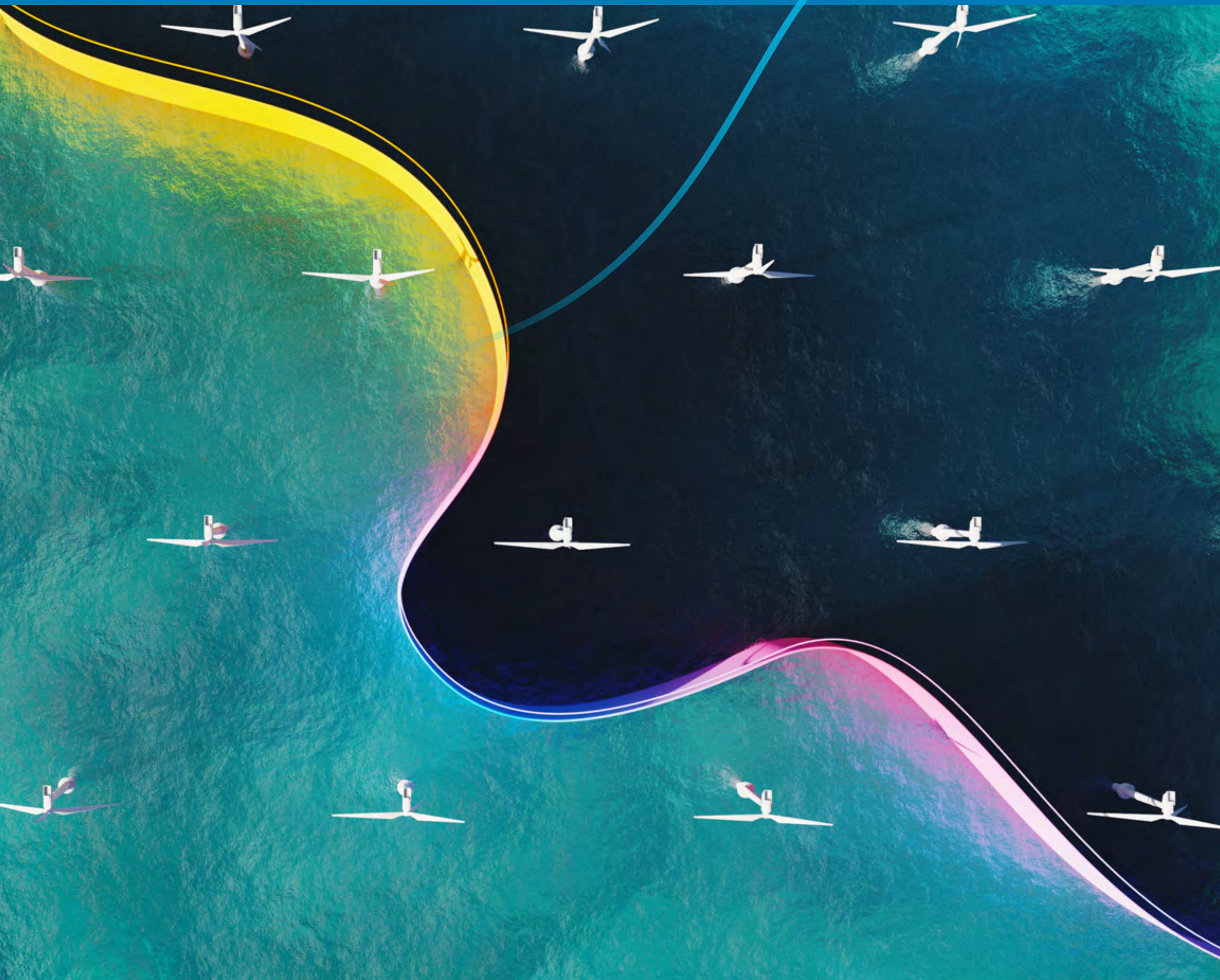
ESG Benchmark Report 2024

A comprehensive analysis of the sustainability efforts and strategic approaches of leading European financial institutions.



Capgemini invent

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1. Introduction

As regulations tighten and market expectations evolve, the role of Environmental, Social, and Governance (ESG) in financial institutions has become more important than ever. ESG considerations are now essential to how banks, investment firms and other financial entities operate and make investment decisions.

Financial institutions are making a conscious effort to integrate ESG factors into their core strategies. This shift is driven by both external, societal expectations and an internal understanding that responsible financial practices lead to long-term success and competitiveness. Moreover, financial institutions play a crucial role in driving society towards sustainability by funding, influencing, and engaging with clients on ESG topics. Financial institutions can drive positive change by allocating capital to sustainable projects, offering green financing options, and supporting customers to adhere to sustainability. Engaging directly with clients on ESG issues further amplifies their impact, fostering a broader shift towards sustainability across various sectors.

Regulatory bodies are also stepping up, creating frameworks to promote responsible financial practices and making it easier to measure ESG performance. Having a comprehensive and standardized approach to ESG metrics is no longer just a trend but a necessity for financial institutions.

Transparent reporting is becoming key, driven by regulatory requirements like the Corporate Sustainability Reporting Directive (CSRD). Clear and measurable reporting is crucial for driving significant change in the financial industry. Greenwashing, on the other hand, poses significant risk as it can lead to reputational damage, regulatory penalties, and loss of trust from investors and customers.

The ESG landscape for financial institutions is undergoing a significant transformation, shaped by innovation, regulation, and societal expectations. By embracing technology, promoting transparency, and aligning with new ESG standards, financial institutions can meet regulatory demands and make a real impact on creating a sustainable and responsible future. Through their unique position, financial institutions have the power and opportunity to drive systemic change, fostering a global economy that prioritizes sustainability and ethical governance.

1.1 Key ESG trends in banking and insurance

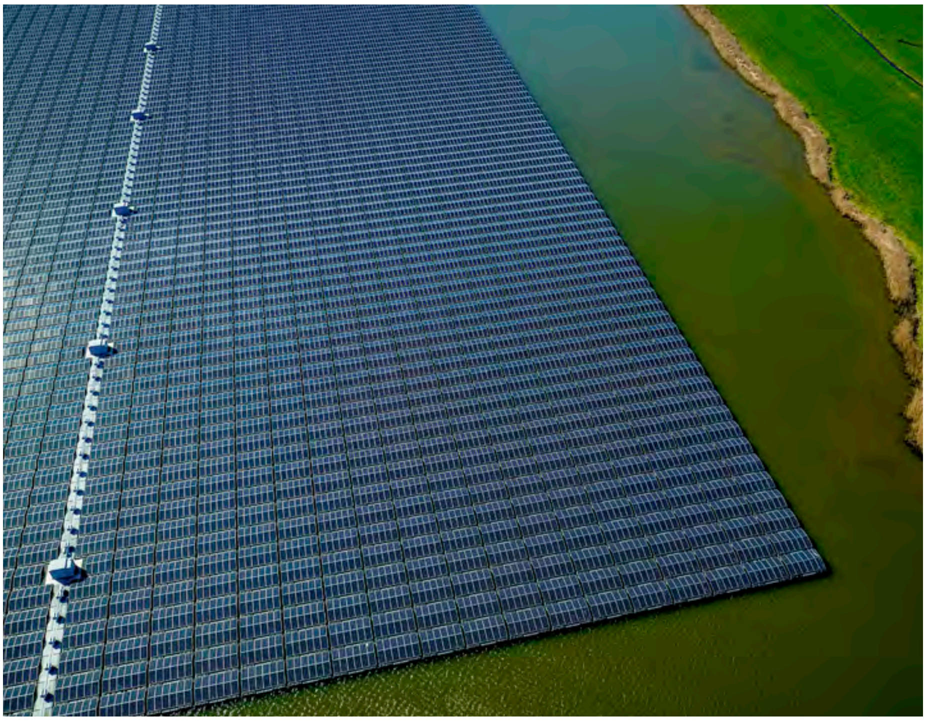
The European financial sector has observed a significant advancement in regulatory and market changes over recent years. This chapter explores the latest trends in the ESG landscape, categorized into its three core components: Environmental, Social, and Governance.

1.1.1 Environmental trends

Green financing

In response to guidance on green loans and mortgages, EBA proposed a voluntary EU-wide label for green loans[1]. This label is based on a common definition, aiming to standardize the criteria for what constitutes a green loan or mortgage. This green label would use evidence-based assessments and cost-benefit analyses to help consumers identify cost-effective green loan options, resulting in increased market clarity, transparency, and consumer motivation. This initiative seeks to enhance consumer understanding of the advantages associated with green loans and bolster confidence in the market, ultimately facilitating greater access to these financial products. A new voluntary standard[2], the European Green Bond standard (EuGB) has also been proposed which intends to foster consistency and comparability in green bond market. The EuGB standard essentially requires bond issuers to allocate at least 85% of a bond's net proceeds to activities covered by the EU Taxonomy. The framework also mandates a series of disclosures using standard templates.

The European Commission's adoption of these recommendations could mean significant changes for financial institutions. Banks and insurance companies could see increased demand for green financial products as consumer awareness and regulatory support grow. Enhanced transparency and standardization can lead to better risk management of green loans, due to the overall improved sustainability and financial health of the projects financed by these loans, including corporate customers' investments in energy-efficient and sustainable practices. Additionally, this could result in a competitive advantage for financial institutions that proactively adapt to these changes, opening new revenue streams



and enhancing their reputation as leaders in sustainable finance. As green finance becomes more mainstream, institutions not embracing these changes may lose shareholders' trust and market share to more forward-thinking competitors.

Addressing biodiversity impact

In February 2024, Members of European Parliament (MEPs) backed the Nature Restoration Law binding all EU countries to work towards restoring natural habitats[3]. It mandates all member countries to take significant action to restore ecosystems. Each country must submit and implement a national restoration plan targeting their most urgent issues. These plans include removing non-native plants, rewetting drained peatlands, improving habitat connectivity, reducing pesticide and fertilizer use, and promoting wilderness preservation. The law also emphasizes preventing further deterioration in restored areas.

Financial institutions often contribute to biodiversity loss by funding investments in activities such as deforestation, resource extraction, and pollution. This focus on short-term profits often overlooks long-term environmental risks, failing to account for the broader impact on ecosystems and future sustainability challenges. Financial institutions are now recognizing the need to evaluate both how environmental issues affect their performance (outside-in risk) and how their activities impact nature (inside-out impact). However, accurately valuing impact on biodiversity is difficult, due to challenges in measuring its economic importance and its externality status in traditional economics.

To address this, financial institutions must cease funding environmentally harmful activities by applying strict sustainability criteria. They can also invest in eco-friendly alternatives and nature-based restoration projects, and reform economic and financial systems to discourage resource extraction and promote sustainable practices.

1.1.2 Social trends

Social accountability through CSRD

Social accountability under the Corporate Sustainability Reporting Directive emphasizes the need for companies to transparently report their social practices and impacts[4]. The CSRD directive requires large enterprises to disclose detailed information about their workforce conditions, including health and safety measures of contractors and employees throughout their value chain. By mandating these disclosures, the CSRD ensures that companies are held accountable for maintaining fair and safe labour practices.

Furthermore, the CSRD extends its social accountability to cover the effects on communities and consumers. Companies must report on how their operations impact local communities, including any potential negative effects, and the measures taken to address them. Additionally, companies are required to disclose how their products and services affect consumers, promoting transparency and responsibility in business practices.

1.1.3 Governance trends

ESG ratings regulation

In February 2024, the Council of the European Union finalized the regulation on the transparency and integrity of Environmental, Social, and Governance (ESG) rating activities[5]. This legislation aims to create a consistent and transparent framework for ESG ratings, which have become crucial in steering investment and financing towards sustainable practices. The primary goal is to enhance the transparency, comparability, and reliability of ESG ratings, thereby supporting the EU's sustainable finance agenda, preventing greenwashing, and promoting the integrity and independence of ESG rating providers.

The regulation imposes specific requirements on ESG rating providers and financial institutions. For example, ESG rating providers must disclose their methodologies, models, and key rating assumptions to ensure transparency. Additionally, ESG rating providers must be authorized by the European Securities and Markets Authority (ESMA) and comply with supervision and quality assurance measures. Specific requirements include implementing measures to prevent conflict of interest by separating rating analysts from commercial departments and ensuring their remuneration is not influenced by the rating outcome. ESG rating providers must also publish detailed

The EuGB standard essentially requires bond issuers to allocate at least 85% of a bond's net proceeds to activities covered by the EU Taxonomy. The framework also mandates a series of disclosures using standard templates reports on the sources of data and the processes involved in generating their ratings, ensuring that stakeholders can understand and trust the ratings provided.

For financial institutions, the regulation means significant changes in how they utilize ESG ratings. Banks, investment firms, insurance companies, and other financial entities will benefit from more reliable and standardized ESG ratings, improving their ability to manage ESG risks and opportunities more effectively.

Regulatory tightening to curb greenwashing

On June 4, 2024, the ESMA (European Securities and Markets Authority) published its final report on greenwashing[6]. The report aims to enhance investor protection and market integrity by addressing the increasing risk of greenwashing in sustainable investments.

The report sets out several requirements to effectively mitigate greenwashing risks. Firms are urged to clearly and fairly substantiate their sustainability-related claims, ensuring all communications reflect the true sustainability profile of their products and services. ESMA emphasizes the necessity for strong internal governance structures, as well as regular monitoring and reporting processes, to support these claims. Additionally, firms must adhere to specific sustainability-related disclosure requirements outlined by EU regulations and integrate ESG risks into their risk management systems. The goal is to align practices with regulatory expectations, thereby reducing the risk of greenwashing and enhancing investor trust.

With the rise in greenwashing concerns in financial sector, this report offers more stringent and detailed supervisory frameworks. Institutions must prepare for increased scrutiny and ensure their sustainability claims are backed by robust data and transparent reporting. This entails investing in data management systems, training personnel, and potentially adopting new technologies for compliance monitoring.

1.2 Introduction to 2024 ESG benchmark

The 2024 ESG benchmark for financial services offers a detailed evaluation of the sustainability initiatives and strategies of 27 European financial institutions. Our analysis relies on publicly available information, including annual reports, sustainability reports, ESG rating agency reports and company websites.

This year, our benchmark has been refined and expanded to cover a broader range of financial institutions compared to last year, providing a more comprehensive view of the industry's sustainability efforts. We have updated our key performance indicators (KPIs) and topics to reflect current market trends and best practices. Additionally, our benchmarking also incorporated a thorough review of news related to ESG controversies by examining media and NGO sources, offering an external perspective on the industry.

Our benchmark focuses on four main pillars:

a. **Products and services:** We have evaluated how well financial products and services align with environmental and social responsibilities. This also includes assessing the product portfolios, value chain partnerships, customer education/advisory initiatives and the setting of targets and action plans

b. **Internal assets and operations:** We have examined the efforts to enhance sustainability across companies' operations, supply chains, and investments to ensure they are genuinely committed to responsible business practices.

c. **Internal governance:** We have analysed how organizational structures and governance practices support sustainable outcomes, integrate sustainability into decision-making, and promote a sustainability culture among employees and stakeholders.

d. **Monitoring and reporting:** We have assessed the quality and transparency of ESG disclosures along with the practices used to ensure reporting credibility and measures to prevent greenwashing.

Within these pillars, we have analysed various key material topics. We have compared the initiatives and strategies of financial institutions across more than 140 key performance indicators (KPIs) to determine a comprehensive strength score. This score highlights the overall performance of financial institutions on a specific topic within their peer group.

Exhibit 1: Performance of banks across key material topics - ESG Benchmark 2024

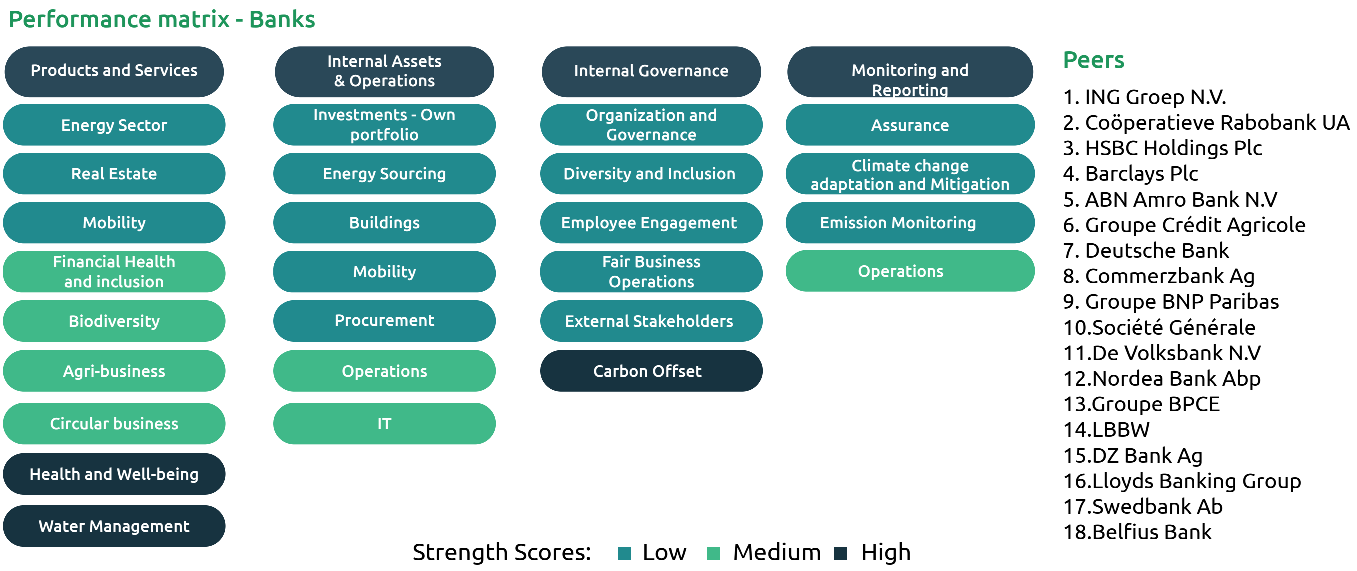
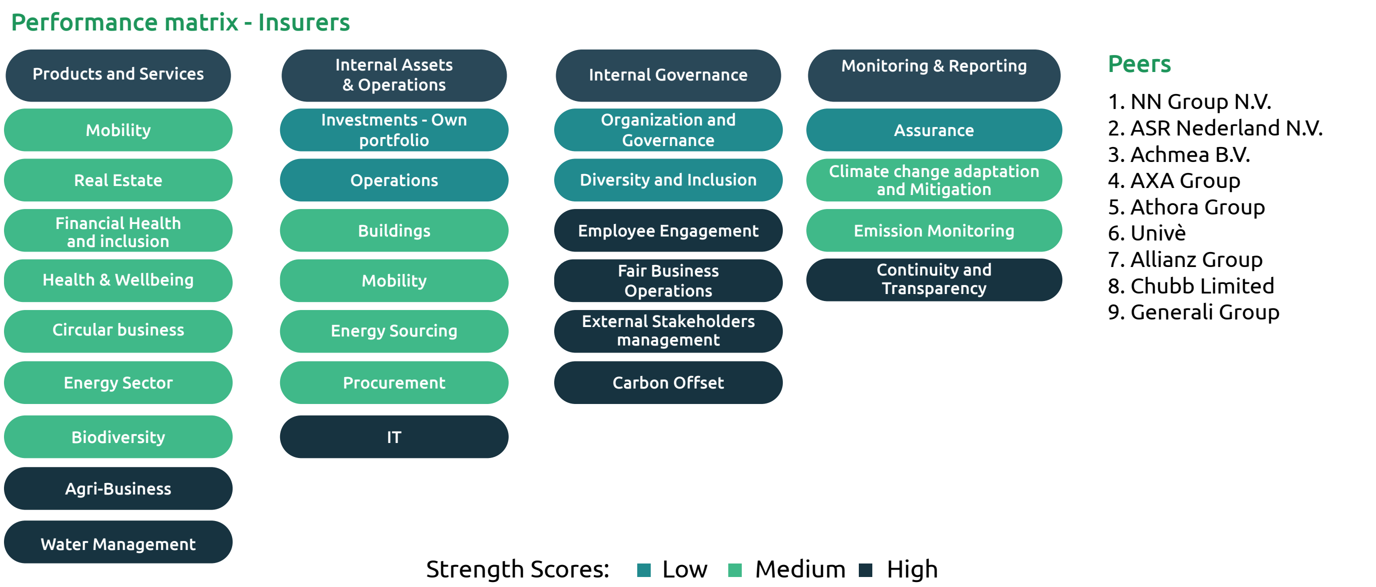


Exhibit 2: Performance of insurers across key material topics - ESG Benchmark 2024



Compared to last year's benchmark, several notable shifts in focus have emerged across each pillar.

In the Products and services pillar, there has been significant progress in biodiversity and agri-business, with more companies setting targets and disclosing initiatives in these areas.

In the Internal operations and assets pillar, IT has also shown remarkable improvement, with increased efforts to optimize IT footprints contributing to a higher overall score.

In the Internal governance pillar, advancements are evident, particularly in Organization and governance, where financial institutions are increasingly recognizing that strong governance is crucial for effective ESG strategy execution.

Lastly, in the Monitoring a reporting pillar, there has been improvement in emissions monitoring, reflecting a positive shift towards the improved disclosure of non-financial data.

1.3 Key takeaways

1. GETTING OUR ACT TOGETHER

37% of financial institutions have disclosed interim targets and action plans to drive sustainable products and services

Although all financial institutions have pledged to achieve net-zero in the long-term, only slightly more than one-third have disclosed interim targets and action plans to drive sustainable products and services. This gap highlights the need to elaborate strategies and establish specific, time-bound interim targets, which are increasingly viewed as essential for ensuring transparency and demonstrating a genuine commitment to achieving sustainability goals.

2. MAXIMIZING IMPACT THROUGH CUSTOMER VALUE CHAIN INTEGRATION

49% of financial institutions are integrating value chain partners to promote sustainable products and services

More and more financial institutions are realizing that integrating the entire customer value chain is crucial for maximizing the impact of their products and services. This approach can broaden their customer base, uncover new business opportunities and support clients make a holistic transition to sustainability.

3. BUILDING A CLIMATE RESILIENT OPERATIONAL VALUE CHAIN

52% of financial institutions have set targets to reduce supply chain emissions and further engage with suppliers to align with net-zero ambitions

96% of financial institutions have adopted sustainable procurement strategies for onboarding and screening suppliers. Over 50% have also set targets to reduce supply chain emissions and are actively working with suppliers to support their net-zero goals. This represents a significant growth from last year, when only 35% disclosed such targets.

4. MEANINGFUL ENGAGEMENT IS DRIVING CORPORATE SUSTAINABLE INVESTMENTS

93% of financial institutions are engaging with corporates to support their transition to achieve their climate goals

Financial institutions are increasingly recognizing that engaging with their clients and corporate partners is the most effective way to drive impact, rather than simply exiting certain clients or sectors. This involves actively collaborating with clients and invested companies to gain a deeper understanding of their ESG strategies, help improve their awareness and management of sustainability issues and ensure alignment on transition plans.

5. COLLABORATION IS THE KEY TO A SUSTAINABLE FUTURE

26% of financial institutions are collaborating with industry peers to create innovative tools and solutions

Addressing sustainability challenges cannot be achieved by any single company or sector alone. This calls for 'coopetition', where competitors and industry peers join forces to drive innovation and build a more transparent, efficient system. This is key to advancing sustainable innovation, leveraging a broader range of expertise, resources and perspectives.

6. ESG-LINKED PAY RISE REFLECTS GREATER EMPLOYEE ACCOUNTABILITY

93% of financial institutions have implemented sustainability-linked KPIs for executive remuneration in 2023

Most financial institutions have adopted ESG-linked remuneration to incentivize executives and improve accountability, except for those that do not use variable pay. This represents a significant jump from 2022, when only 39% of institutions had disclosed similar measures.

7. A CALL FOR TRANSPARENCY

33% of financial institutions were accused of greenwashing and ESG-related controversies by NGOs and climate activist groups in last 3 years

The growing gap between ESG commitments and actual actions, coupled with more stringent regulations and stakeholder expectations, has intensified scrutiny on financial institutions. This underscores the need for greater transparency and accuracy in their disclosures.

8. ASSSURANCE STRENGTHENS DISCLOSURE INTEGRITY

78% of financial institutions have reported on external and internal audit and control measures linked to ESG related disclosures

As the CSRD mandates external assurance, its adoption is expected to rise. Additionally, financial institutions are implementing internal audit processes dedicated to sustainability, that serve as the first line of defence, ensuring the credibility and integrity of their ESG disclosures.

2. Detailed insights

2.1 Products and services

Financial institutions continue to enhance their sustainable products and services in response to growing customer demand, rising competition and more stringent regulations. Developing sustainable products is rapidly becoming a significant growth opportunity and a key lever for competitive advantage for financial institutions. This is evident through increasing focus on green financial products, providing value-added services to clients, integrating value chain partners to create service differentiation and advising client for a more holistic transition.

According to a report by Globe Scan[7], 72% of customers say they would like more information on how companies are making their products better for the environment. Also, 40% of people under 30 and 35% over 30 believe that ensuring investments are environmentally responsible has a large impact on sustainability. This further highlights a growing emphasis on sustainability among younger generations. In response, financial institutions should prioritize the development of more sustainable products and services.

We have examined the sustainability of financial institutions' products and services across 9 topics: Real estate, Energy sector, Mobility, Biodiversity, Circular economy, Financial health and inclusion, Health and well-being, Water management, and Agri business.

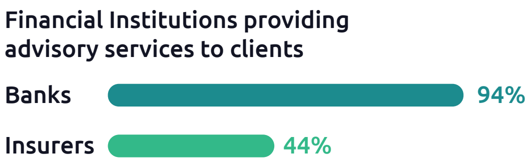
2.1.1 Real estate

"In line with 2023, real estate continued to be a major area of focus for financial institutions across Europe"

The IEA (International Energy Agency) projects the global building floor area to grow by 75% in the next 30 years. However, as per NZE (Net-Zero Energy) scenario, total direct emissions from the building sector need to reduce sharply, falling from about 3 Gt in 2020 to less than 2 Gt in 2030 to just 120 Mt in 2050[8]. By promoting sustainable real estate, financial institutions can contribute to a greener future and create a positive social impact through affordable and accessible projects in real estate.

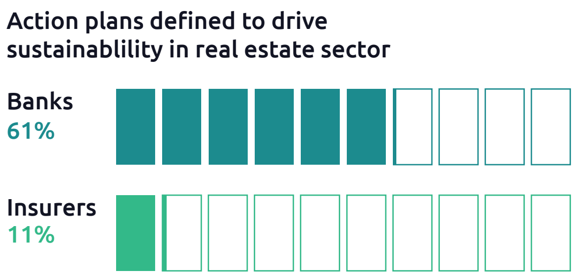
In line with the previous year, financial institutions across Europe have demonstrated higher scores in this area through sustainable products and services such as green mortgages, funds, integration with value chain partners, advisory services and additional coverages and upgrades to their products, thus promoting greener real estate.

Exhibit 3: Banks vs Insurers - Advisory services to Real Estate



- 94% of banks are providing advisory services to clients, supporting them with ways to make their buildings sustainable through digital tools, trained advisors, and specialised funds, whereas only 44% of insurers are offering advisory services.
- Banks have also set plans to improve sustainability of their real estate portfolio more proactively and prominently, with 61% of them having defined action plans compared to 11% of insurers.

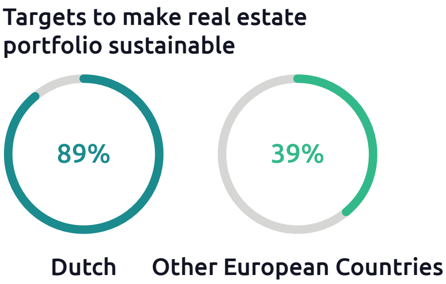
Exhibit 4: Banks vs Insurers - Action plans to make real estate more sustainable



Best practice:

Rabo SmartBuilds, in collaboration with the municipality of Texel and housing corporation Woontij, decided to place 120 ready-made homes in the area on Marsweg Zuid. With this, they are addressing the demand for affordable housing in the municipality of Texel. The homes that it wants to place are innovative, sustainable and movable and are constructed in the factory of Barli, modular home builders. These homes are built using sustainable, high-quality, CO_2- and nitrogen-friendly materials and are equipped with solar panels, which means that the total housing costs are lower. Rabo SmartBuilds therefore speaks of permanent homes on a flexible foundation to sustainably reduce the housing shortage[10].

Exhibit 5: Dutch vs Other European peers - Targets to improve sustainability of real estate portfolio



- In terms of defining long-term targets and goals, Dutch financial institutions are ahead of other European financial institutions, with 89% having defined and set targets to make their real estate portfolio sustainable by setting quantitative targets of emission reduction and defining sector- specific strategies.

Construction financing, mortgages, home repair loans, and green financial solutions for resource-efficient structures, along with attractive financial terms like lower interest rates, can significantly accelerate the adoption of green buildings. Incentivizing behaviour is also an effective strategy to attract more funding and enthusiasm for green real estate financing. For example, the National Energy Efficiency and Renewable Energy Action initiative launched by the Lebanese government encourages banks to provide low-interest finance to private sector for initiatives in renewable energy, energy efficiency, and green building[9].

Additionally, investments in smart building technologies that optimize energy use, improve indoor air quality, and enhance overall building performance are expected to become more prevalent. Financial institutions may offer specialized products or incentives to support the development and incorporation of these technologies. Over the longer term, the trend towards declining emissions is anticipated to continue, but a substantial acceleration in energy renovations is needed to meet the EU 2030 targets.

2.1.2 Energy sector

“Banks, compared to insurers, are more proactive in disclosing their action plans for facilitating clients’ transitions towards greater energy efficiency”

The energy sector has been a major area of focus for financial institutions due to its significant contribution to financed emissions. The production and use of energy account for more than 75% of the EU’s greenhouse gas emissions[11]. Decarbonising the EU’s energy system is therefore critical to reach 2030 climate objectives and the EU’s long-term strategy of achieving carbon neutrality by 2050.

Financial institutions are actively accelerating adoption of green energy through various means. They are investing heavily in renewable energy projects, energy-efficient technologies, and clean tech innovations. Rigorous risk management ensures careful consideration of climate-related factors. Additionally, they are creating innovative financial products like green bonds to fund sustainable energy initiatives, while disclosing their plans and targets to move away from oil and gas financing. By collaborating with industry partners and providing guidance to customers, these institutions are driving a shift towards a cleaner energy future.

- 89% of banks offer special financing to help customers with eco-friendly repairs and transitions to more energy-efficient living, compared to 56% of insurers who provide attractive insurance rates for adopting more energy-efficient measures.
- 72% of banks have also defined concrete action plans to engage and support more energy efficient transitions for clients, compared to only 33% insurers.

Exhibit 6: Banks vs Insurers - Enabling energy transition through eco-repairs

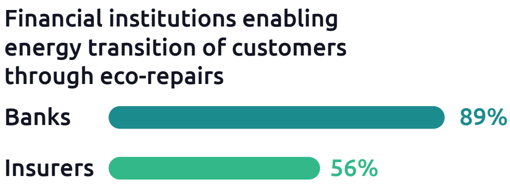
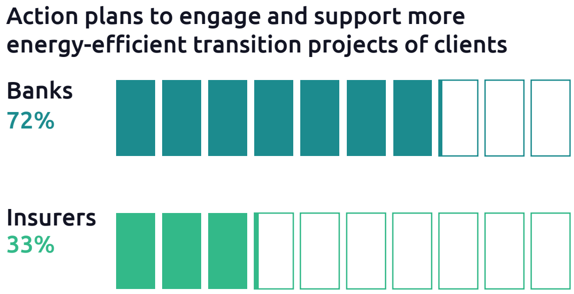


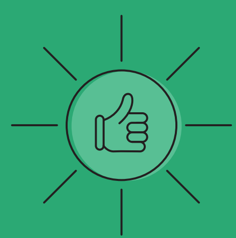
Exhibit 7: Banks vs Insurers - Action plans to improve energy sector portfolio



The energy sector is undergoing a profound transformation, driven by the need for sustainability and a shift to a low-carbon economy. Several energy directives by European Commission such as the Energy Efficiency Directive and the Renewable Energy Directive have revised targets to reach the goal of reducing net greenhouse gas emissions by at least 55% by 2030. The revised Energy Efficiency Directive (EU/2023/1791) significantly raises the EU’s ambition on energy efficiency, making it binding for EU countries to collectively ensure an additional 11.7% reduction in energy consumption by 2030. The Renewable Energy Directive raises the EU’s binding renewable target for 2030 to a minimum of 42.5%, up from the previous 32% target, with the aspiration to reach 45% by 2030. This requires nearly doubling the EU’s current share of renewable energy, making it crucial for financial institutions to promote green energy transitions among their customers and entire value chains[12].

Best practice:

BNP Paribas launched the European “Decarb Fast Track” programme in partnership with Metron, Dalkia and Amazon Web Services (AWS). This European programme offers 100 industrial companies subsidized access to the Metron innovative energy management and consumption optimization toolbox. Based on artificial intelligence, the solution enables industrial facilities to measure, compare and optimize their energy consumption. Selected sites will also receive personalised support from experts, who will identify, implement and finance energy performance projects, over the lifetime of the programme, and have access to shared intelligence and best practice through a community of peers[13].



2.1.3 Mobility

"Banks are leading transition to sustainable mobility through advisory and value-added services to clients"

Financial institutions are recognising the importance of sustainable mobility, and are stepping up to support its growth, as the automotive industry significantly contributes towards greenhouse gas emissions. As per research reports[14], transport is the second highest contributor to GHG emissions and emits about 23% of energy related CO2 that contribute towards global warming. In Europe, it contributes to about 25% of the region's GHG emissions, leading to immense pressure from governments, regulators and public to reduce emissions in the mobility sector.

- As per our study, banks are performing better when compared to insurers. 72% of banks are providing advisory services to clients to support the adoption of sustainable mobility alternatives, compared to 44% of insurers.
- Financial institutions across Europe are recognizing mobility as a potential opportunity for achieving sustainability. 78% of Dutch companies and 100% of other European peers are offering specific sustainable mobility financing and insurance instruments to their clients.
- Additionally, 72% of banks offer value-added services, such as identifying necessary technical investments to reduce emissions and providing financial incentives for preferring Electric Vehicles (EVs), compared to only 56% of insurers.

Financial institutions are central to the mobility revolution, driven by electrification, autonomous vehicles, shared mobility, and digital technology. They can leverage this shift by funding sustainable mobility solutions, creating sector-specific financial products, and managing associated risks effectively. This transformation supports broader sustainability goals, such as those of the European Union, which aims to enhance freight transport efficiency and reduce emissions by 90% by 2050, under the European Green Deal[15].

Exhibit 8: Banks vs Insurers - Advisory services on sustainable mobility

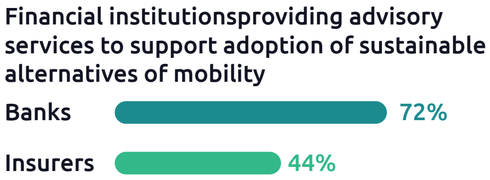
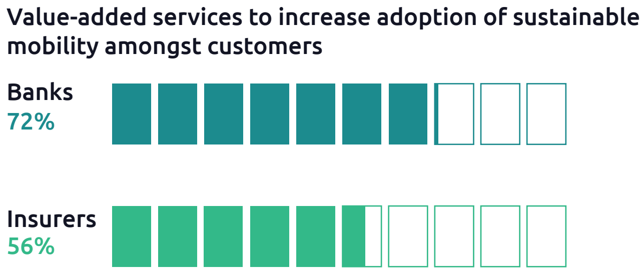


Exhibit 9: Dutch vs Other European peers - Financial products towards sustainable mobility

Exhibit 10: Banks vs Insurers - Value-added services to increase adoption of sustainable mobility



There is a growing focus on mobility-as-a-service (MaaS) solutions—integrated platforms that allow users to plan, book, and pay for various transportation options through a single app— which offer a sustainable alternative to personal vehicles. Financial institutions can drive this transition by investing in MaaS platforms, forging value chain partnerships with tech firms, developing integrated payment solutions, and supporting the transition to electric vehicles. Innovation in technology and finance will be crucial for advancing these solutions and achieving environmental targets in this sector.

Best practice:

Allianz and Fleetpool have expanded their partnership in e-mobility insurance in Germany. Allianz will provide exclusive insurance coverage for Fleetpool's electric vehicles under a subscription model and coverage includes protection for EV batteries and charging accessories[16]. Also, through its partnership with SYNETIQ, it has launched a digital platform to facilitate the sourcing and purchasing of green parts and has refreshed its motor fleet policies to encourage their use and promote green repair.

2.1.4 Biodiversity

"Biodiversity initiatives have seen a growth compared to last year, driven by increased awareness and clearer regulations"

Biodiversity and healthy ecosystems are essential for achieving the 2030 sustainability goals and play a crucial role in supporting all 17 Sustainable Development Goals (SDGs), including and beyond SDG 14 (Life Below Water) and SDG 15 (Life on Land). But biodiversity has been plagued by a greater number of risks, which are often overlooked.

The World Economic Forum's (WEF) Annual Risk Report has named biodiversity loss and ecosystem collapse as one of the top five issues threatening the global economy over the next 10 years[17]. Based on scientific evidence, climate change and nature loss will aggravate regional food insecurity, water stress and food-, water- and vector-borne diseases spread, with ripple effects across other key industries.

Biodiversity is a growing concern for financial institutions. There is a massive funding gap of $600 - $800 billion annually to protect biodiversity until 2030. This shortfall cannot be addressed by governments and public funds alone, highlighting the essential role of banks in providing the necessary capital.

- 61% of banks versus 22% of insurers have defined long-term targets and action plans to promote and achieve biodiversity goals, through their products and services.
- Banks are also leading the way in assessing the impact of biodiversity on their client portfolio, with 67% of banks disclosing their assessment criteria involving biodiversity impact versus 44% insurers.
- More European financial institutions are incorporating biodiversity into their risk assessment frameworks. This year, 70% have disclosed initiatives to create standards and frameworks for reducing biodiversity risks, up from 39% last year.

Exhibit 11: Banks vs Insurers - Targets and action plans to improve biodiversity product offerings

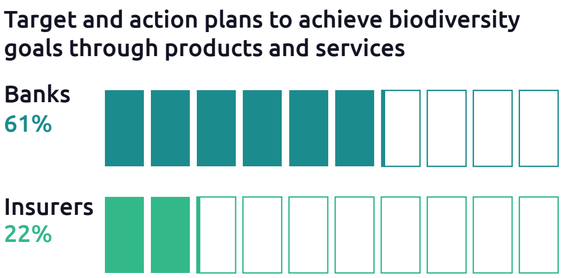


Exhibit 12: Banks vs Insurers - Assessing client's impact on biodiversity

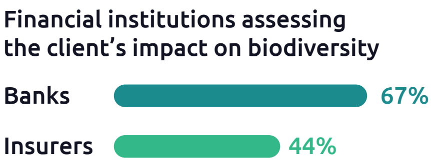
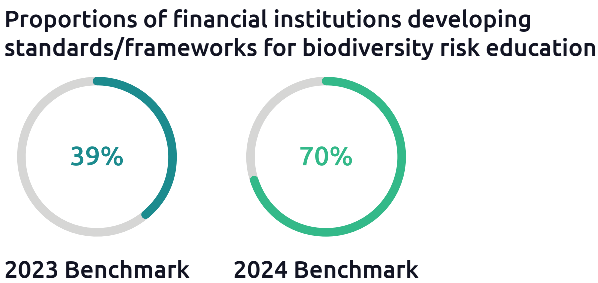


Exhibit 13: 2023 vs 2024 Benchmark - Developing standards for biodiversity risk reduction



Technological innovation is expected to play a significant role in addressing challenges related to biodiversity. Advances in artificial intelligence, satellite imagery, and data analytics are anticipated to enable more precise monitoring and assessment of biodiversity, empowering organisations to develop targeted conservation strategies[18]. However, their application must be grounded in sustainability, community involvement, and a deep respect for the intricate web of life.

2.1.5 Circular economy

“Financial institutions must adopt a more forward-looking approach with clear targets and action plans to drive circular practices though their products and services”

The circular economy offers a significant opportunity for financial institutions to contribute to a more resilient and sustainable future. They can do this by developing financial products tailored for circular businesses and collaborating with value chain partners to promote circularity. Additionally, financial institutions can enhance customer services by partnering with repair firms to offer repair services and providing advisory support to clients on adopting circular practices. As per UNEP FI[20], transitioning to a circular economy could generate significant economic benefits, estimated at $4.5 trillion in annual economic output by 2030, through increased resilience to macroeconomic shocks and reduced costs from raw material and energy consumption, waste management and emissions control.

- In addition to incorporating circular parameters into financial products, financial institutions must adopt a more forward-looking approach with clear targets and action plans. Currently, only 11% of banks and 44% of insurers have disclosed specific targets for their circular initiatives aimed at achieving sustainability.
- Dutch financial institutions are more proactive in setting targets to drive circular practices, with 44% having established defined goals in this area, compared to just 11% of their counterparts across other European countries

Best practice:

In the Netherlands, Rabobank and the Worldwide Fund for Nature Netherlands (WWF-NL) have teamed up with dairy company FrieslandCampina, dairy farmers and other stakeholders in the dairy industry to develop the Biodiversity Monitor. It measures the influence of individual farms on biodiversity and provides dairy farmers with insight into the benefits the environment offers them. Rabobank is using the monitor to offer a blended finance Planet Impact Loan to dairy farmers at reduced interest rates based on their sustainability outcomes. It is further planning to develop biodiversity monitors for other agricultural sectors[19].

Exhibit 14: Banks vs Insurers - Targets to improve circular financial products

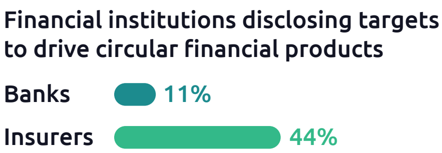
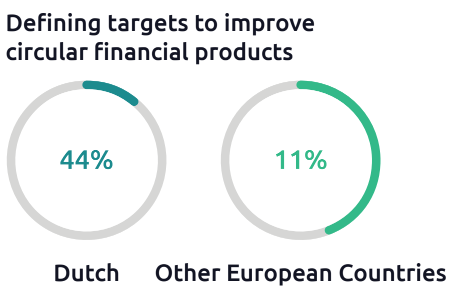


Exhibit 15: Dutch vs Other European peers - Targets to improve circular financial products



As per recent guideline by UNEPFI[20], financial institutions are urged to enhance their circular initiatives by identifying and supporting circular business models within their portfolios, such as supporting companies adopting Product-as-a-Service models, funding projects that incorporate recycled materials, and prioritizing businesses with closed-loop supply chains that minimize waste and resource consumption. These initiatives can not only advance their Principles for Responsible Banking commitments but also prepare them for upcoming regulations. The Directive on common rules promoting the repair of goods was recently adopted by European Commission on 13 June 2024. This instrument aims to promote more sustainable consumption by increasing repair and reuse of goods both within and outside the legal guarantee[21]. This further necessitates the need for financial institutions to incorporate circularity into their core business strategies.

Best practice:

AXA launched Confort Auto 3.0 specifically targeting second hand car insurance and pioneered the use of the "ECO Repair Score", an accessible tool evaluating and assigning sustainability scores to vehicle repairs. The insurer also provides ResidenceSurance Coverage which allows customers to replace damaged household appliances like fridges, washing machines and cooling units with greener, more efficient models[22].

2.1.6 Financial health and inclusion

"Prioritizing financial education and literacy is essential for empowering customers to make informed decisions and build financial resilience"

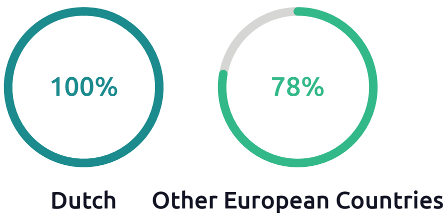
According to World Bank[23], 1.7 billion adults around the world do not have access to formal financial services, meaning that they cannot open a bank account or access credit, insurance, or other financial products. This lack of financial inclusion can lead to a range of negative outcomes, including difficulty in saving for emergencies, reduced ability to invest in education or business opportunities, and increased vulnerability to financial shocks.

Financial institutions can play a vital role in improving financial health and inclusion by offering products and services tailored to different customer segments, providing financial education, and using technology to reach underserved populations.

- Most financial institutions offer products and services aimed at promoting financial health and inclusion. In the Netherlands, 100% of institutions are engaged in these efforts, compared to 78% of other European institutions. These offerings include funds for financial health projects, financial opportunities for women and underserved communities, as well as products tailored for smallholder farmers.

Exhibit 16: Dutch vs Other European peers - Providing financial products to drive financial health and inclusion

Providing financial products to drive financial health and inclusion



Financial institutions can play a vital role in improving financial health and inclusion by offering products and services tailored to different customer segments, providing financial education, and using technology to reach underserved populations.

Best practice:

AXA is committed to providing affordable and accessible insurance solutions tailored to the specific needs of emerging customers through its AXA Emerging Customers' solutions by leveraging innovative distribution channels like microfinance institutions, digital platforms, and farming cooperatives. It also aims to reach a wider audience, and protect over 20 million customers, by 2026 through its inclusive insurance in both emerging countries and European markets, as outlined in its #UnlockTheFuture strategic plan[24].

Exhibit 17: Banks vs Insurers- Targets to drive financial health and inclusion products

Financial institutions disclosing targets to drive products towards financial health and inclusion

- Only 17% of banks and 22% of insurers have established specific goals and targets for financial inclusion and health, highlighting a lack of forward-looking strategies.

Financial institutions can further leverage technology to expand access to financial services, particularly in underserved communities, through accessible digital apps, online financial literacy sites, microfinance platforms and more. Prioritizing financial education and literacy is crucial to help customers make informed decisions and empower individuals to build financial resilience. Banks that can effectively serve the unbanked and underbanked populations can increase their customer base and contribute to broader economic development.

Only 17% of banks and 22% of insurers have established specific goals and targets for financial inclusion and health, highlighting a lack of forward-looking strategies.

2.1.7 Health and well-being

"Improving well-being through affordable and accessible financial products related to healthcare can lead to a productive and resilient population"

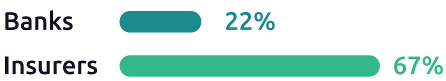
Sustainable Development Goal (SDG) 3, "Good Health and Well-being", aims to ensure that everyone has access to quality healthcare services, regardless of their socioeconomic status or location.

By providing access to health savings accounts, insurance products, and emergency financial assistance, financial institutions can enable individuals to better manage health-related expenses and prepare for unexpected medical costs. This support not only alleviates financial burdens but also promotes a healthier, more balanced lifestyle, ultimately contributing to improved physical and mental well-being.

- Insurers are ahead of banks in offering products and services that enhance customers' physical and mental well-being, with 67% providing advisory services compared to just 22% of banks. By integrating health advisory services, such as counselling and partnering with value chain collaborators to offer healthcare policies, insurers are delivering a more comprehensive customer experience.

Exhibit 18: Banks vs Insurers - Advisory services to improve health and well-being of customers

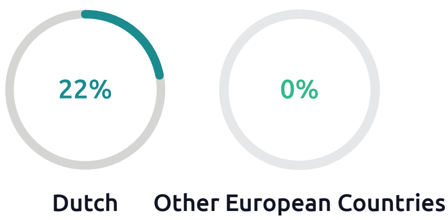
Financial institutions providing advisory services to improve health and well-being of customers



- There is a limited forward-looking focus, with only 22% of Dutch financial institutions setting targets to enhance their health and well-being offerings, while other European financial institutions are yet to establish similar goals.

Exhibit 19: Dutch vs Other European peers - Targets to drive health and well-being projects

Targets to drive health and well-being projects



Financial institutions can make big strides by offering more affordable health, disability, critical illness, life, and funeral insurance services for people with low incomes. This can help reduce the financial burden of health problems and deaths. Additionally, they might consider offering health related financial products and insurance policies that use mobile money services, allowing users to store, send, and receive money/funds using their mobile phone to cover the ancillary costs associated with accessing Government-provided health care (such as travel, medicine and childcare)[25]. A healthy population is more productive and resilient, leading to a stronger economy.

Best practice:

Barclays offers a comprehensive suite of financial solutions tailored to the unique needs of the healthcare sector. They provide healthcare corporates and clients (dentists, cosmetic surgeons and daycare centers) with offerings such as; healthcare focused experts with in-depth knowledge of the healthcare industry; customised financing solutions specifically designed to address the unique needs of healthcare businesses; supporting the transition to net-zero through a team of Net-Zero specialists ; support NHS Foundation Trusts across the UK with day-to-day banking requirements, strategic insights and valuable industry networking opportunities[26].

2.1.8 Water management

"Water management remains a lower priority for financial institutions, with a need for greater maturity and a more developed suite of products across the sector."

At least half the global population already live with water shortages for at least one month of the year[27]. At the same time, more than 1 in 8 people are affected by floods globally. As the impact of climate change increases, we are seeing more severe cases of flooding, such as in Central Europe in 2021 that caused an estimated loss of USD 54 billion.

Financial institutions can play a pivotal role in addressing the global water crisis by supporting clean water and saving projects.These projects often involve significant capital for infrastructure development, technology adoption, and community outreach. Financial institutions can lend support to these initiatives, by providing financing to water projects, blue bonds, flood insurance, supporting projects or partnering up with foundations to help them deliver water protection and conservation projects. Moreover, such initiatives contribute to environmental sustainability, risk mitigation, and long-term economic growth, aligning with the broader goals of responsible corporate citizenship.

- Financial institutions are still in early stages of developing holistic initiatives to promote water conservation and management. Few banks and insurers have set targets and goals in this area, with only 11% of the banks currently having defined action plans to support water-related initiatives.
- While 61% of other European financial institutions are introducing bonds and funds to support water management initiatives, Dutch institutions are yet to launch similar initiatives.

Exhibit 20: Banks vs Insurers - Action plans to improve offerings on water protection

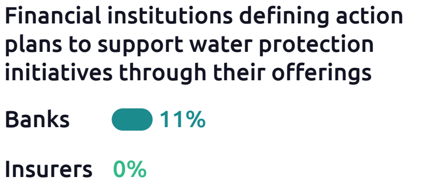
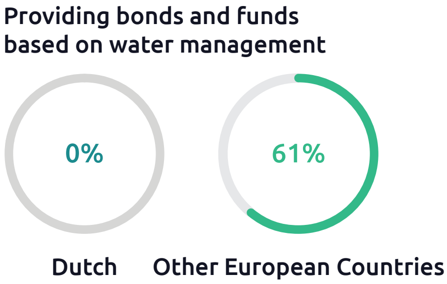


Exhibit 21: Dutch vs Other European peers - Bonds and funds based on water management



The OECD Environment Working Paper[27] examined how the financial sector understands and applies the concept of financial materiality in decision-making. The review highlights a gap in current risk assessment practices with water risks are not fully accounted for. To address this, financial institutions need improved tools, better data, and more proactive engagement to understand how investments affect and rely on water and freshwater ecosystems.

Water-related disasters can fundamentally alter the economic landscape of a country, industry, or market. These sweeping changes pose significant risks to financial stability. A good illustration of this is the Netherlands Central Bank (DNB) stress test of a major flood event which found significant capital impacts for Dutch banks if densely populated western regions of Netherlands were hit by extremely severe flooding, highlighting a potential risk and a priority area for Dutch financial institutions. Collaboration among environmental groups, central banks, financial regulators, and institutions is essential to create effective frameworks for assessing and managing water-related risks.

Best practice:

AXA's Ocean Risk Initiative focuses on insurance-led solutions to risks caused by a changing ocean, with a focus on using nature to build resilience. By partnering with scientists, governments, and NGOs, AXA is developing tools and initiatives such as: Coastal Risk Index - designed to quantify the protective benefits of coastal ecosystems and incorporate them into insurance risk models; Blue Carbon Resilience Credits - tradable credits that value the combined carbon sequestration and coastal protection resilience benefits; a report on the feasibility of developing a mangrove insurance product; and more. AXA XL is also co-chairing the Ocean Risk and Resilience Action Alliance (ORRAA) along with the Global Resilience Partnership and Ocean Unite, which is a multi-sector collaboration aimed at driving $500 million of investment into nature-based solutions by 2030 through the development of innovative finance and insurance products[28]

2.1.9 Agri business

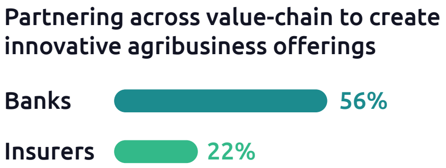
"To effectively aid the agricultural sector's transition, a holistic strategy with tailored products and integrated value chain is necessary"

Many farming practices—such as burning fields and using gasoline-powered machinery are significant contributors to the buildup of greenhouse gases in the atmosphere. The Food and Agriculture Organization of the United Nations (FAO) contends that the livestock sector alone is responsible for 18% of all greenhouse gas production. Additionally, clearing land for agricultural production is a major contributor to climate change, as the carbon stored in intact forests is released when they are cut or burned, hence necessitating better management and sustainable practices for agriculture[29].

To support this vital sector, financial institutions need to accelerate and innovate their offerings, to provide credit facilities, insurance products, and advisory services tailored to farmers' needs. Additionally, financial institutions are developing and supporting frameworks for measuring and reporting sustainability outcomes of agriculture practices, helping farmers and agricultural clients track and improve their environmental performance. By collaborating with agricultural stakeholders and leveraging innovative financial products, they can drive the transition toward more sustainable and resilient food systems.

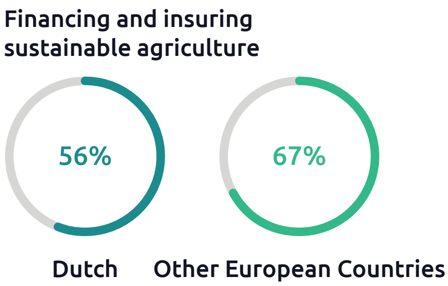
- Our study shows that 56% of banks versus 22% insurers, are partnering with other value chain partners to innovate and create products and services specifically for agricultural customers, helping them to assess the sustainability of their agricultural practices, while at the same time increasing their reach through partner network.

Exhibit 22: Banks vs Insurers - Value chain partnerships to develop agribusiness offerings



- Financial institutions are increasingly providing products and services to support the agricultural sector, such as loans and insurance coverage to aid in their transition. 56% of Dutch institutions and 67% of other European institutions are actively engaged in these initiatives.

Exhibit 23: Dutch vs Other European peers - Financing and insuring sustainable agriculture



Financial institutions can make the agriculture sector more sustainable and resilient by financing and investing in innovative agricultural technologies, such as satellite monitoring, data analytics, and climate smart practices, to help clients in agriculture sector optimise crop yields and resource usage while at the same time helping them yield climate resilient crops. Financial institutions should also support regenerative agriculture, by funding and creating partnerships to build practices that restore soil health and enhance biodiversity and recognize its importance for long-term agricultural sustainability.

Best practice:

Rabobank's "Acorn" program (Agroforestry Carbon Removal Units for the Organic Restoration of Nature) allows Smallholder farmers in developing and emerging regions to switch to agroforestry to generate Carbon Removal Units (CRU's). Agroforestry under the Acorn Program provides certified, nature-based carbon credits, with 80% of the carbon sales revenue going to the farmers[30]. Also, Rabobank has collaborated with insurer a.s.r. and water company Vitens to develop an Open Soil Index to assess soil health and provide farmers with insights into their soil quality and identify areas for improvement[31]

2.2 Internal assets and operations

Besides being an enabler and driver of change, financial institutions also have the key responsibility of integrating sustainability into their operations and internal assets. In the light of new value chain reporting requirements under CSRD[4], companies are required to disclose information on impact, risks and opportunities associated not just with direct operations but throughout the entire value chain. Assessing operations and value chain is not only crucial for double materiality assessment, but also to establish the latest data across the value chain. This provides insights into how initiatives carried out internally can contribute to sustainable value creation and help companies identify ways to improve and gain competitive advantage.

We have examined financial institutions' sustainability efforts across 7 segments: Mobility, Energy sourcing, Investments - own portfolio, Buildings, Procurement, IT and Operations.

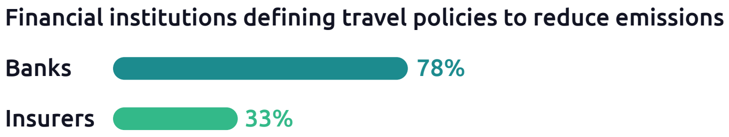
2.2.1 Mobility

"Banks have been ahead of insurers in introducing eco-friendly travel policies and sustainable mobility for employees"

In line with last year, mobility continues to be a strong topic for financial institutions. The importance of sustainable employee commuting is particularly pronounced for banks compared to insurers, as a higher proportion of banks have implemented sustainable practices for their employees' commutes. They have been enabling employees to access sustainable transport through public transportation, subsidies for bicycles and shared electric mobility. Sustainable commuting is increasingly seen as strong driver to align with values of environmentally conscious employees. Financial institutions have also increased the adoption of electric/hybrid vehicles for employee commute. Besides improving employer branding, sustainable commuting also helps to reduce commute emissions and in turn reduce scope 3 emissions.

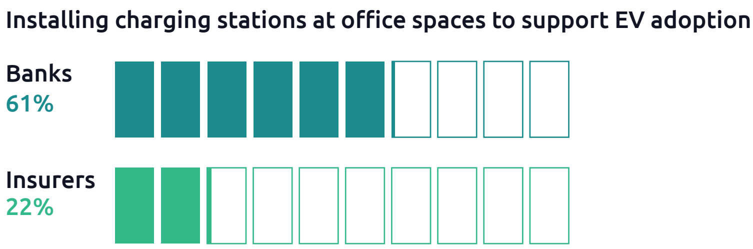
- 78% of banks compared to only 33% of insurers have disclosed travel policies that limit air travel for shorter distances and permit business travel only by certain modes of transport to reduce emissions.

Exhibit 24: Banks vs Insurers - Travel policies to reduce internal emissions



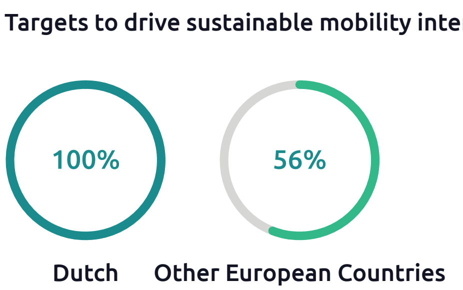
- 61% of banks have installed charging stations to support adoption of EVs among employees, compared to 22% of insurers.

Exhibit 25: Banks vs Insurers - Installing Charging stations at office to support EV adoption



- 100% of Dutch financial institutions have set targets to further drive sustainable mobility compared to only 56% of other European financial institutions.

Exhibit 26: Dutch vs Other European peers - Targets to drive sustainable mobility internally



The Dutch financial institutions have been ahead of other peers in implementing wide range of initiatives in sustainable mobility. This can be in part attributed to a new reporting obligation set in motion in 2024 by the Netherlands Enterprise agency, which has mandated the reporting of distance travelled with breakdown of type of fuel in business travel and commuting. The new legislation intends to examine the CO2 commuting emissions and bring it under scrutiny, and drive employers towards making work-related mobility more sustainable, since 50% of estimated kilometres driven in the Netherlands originate from business travel and commuting[32].

Best practice:

Lloyds bank has supported colleagues' switch to low carbon modes of transport through loans for over 2500 electric cars for its employees. 80% of its offices now have EV charging points installed. It also introduced a Liftshare platform for employees for shared commute. 22 offices are now accredited by Cycling UK's cycling friendly employer. The bank has developed and launched a travel carbon calculator, allowing colleagues to compare carbon impact of different types of journey methods[33].

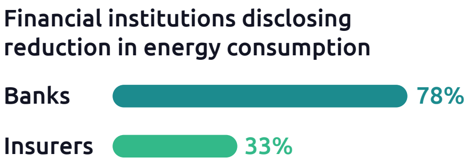
2.2.2 Energy sourcing

"Energy sourcing continues to be a key focus for financial institutions with substantial improvements in energy efficiency and increased use of renewable resources"

One key way for companies to lower indirect emissions is by using renewable energy sources. This reduces reliance on fossil fuels and helps cut down on Scope 2 emissions, which come from purchased energy. In line with this pressing need, the corporate renewable energy sourcing market in Europe has expanded significantly in the last few years. The total renewable energy contracted by corporates has increased from 0.6 GW in 2016 to a cumulative capacity of 40 GW in 2024[34]. Both last and this year's benchmarks indicate that energy sourcing has been a key topic for most financial institutions, consistently receiving high scores. Banks are ahead of insurers in this area, with a greater proportion of banks implementing initiatives and setting targets to improve their energy sourcing

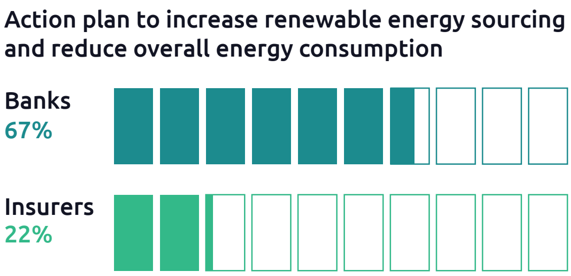
- 78% of banks have reported on the reduction in energy consumption compared to 33% of insurers. They have achieved this through measures such as localized energy production to avoid transmission losses and smart energy systems which monitor and reduce unnecessary usage.

Exhibit 27: Banks vs Insurers - Disclosing reduction in energy consumption



- 67% of banks have disclosed action plans to increase renewable energy sourcing and reduce energy consumption compared to 22% of insurers.

Exhibit 28: Banks vs Insurers - Action plans to reduce energy consumption and increase renewable energy



Different strategies exist to procure renewable energy, from a relatively simple technique of acquiring Guarantee of Origin certificates to a relatively high value adding options such as on-site or off-site renewable energy installation owned by the company. While the most preferred option has been to procure renewable energy through Guarantee of Origin, going forward, financial institutions can also look to generate and consume renewable electricity internally through on-site installation of wind farms, solar panels on rooftops and carports. With the decreasing cost of renewable energy production and improving cost-competitiveness, the generation of renewable energy will become a viable option. Financial institutions can become prosumers (producers and consumers) of energy by generating their own renewable energy on-site and consuming it, while also potentially selling excess energy back to the grid. This dual role helps them reduce energy costs and contribute to sustainability efforts. This presents an enormous potential of 880GW capacity which could be deployed by commercial and industrial prosumers by 2050[34].

Best practice:

LBBW has switched to on-site power generation through the installation of a photovoltaic system on roofs of LBBW campus and 607 solar panels on central buildings. LBBW has been able to power all office buildings in Stuttgart with green electricity since 2009. It has also reduced the amount of district heating needed by utilizing waste heat, through which the heat pumps in Am Hauptbahnfof building provided 2.5 GWh of heating energy[35].

2.2.3 Investments – own portfolio

"Financial institutions are increasingly recognizing that engaging with their clients and corporate partners is the most effective way to drive impact, rather than simply exiting certain clients or sectors"

There is growing scrutiny not just over the investments and assets managed by financial institutions on behalf of clients, but also on the investments that banks and insurers own and manage themselves. Besides focusing on return and liquidity, the emphasis has been shifting to sustainability aspects of the investments, and the sustainability tools and KPIs used to support the investment decision-making. While most of the financial institutions have put positive investment screening mechanisms in place, initiatives such as engagement, divestment, exclusion and impact investing have been adopted to drive sustainability. Financial institutions have started to disclose exclusion policies, which give detailed information on avoiding investments in certain carbon intensive industries which do not meet environmental and social criteria. Divesting investments that do not match environmental and social criteria is seen as a last resort, with most banks opting to engage and encourage a change in practices to achieve sustainable outcomes.

- 93% of financial institutions, including 100% of insurers and 89% of banks, believe that engaging with clients to support their transition to climate goals, along with implementing stricter exclusion policies, is the right way forward.
- 72% of banks, versus just 33% of insurers, conduct ongoing, periodic assessments of invested companies to evaluate their sustainability alignment and the credibility of their transition plans.
- Dutch financial institutions are ahead of other European peers in setting targets to decarbonize investments, with 89% of Dutch institutions establishing targets compared to 61% of other European peers.

It is essential for financial institutions to define their investment philosophy beyond expected financial performance, identify separate risk-based criteria across each sector and apply screening on companies before investing to ensure the risk management and quality of portfolio are enhanced. Total integration of sustainability across all the investments is not a one-time event but a recurring and transformative journey which requires financial institutions to continuously engage with their portfolio companies to reduce environmental and social risks and drive sustainable value.

In this regard, engagement is increasingly seen as a crucial tool to gain ESG risk insights of portfolio companies through active dialogue. This can also enable financial institutions to monitor companies' performance based on internal assessments and advocate better and suitable ESG practices to progress towards net-zero transition. Financial institutions also utilize proxy voting during Annual General Meetings (AGMs) of portfolio companies to vote on ESG related matters and steer them towards sustainable pathways.

Exhibit 29: Banks vs Insurers - Choosing engagement and exclusion to enable investee's sustainable transition

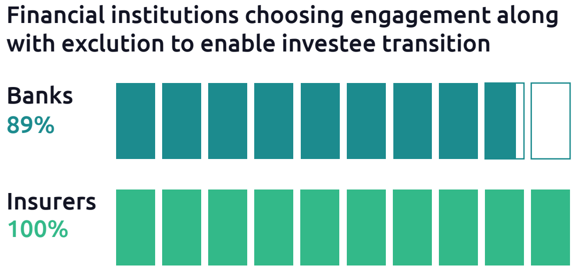


Exhibit 30: Banks vs Insurers - Implementing continuous and periodic ESG risk assessments of portfolio companies

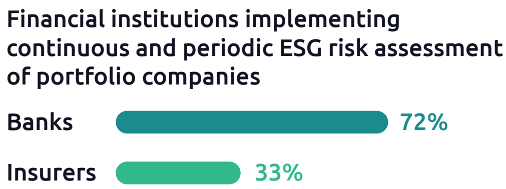
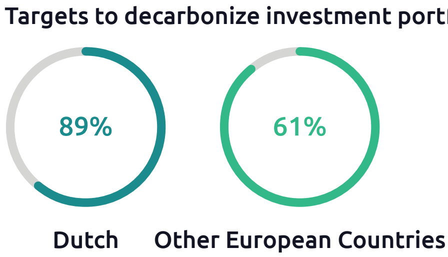


Exhibit 31: Dutch vs Other European peers - Targets to prioritize investment portfolio



Best practice:

a.s.r. discloses half-yearly reports with details on engagement with portfolio companies, the progress the companies made on transition and the suggestions it offered. The insurer has disclosed information of engagement across various topics of climate action, biodiversity, net-zero carbon emissions, toxic waste and emissions among others. Companies displaying controversial behaviour in the form of serious or repeated violations of UN Global Compact principles (human rights, labour rights or the environment) are selected for engagement with advice and actionable steps being provided or exclusion from a.s.r. portfolios[36].

2.2.4 Buildings

"Financial institutions are advancing from merely mitigating negative effects to adopting positive practices that promote biodiversity in their buildings"

Buildings continue to be one of the key operational areas with higher scores, with financial institutions adopting energy management systems and external buildings certification to improve and validate energy efficiency. Financial institutions are now not only focusing on mitigating negative impacts but are also adopting and disclosing positive impacts related to buildings through dedicated measures that promote biodiversity. These measures include setting up vegetable gardens, re-greening office spaces, and planting of indigenous species favourable to pollinators.

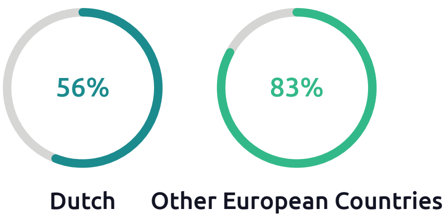
- 78% of banks compared to 56% of insurers have disclosed action plans to improve sustainability aspects through right selection, design considerations and energy efficient heating systems in office buildings.
- While 56% of Dutch financial institutions have building certifications like LEED and BREEAM, 83% of their European counterparts have achieved these certifications, reflecting a strong focus on energy efficiency and sustainable office practices

Exhibit 32: Banks vs Insurers - Action plans to improve office buildings' sustainability performance

Financial institutions disclosing action plans to improve sustainability performance of buildings

Exhibit 33: Dutch vs Other European peers - Achieving sustainability certifications for office buildings

Building certifications in place to validate energy efficiency of building



To boost the energy performance of buildings, the EU has established a legislative framework in 2024 that includes the revised Energy Performance of Buildings Directive and the revised Energy Efficiency Directive which necessitates corporates to make informed choices on saving energy and take action to reduce building emissions. The directive mandates zero emissions for all new buildings by 2050 and introduces minimum energy performance standards for non-residential buildings to trigger renovation of buildings with low energy performance[37].

Best practice:

BPCE has obtained ISO 50001 certification (Energy Management System), 6 Environmental certifications: NF HQE/NF (Haute Qualité Environnementale) tertiary buildings and BBC (Low consumption Building), 5 Real Estate: HPE label (High Energy Performance) and BREEAM (Building Research Establishment Environmental Assessment Method) labels to validate the energy efficiency of buildings. The Group completed its Real Estate Master plan to rationalize real estate by reducing its buildings portfolio and choosing buildings with better environmental performance. Three collaborative vegetable gardens have been set up in BPCE buildings in Île-de-France. Some of the bio waste from the company restaurant is used as compost, while the planting is organic, and the garden furniture is recycled[38].

2.2.5 Procurement

"Financial institutions have adopted sustainability procurement guidelines with responsible sourcing criteria, but continuous monitoring and engagement with suppliers remain essential"

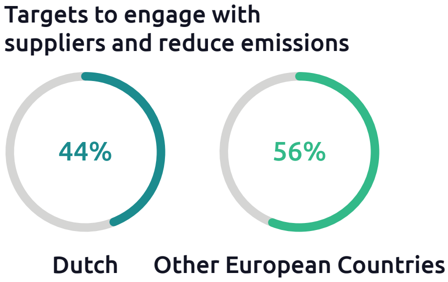
Procurement has significantly evolved from being a mere cost reduction centre to becoming enabler of business value, even for financial institutions, whose procurement requirements rest mostly on intangible services, regulatory compliance, data security, and managing relationships with specialized service providers. Procurement processes are however prone to ESG risks such as environmental degradation, labour rights violations, and unethical business practices within supply chains, due to which the majority of financial institutions have adopted sustainability procurement guidelines containing responsible sourcing criteria and expected sustainable practices from suppliers.

- 83% of banks compared to 44% of insurers have initiatives to continuously monitor suppliers on their ESG risks and practices and advise them on their transition path to decarbonization.

Exhibit 34: Banks vs Insurers - Continuous monitoring of suppliers on ESG risks and practices

- Just 52% of financial institutions, including 44% of Dutch and 56% of other European companies have disclosed targets to reduce supply chain emissions and further engage with suppliers to align them with the bank/insurer's net-zero ambitions.

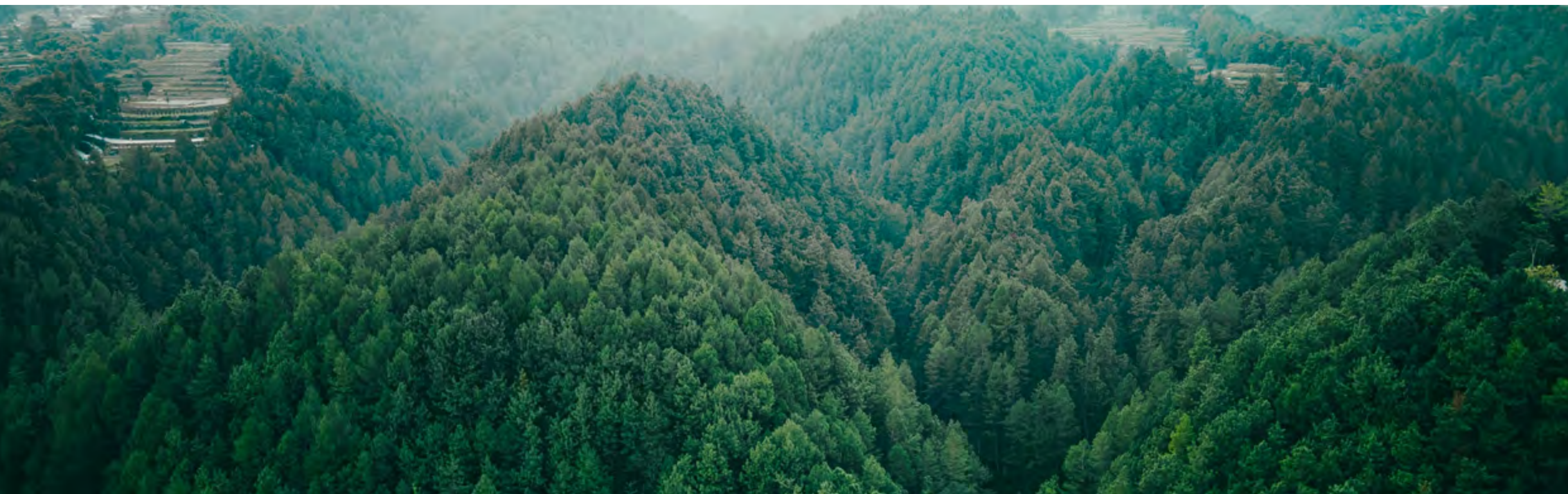
Exhibit 35: Dutch vs Other European peers - Targets to engage suppliers in reducing emissions



With the introduction of value chain reporting under CSRD, financial institutions are expected to scrutinize their procurement processes and be more transparent around the sustainability impact of procurement. This requires financial institutions to ensure suppliers adhere to high standards of sustainability and conduct continuous and rigorous vetting and assessment of suppliers. Since the majority of financial institutions are facing challenges in tracking and reducing scope 3 emissions from value chain, it has become critical to include carbon reporting and carbon reduction criteria under suppliers' contracts.

Best practice:

Société Générale's sourcing division uses a dedicated tool designed to identify and assess ESG controversies of more than 600 suppliers. The Group has been certified for "Responsible Supplier Relations and Purchasing" by the Médiation des Entreprises and the Conseil National des Achates since 2012. This certification attests to the Bank's commitment to establishing lasting, fair relations with its suppliers. As part of Positive Sourcing program 2023, the group has identified improving relations with suppliers, environmental performances of products and services purchased and increasing spending with suppliers from social economy sector as key priorities[39].



2.2.6 IT

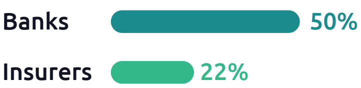
"80% of lifetime emissions of equipment are generated during the production of new equipment, highlighting the need to adopt circular practices such as reusing and recycling IT equipment"

In an era where digital transformation is at the forefront of business strategies, financial institutions face increasing IT demands. As these organizations expand and evolve, their IT infrastructure grows and evolves accordingly, leading to higher energy consumption and greater environmental impact. In this regard, Sustainable IT has become a necessary constituent for financial institutions looking to reduce their environmental impact and meet stakeholder expectations. Despite an improved score and focus across financial institutions compared to last year, there is still room for improvement. Embracing sustainable IT involves more than just deploying green technology. It requires changing consumption habits, integrating environmental considerations throughout the lifecycle, and increasing efforts to measure, reduce, and optimize emissions from IT infrastructure. Embracing circular practices has become increasingly essential, since 80% of lifetime emissions of equipment come from the production of new equipment[40].

- 50% of banks compared to 22% of insurers have established circular practices to recycle, reuse and dispose IT hardware equipment in sustainable manner.

Exhibit 36: Banks vs Insurers - Establishing circular practices across IT equipment

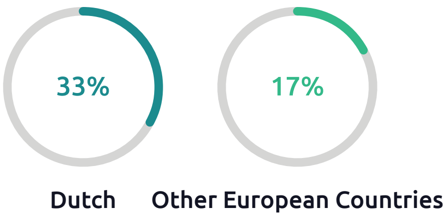
Financial institutions establishing circular practices to reuse, recycle and dispose IT equipment



The majority of financial institutions are yet to set targets and action plans for making their IT operations greener, with only 33% of Dutch and 17% of other European institutions disclosing the targets.

Exhibit 37: Dutch vs Other European peers - Targets to improve sustainable IT

Targets to improve sustainable IT



The adoption and successful implementation of Sustainable IT requires an informed strategy, engaged employees and leadership, the right sustainable software architecture and an effective execution of the transformation. As financial institutions are committing to explore various disruptive technologies such as Gen AI, digital twins, IoT and operationalize them to create better solutions, it is crucial to embed sustainable design principles and monitor sustainability metrics. Metrics such as Power Usage Effectiveness (PUE), Carbon Usage Effectiveness (CUE), Data centre energy productivity, server utilization rate and other technology-specific metrics can be integrated into monitoring dashboards and procurement policies to ensure the IT stack's energy and carbon footprint are aligned with organization's sustainability goals. Choosing the right technology also becomes essential in combination with sustainability design principles to realize smart energy management, automation of resource usage and transparency in tracking the sustainability metrics.

Best practice:

The migration of 3800+ data servers by BPCE group to cloud resulted in 2235 tC02e carbon reduction. In 2023, 94% of the Group's tech equipment had a carbon footprint referenced in its inventory database, through detailed breakdown. The SonarQube code quality review tool, already deployed within the Group, has been enhanced with the EcoCode plug-in incorporating eco-design rules during the design of its digital services. BPCE's data centers are ISO 14001 and 50001 certified and are supplied by a Power Purchase Agreement (PPA), which guarantees that 40% of the electricity used comes from wind power[41].

Additionally, Société Générale has been implementing digital waste recycling initiatives by partnering with Recyclea to recondition end-of-life equipment and offer reconditioned telephones to employees[42].

2.2.7 Operations

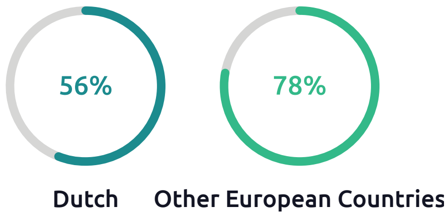
"Dutch financial institutions are ahead of other European peers in setting targets to optimize and reduce operational emissions"

Financial institutions, as key capital providers, also play a crucial role in reducing their carbon emissions, upholding environmental stewardship, and leading by example. Although financed emissions significantly surpass operational emissions, they still play a vital role in shaping their own operations. Initiatives such as paper recycling, waste management, and reducing water footprint can enable financial institutions to monitor and reduce emissions from day-to-day operations effectively. Despite similarities in benchmark scores and trends across both editions in operations, insurers have outperformed banks in terms of implementing sustainability initiatives to enhance their operations.

- 56% of Dutch financial institutions, compared to 78% of their European peers, have disclosed the use of eco-friendly paper and the implementation of paper recycling practices.

Exhibit 38: Dutch vs Other European peers - Paper recycling and use of eco-friendly paper

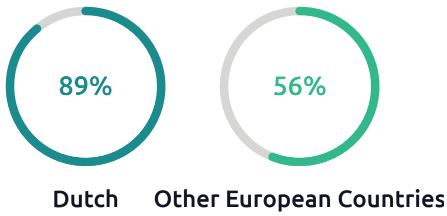
Disclosure of use of eco-friendly paper and implementation of paper recycling



- Dutch financial institutions are leading their European peers in setting long-term targets for sustainable operations, with 89% disclosing targets compared to 56% of other European institutions.

Exhibit 39: Dutch vs Other European peers - Targets to improve sustainability of operations

Targets to improve sustainability of operations



It is essential to further implement circular practices and create an overarching strategy to focus on waste reduction, resource efficiency and overall sustainability of operations. Periodic audits and analysis using waste management software to assess and identify areas across waste streams, excess paper usage and water wastage can support optimization of operational performance.

Best practice:

Credit Agricole's focus on waste reduction has led to the implementation of a wide range of activities across office sites in France such as: waste sorting and recycling of paper, plastics and industrial waste; eco-certified products for interior cleaning and installation of composter on Evergreen campus to recycle food waste. Crédit Agricole CIB's Eole and Terra buildings in Montrouge are equipped with a rainwater recovery system and machines that save water when cleaning the floors[43].

2.3 Internal governance

Internal governance is the backbone of a company's sustainability efforts. It provides the framework for setting, implementing, and monitoring sustainability goals. Effective governance ensures that sustainability is integrated into the core business strategy. By establishing clear roles and responsibilities, accountability and transparency, governance systems can mitigate risks, enhance decision-making, and build trust among stakeholders.

We have examined financial institutions' governance efforts across 6 segments: Diversity & Inclusion, Employee engagement, External stakeholder engagement, Organisation & governance, Fair business operations, and Carbon offset.

2.3.1 Diversity & inclusion

"Organizations are committed to ensuring diverse representation and participation, shaping a workforce that more accurately reflects their social and diversity goals"

Diversity and inclusion are essential components of effective internal governance and achieving sustainability goals. Inclusion ensures that all voices are heard and valued, leading to better informed and equitable decision-making. By embracing diversity and inclusion, organizations can better understand the needs of their stakeholders, mitigate risks, and build a strong reputation as a responsible corporate citizen.

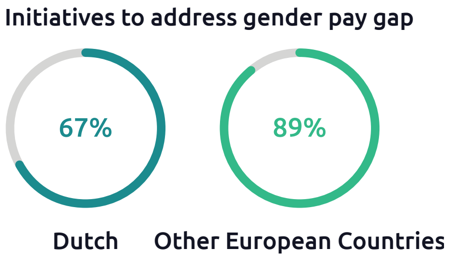
We see that financial institutions demonstrated higher scores in this area and are actively engaging in activities to be more diverse and inclusive. To achieve this, many are implementing initiatives such as targeted recruitment and addressing diversity across gender, age, and ethnicity. They are also focusing on closing pay gaps, offering equal opportunities, and engaging with diverse communities.

In line with last year, insurers are leading banks in promoting diversity across ethnicity, minority groups, and physical abilities. While 100% of insurers disclose initiatives to enhance diversity beyond gender, only 72% of banks are doing the same.

Exhibit 40: Banks vs Insurers - Varied diversity across ethnicity, minority and physical disability groups

- Other European financial institutions are ahead in addressing the gender pay gap, with 89% disclosing initiatives, while 67% of Dutch institutions have made similar disclosures.

Exhibit 41: Dutch vs Other European peers - Initiatives to address gender pay gap



Beyond traditional diversity metrics, institutions should focus on fostering inclusive cultures where all employees feel valued and empowered. Technology will play a crucial role in driving this transformation through; data analytics to identify disparities, AI-powered recruitment tools to promote unbiased hiring, and digital platforms for employee engagement. Additionally, there will be a growing emphasis on intersectionality, recognizing the overlapping experiences of individuals based on multiple factors such as gender, race, ethnicity, and disability. Ultimately, financial institutions that successfully embed diversity and inclusion into their DNA will gain a competitive edge, attract top talent, and better serve their diverse customer base.

Best practice:

Deutsche bank has partnered with numerous organizations focused on gender, LGBTQ+ rights, and racial equality to advance its diversity and inclusion goals, both internally and externally, including the Charter of Diversity, Global LGBTI Equality, and Racial Justice in Business initiative and the Valuable 500 collective. The bank's employees' efforts have been recognized through various awards and accolades, such as INvolve - The Inclusion People Role Model Lists 2023, Outstanding 100 Executives Role Model List, for making a significant contribution to LGBTQ+ inclusion at work[44].

2.3.2 Employee engagement

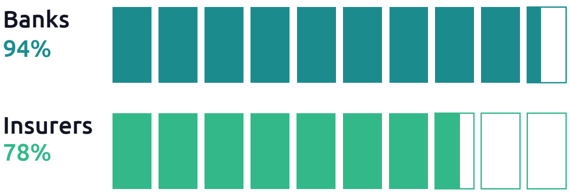
“Upskilling employees is only the beginning; fostering employee communities is key to driving corporate sustainability and empowering active participation in climate initiatives”

Financial institutions are promoting employee engagement by cultivating a sense of ownership, accountability, prioritizing employee well-being, and empowering staff to contribute to sustainable initiatives. This involves clearly communicating sustainability goals, providing comprehensive training, supporting employee health and well-being, and creating opportunities for meaningful participation. Employee communities are significant drivers of corporate sustainability and social responsibility, empowering employees and making them active participants in climate and sustainability programs. It also provides them with opportunities to share feedback via dialogues and forums, and acts as catalysts and further embed the company’s commitment to ESG.

When employees feel a deep connection to their organization’s sustainability mission, this commitment often extends into their personal lives. They are more likely to embrace sustainable practices outside of work, which can have a significant positive impact on their local communities and beyond. For instance, a study shows[45] that around two-third of job seekers look for the company’s sustainability commitment when applying for a job. European financial institutions are making significant efforts to upskill employees on sustainability, with 94% of banks and 78% of insurers actively involved in these initiatives.

Exhibit 42: Banks vs Insurers - Upskilling employees with sustainability trainings

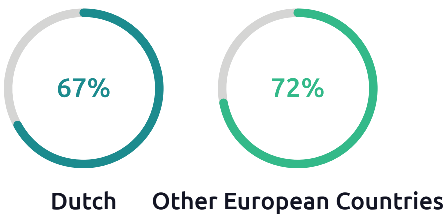
Providing upskilling employees on sustainability



- 70% of financial institutions, including 67% of Dutch and 72% of other European companies are encouraging employees to participate in ESG communities and events.

Exhibit 43: Dutch vs Other European peers - Driving participation of employees in ESG communities

Encouraging and enabling participation in ESG communities



Banks are leading in creating an effective work environment by engaging with employee feedback, with 100% of banks taking action compared to 67% of insurers.

Exhibit 44: Banks vs Insurers - Improve appropriate working environment for employees

Financial Institutions disclosing initiatives to provide appropriate working environment

The future of employee engagement in financial institutions will be characterized by a holistic approach that integrates individual well-being, organizational purpose, and societal impact. Technology will play a pivotal role in personalizing engagement strategies, offering tailored learning experiences, and providing real-time feedback. Sustainable employee engagement will be measured not only by traditional metrics but also by indicators of employee well-being, such as work-life balance, job satisfaction, and mental health. As the world becomes more interconnected, fostering a sense of global citizenship among employees will be crucial for driving sustainable business practices.

Best practice:

To enhance work-life balance and the well-being of employees, Allianz has implemented "Focus Time," these are dedicated meeting-free days for employees to concentrate on their tasks. Additionally, Allianz offers comprehensive leadership training focused on employee health and safety. Through its Local Employee Assistance Program, it also conducts regular assessments of health and safety conditions of the workplace, sharing its report to the Allianz Board of Management on a semi-annual basis. This serves as a point of reference for the health, safety, and well-being of its global workforce[46].

Additionally, Société Générale is using gamification to engage employees and to communicate on sustainable IT. CodinGame for developers, gets participants to think about how they can adapt the way they code to reduce their environmental impact[47].

2.3.3 External stakeholder engagement

"Collaborating with industry peers is key to advancing sustainable innovation, leveraging a broader range of expertise, resources and perspectives"

- External stakeholder engagement involves working together with stakeholders to identify sustainability priorities, develop strategies and implement initiatives. This collaborative approach ensures that sustainability strategies are robust, relevant and capable of achieving real impact. Financial institutions are fostering open dialogue with customers, investors, suppliers, communities, and other key groups to gain invaluable insights on environmental and social impacts. They are engaging with government, regulators, and non-profit organisations to share insights and shape policies and frameworks on sustainability, getting affiliated to various sustainability alliances and supporting non-profit organisations in their work through charities and donations.

Our study reveals that banks engage more actively with external stakeholders compared to insurers. Specifically, 78% of banks are affiliated with banking alliances, while 56% of insurers, are connected with insurance-specific alliances, facilitating a shared platform for learning and exchanging views.

Exhibit 45: Banks vs Insurers - Engaging through alliances and shared platforms

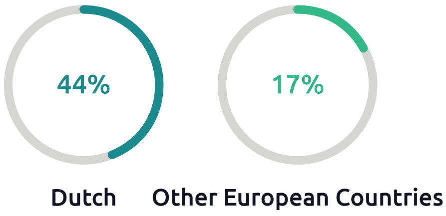
European financial institutions engaging through alliances and shared platforms to exchange views

- 44% of Dutch institutions, compared to 17% of their European counterparts, have collaborated with other financial institutions to develop frameworks and tools to support sustainability goals.

Netherlands Authority for Consumers and Market (ACM) have also encouraged collaboration between Dutch banks (Dutch Banking Association NVB) to draw up sustainability initiatives and report together. For example, Dutch banks are collaborating to see which data is required and which calculation methods are suitable and reliable to use for sustainability reporting[48].

Exhibit 46: Dutch vs Other European peers - Collaborate with peers to build and develop frameworks

Financial institutinas collaborating with peers to build and develop frameworks



Effective stakeholder engagement also includes collaboration with industry peers to develop frameworks and tools that address sustainability priorities. By co-creating solutions, financial institutions can accelerate progress towards shared goals. This collaborative approach not only enhances the impact of individual institutions but also fosters a more sustainable and transparent financial ecosystem.

Best practice:

BNP Paribas, Citi, Crédit Agricole, Société Générale, Bank of America and Standard Chartered partnered with RMI's Center for Climate-Aligned Finance (the Center) to help decarbonize the aviation sector through the formation of the Aviation Climate-Aligned Finance Working Group (the Working Group). The Working Group is creating a collective climate-aligned finance (CAF) framework that defines common goals for aviation sector decarbonization. One of the most salient aspects of the Pegasus Guidelines methodology is its choice of a well-to-wake emissions scope, which considers not only tailpipe emissions, but also fuel production and distribution, where Sustainable Aviation Fuel produces the largest emissions savings[49].

2.3.4 Organization & governance

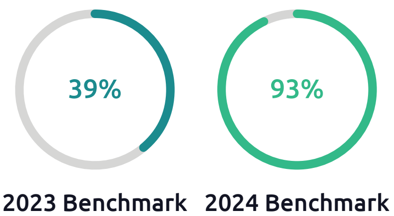
"A significant rise in adoption of ESG-linked pay reflects the shift towards driving employee accountability in sustainability"

Sustainability thrives when strong corporate governance structures are in place. Corporate structures reveal the company's direction and priorities. To foster sustainability, financial institutions must tailor their governance frameworks to their unique business model, available resources, and specific sustainability objectives. This involves implementing robust policies, regulations, and community-oriented initiatives that align with the company's overall goals. Financial institutions are also incentivising achievement of sustainability targets within their organisation, such as by linking it to variable pay of employees.

- 93% of financial institutions have included ESG KPIs in their remuneration policy, compared to 39% last year, with a few exceptions where the organisations have chosen to keep fixed remuneration pay structure and avoid variable payouts.

Exhibit 47: 2023 vs 2024 Benchmark - Including ESG KPIs in remuneration policy

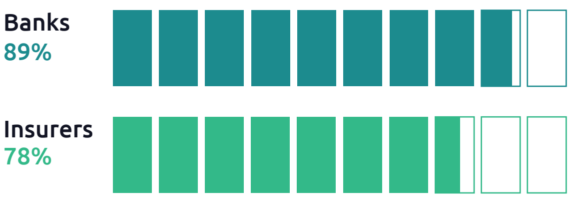
Proportion of Financial institutions including ESG KPI's in remuneration policy



Although all financial institutions have established a corporate structure to drive sustainability, 89% of banks and 78% of insurers have set up dedicated sustainability committees and task forces to oversee ESG implementation.

Exhibit 48: Banks vs Insurers – Dedicated sustainability committees to monitor and implement initiatives

Dedicated sustainability committees to monitor ESG implementations



Going forward, financial institutions must adopt a holistic approach for sustainability governance to have dedicated focus on different aspects of sustainability and thrive in a rapidly changing landscape. Data-driven governance will become essential for managing sustainability risks and opportunities.

Best practice:

ABN Amro has an initiative linking sustainability performance and diversity KPIs to the incentives of its executive board, to further strengthen governance and implementation of sustainability initiatives throughout the organization. The KPI for sustainability and its targets and measures are linked to the Dow Jones Sustainability Index (DJSI). The index tracks the sustainability performance of leading companies per sector. The KPI for Employee Engagement and its targets are linked to the results obtained in the relevant annual employee engagement survey, which are focused on both short and long-term achievements[50].

2.3.5 Fair business operations

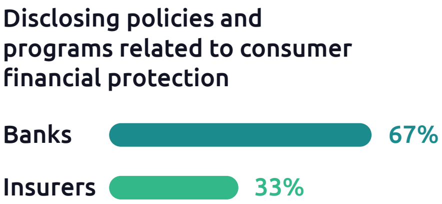
"The need to improve capabilities around anti-competition and financial protection remain significant, in light of rising risk incidents and regulatory fines"

Fair business operations are the bedrock of sustainable corporate governance. By upholding ethical standards, treating stakeholders equitably, and operating with transparency, companies foster trust, mitigate risks, and enhance their reputation. ISO 26000 has also defined Fair Business Practices as one of the core principles, which addresses the way an organization interacts with others. It calls for organizations to deal ethically with customers, partners, suppliers, contractors, competitors, and government agencies to bring about positive results. Financial institutions are gradually working towards disclosing their adoption of fair operating practices through their policies on preventing corruption, maintaining responsible political involvement, ensuring fair competition, consumer financial protection, and policies and certifications around protecting data and information management.

Despite having such policies in place, we are still seeing instances of controversies and penalties being imposed on financial institutions, for being involved in disputes and unlawful activities. This highlights the need for being more transparent in disclosures and having stricter enforcement and oversight of policies.

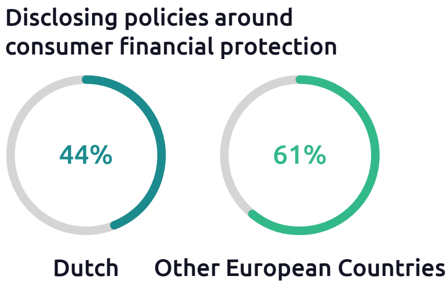
- Banks are leading in transparency regarding consumer financial protection, with 67% disclosing their policies and initiatives, while only 33% of insurers do the same.

Exhibit 49: Policies and programs in place for consumer financial protection



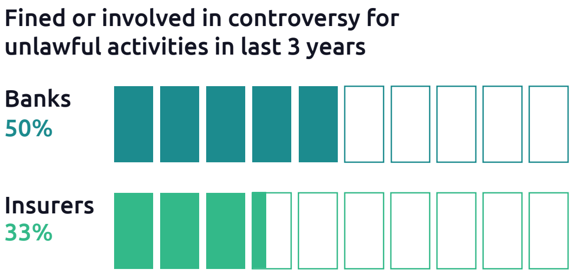
- 61% of other European financial institutions are leading in these disclosures about financial protection policies versus 44% of Dutch financial institutions.

Exhibit 50: Dutch vs Other European peers - Policies and programs in place for consumer financial protection



- In the past three years, 46% of financial institutions, including 50% of banks and 33% of insurers have faced fines or been involved in controversies related to issues such as data breaches, anti-trust violations, or deficiencies in anti-money laundering systems.

Exhibit 51: Banks vs Insurers - Fined or found involvement in unlawful activities



With the rise of AI and the growing frequency of processing personally identifiable information, the need for financial institutions to protect data privacy has never been more crucial, especially amid increasing cyber threats. GDPR was a breakthrough in data privacy – the new golden standard among data protection regulations. A GDPR "domino effect" can be seen, where other countries are also implementing GDPR-style privacy frameworks one at a time, such as California Privacy Rights Act (CPRA), ePrivacy Regulation (law that complements and elaborates the GDPR).

Best practice:

BNP Paribas aims to empower clients, partners, and employees by providing the necessary tools to take full advantage of data and ensure fair operations. This involves creating a resilient IT system that supports data-driven decision-making and value creation. With Wedata, BNPP's data management platform provides a way to find, understand and trust data, and allows for collaboration between data producer and consumer; ImpACT - common cloud-based platform providing a single access to ESG Data for its financing and investment activities. It further holds certifications for information security and quality management, such as ISO 9001: Quality Management System, ISO 27000: Information Security Management Systems, and ISO 26000 (non-certified): Guidance on social responsibility (CSR)[51].

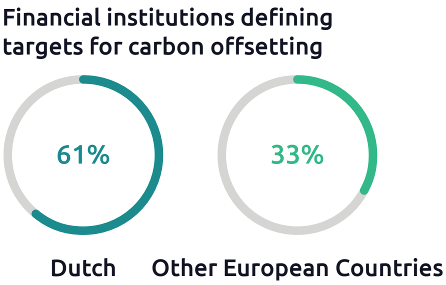
2.3.6 Carbon offset

"In response to greenwashing concerns, the voluntary carbon markets are likely shifting towards enhanced credibility and transparency, driven by new guidelines, evolving corporate expectations, and emerging regulations"

According to a report[52], 60% of consumers say they want every financial service they use to be sustainable. As financial institutions strive to meet consumer demand for decarbonisation, carbon offsetting has become an increasingly common practice. Different carbon offsetting projects related to renewable energy, afforestation, organic farming, and ocean restoration are being adopted by organisations. At the same time, investing in carbon offsetting projects requires institutions to look for validation of these projects through standard certifications, such as VCS (Verified Carbon Standard), and Gold Standard.

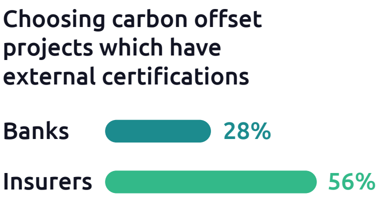
- Our study shows that 61% of Dutch financial institutions have set clear targets for carbon offsetting, while only 33% of their European counterparts have done so, with some emphasizing carbon avoidance over offsetting.

Exhibit 52: Dutch vs Other European peers - Defining targets for carbon offsetting



- To ensure credibility, 37% of financial institutions, comprising of 28% of banks and 56% of insurers, opt for carbon offsetting projects backed by certifications.

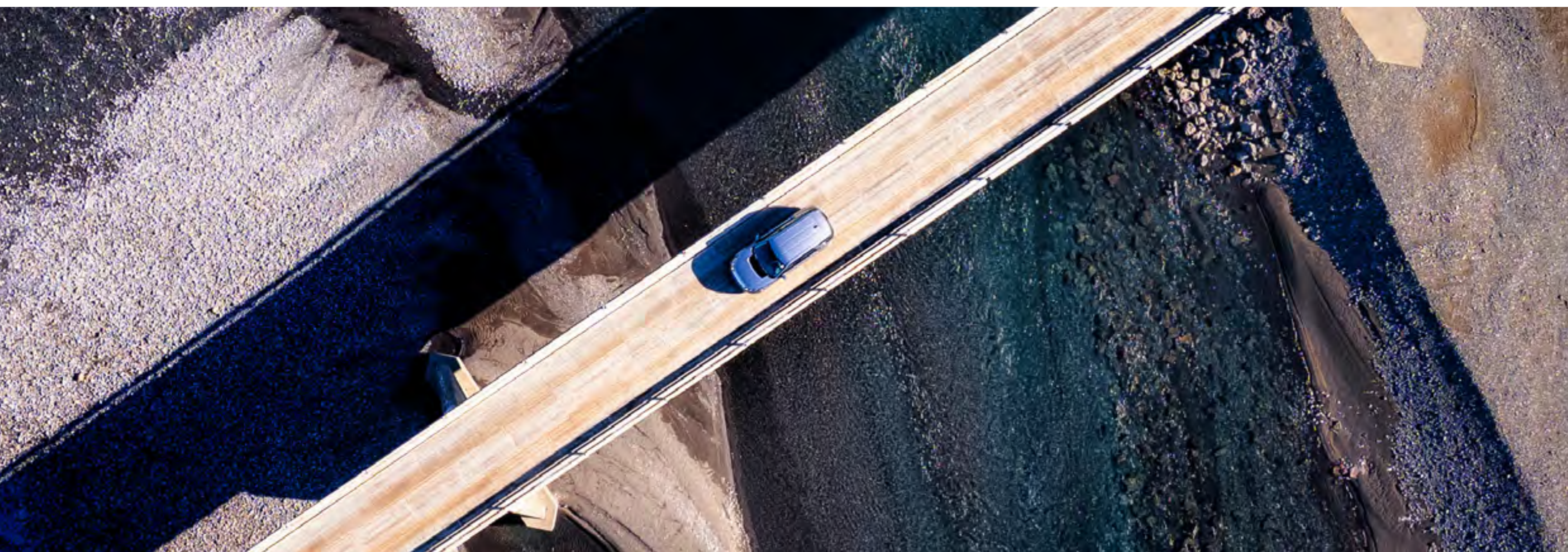
Exhibit 53: Banks vs Insurers - Adopting carbon offset projects which have external certifications



For 25 years, the carbon finance market, which has the potential to play a key role in achieving global carbon neutrality, has failed to generate strong stakeholder support – and make a real difference[53]. Despite its potential to drive global carbon neutrality, it has been plagued by scepticism and controversy due to concerns about its effectiveness in reducing emissions.

Best practice:

HSBC's primary focus in their operations and supply chain is reducing their own emissions. High-quality carbon removal or offsets will be used only for residual emissions that cannot be otherwise reduced from 2030 onwards. They are also supporting initiatives to help accelerate and build a thriving and credible carbon markets system. HSBC has also disclosed its plan to refrain from using carbon offsets to meet its net-zero portfolio financed emissions target by 2050 or related interim 2030 sectoral financed emissions targets[54].



2.4 Monitoring and Reporting

Demonstration of sustainability leadership and success starts with reporting. It is increasingly important for financial institutions to uphold the transparency and granularity in disclosures, as this can then influence other industries to follow the lead. The level of robustness seen in financial reporting is yet to be replicated in sustainability. The lack of standard requirements on disclosure and increasing demand for ESG information from various stakeholders has resulted in financial institutions disclosing large amounts of disparate data. The proliferation of sustainability data has only led to complexity, which the EU's CSRD aspires to untangle and standardize, to allow for better transparency and comparability. The new directive will mandate a greater number of companies to measure, and report based on unified reporting standards and greater depth. Aspects such as transparency, assurance and continuity in reporting will be highly scrutinized with new reporting directives.

We have examined financial institutions' reporting disclosures across 4 segments: Emissions monitoring, Assurance, Continuity and transparency, and Climate change adaptation and mitigation.

2.4.1 Emissions monitoring

"With the evolving standards around emissions disclosures, the focus on data quality and accuracy of scope 3 estimates will take centre stage in driving reporting quality"

Measuring emissions associated with financial activities and operations is the starting point for financial institutions to manage risk, identify opportunities related to greenhouse gas emissions, and comply with sustainability regulations. Beyond regulatory compliance, tracking and disclosing emissions also establishes a baseline from which financial institutions can set realistic and measurable decarbonization targets. Emissions are broken down into three scopes.

While scope 1 covers direct emissions from owned or controlled sources, scope 2 encompasses indirect emissions from purchased electricity and scope 3 includes all other indirect emissions, such as those from financed, invested and insured and other activities that occur in the value chain. Scope 3 emissions, which are significantly larger than scope 1 and 2 emissions, present substantial challenges for financial institutions in terms of monitoring and disclosure. Financed emissions under scope 3 are particularly challenging as they include the diverse and extensive indirect emissions from the activities of companies and projects that financial institutions invest in, insure, or lend to. Currently, financial institutions rely on various proxies to estimate these financed emissions, such as industry benchmarks, geographical and production-based proxies. To assess the quality of these estimates, the Partnership for Carbon Accounting Financials (PCAF) assigns a data quality score ranging from 1 to 5, with 1 indicating the highest quality based on direct measurement, and 5 indicating the lowest quality when basic proxies are used for disclosure.

- Banks are ahead of insurers in disclosing scope 3 financed emissions, with 67% of banks compared to 22% of insurers disclosing scope 3 financed emissions to some extent.

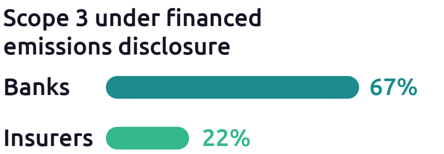


Exhibit 54: Banks vs Insurers - Scope 3 under financed emissions disclosure

- Dutch financial institutions are behind other European peers in disclosing scope 3 financed emissions. 33% of Dutch players have disclosed scope 3 financed emissions compared to 61% of other European peers.

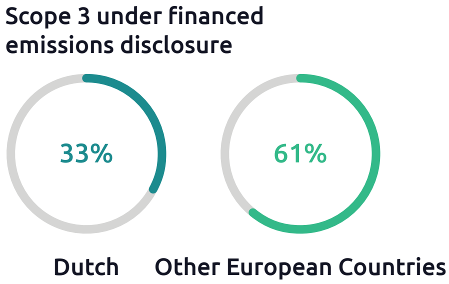


Exhibit 55: Dutch vs Other European peers - Scope 3 under financed emissions disclosure

Navigating through the complexity of measuring and disclosing scope 3 emissions will be the next challenge for financial institutions to tackle. Since the initial scope 3 disclosures have been around fewer priority areas, financial institutions need to expand coverage of sectoral and asset class scope 3 disclosures to other areas suggested by NZBA (Net-Zero Banking Alliance) and move to cover the entirety of their portfolios. To tackle the data quality of disclosures, organizations also need to establish sustainable, repeatable process and internal controls to collect and aggregate data as well as remediate data quality issues.

To obtain a complete picture of scope 3 emissions, it is currently necessary for financial institutions to integrate different datasets and conduct estimations and imputations to address the remaining data gaps. A shared decentralized data collection mechanism through collaboration with other industry entities can facilitate a comprehensive and coordinated approach to address scope 3 data challenges. The collaborative action can also help standardize the data measurement and disclosures of other entities by promoting adoption of common disclosure frameworks.

Best practice:

ABN AMRO has disclosed detailed breakdowns of financed emissions with disclosure of proportions of each asset class relevant to scope 3 emissions. It further disclosed scope-wise financed emissions on corporate loans for the high contributing sectors, which constituted about 75% of total financed emissions. The bank has also disclosed detailed breakdowns of quantity of emissions pertaining to the associated data quality score[55].

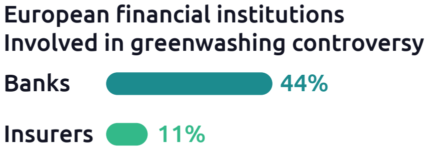
2.4.2 Assurance

"With the inclusion of mandatory assurance under CSRD-related disclosures, the adoption of external assurance will only increase"

Amidst increased scrutiny on sustainability disclosures of financial institutions, assurance has become a vital tool to improve transparency, accuracy, and reliability. Assurance from an independent third-party auditor to verify and validate the sustainability disclosures has become an important practice to enhance credibility of disclosures and instil confidence amongst stakeholders. With the inclusion of mandatory assurance under CSRD-related disclosures, the adoption of external assurance will only increase. Apart from the external assurance, the majority of organizations have internal audit processes in place which act as first line of defence to ensure credibility and integrity of the disclosures. Even as the efforts to improve transparency and accuracy of disclosures are on the rise, the instances of greenwashing controversies also seem to be increasing, with accountability, veracity and realism of targets and action plans being called out by activist groups and regulators.

- 44% of banks, compared to just 11% of insurers, have faced accusations of greenwashing due to misleading advertisements and continued high exposure to fossil fuels and other carbon-intensive sectors.

Exhibit 56: Banks vs Insurers - Involved in greenwashing controversy

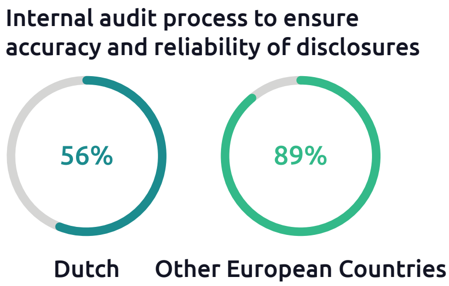


- A higher proportion of banks, as high as 94% compared to 44% of insurers have included internal audit processes to ensure verification of accuracy and reliability of disclosures.

Exhibit 57: Banks vs Insurers - Internal audit to verify accuracy and reliability of ESG disclosures

- The Dutch players are behind their other European peers in establishing internal controls, with 56% of Dutch financial institutions compared to 89% of other European peers disclosing internal audit of sustainability information.

Exhibit 58: Dutch vs Other European peers - Internal audit to verify accuracy and reliability of ESG disclosures



The majority of organizations have obtained "limited" assurance, meaning sufficient and appropriate evidence was presented to support specific aspects of reporting, although with limited certainty. Due to increasing regulatory disclosures, rising greenwashing cases, and stakeholder demand for transparency, the need for reasonable assurance, the highest level of assurance, will grow. This type of assurance, which comes with extensive assessment, in-depth testing of data and greater engagement with auditors, has the capability to transform financial institutions to meet increased scrutiny and transparency demands of stakeholders.

Best practice:

AXA' s Audit Committee monitors the process for the preparation and control of the group's extra-financial information and reviews it, in addition to the Climate & Biodiversity Report. The Audit Risk and Compliance Committee (ARCC) is charged with reviewing sustainability-related risks and mandatory sustainability reporting. The ARCC meets monthly and is chaired by the Group General Counsel, which reports back to the group management committee on a regular basis on sustainability topics[56].

2.4.3 Continuity and transparency

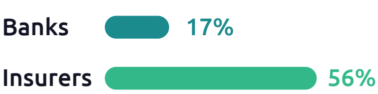
"Increasing the frequency of ESG public disclosures beyond annual reporting can help keep stakeholders informed while enhancing accuracy and reliability"

With dynamically evolving sustainability landscape and the need to keep stakeholders informed and responsive to developments, financial institutions have moved beyond annual sustainability disclosures, increasing the frequency to half-yearly and quarterly reports. They have also started to publish stand-alone reports on their approach to climate, biodiversity, and nature to ensure increased disclosure over methodology, targets and action plans. While multi-topic sustainability reports cater to a wider audience and communicate financial institution's wider impact on economy, integrated approach combines both financial and sustainability information under one report, with the intention to connect financial, social and governance inputs and performance information. Since both the approaches carry diverse perspectives catering to respective outcomes, there has been a divide in approach followed by the financial institutions.

- Insurers are ahead of banks in updating ESG disclosures, with 56% of insurers including sustainability information in their quarterly or half-yearly reports, compared to only 17% of banks.

Exhibit 59: Banks vs Insurers - ESG disclosures with increased frequency across quarterly and half-yearly reports

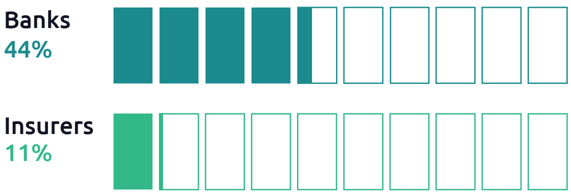
European Financial Institutions disclosing ESG disclosures with increased frequency across quarterly and half-yearly reports



- 44% of banks compared to 11% of insurers published separate detailed spreadsheets containing ESG information and quantitative progress on individual parameters and KPIs.

Exhibit 60: Banks vs Insurers - Published separate spreadsheets containing quantitative ESG information

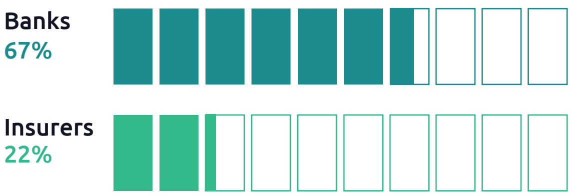
Published separate spreadsheets containing quantitative ESG information



- While 67% of banks have reported on dedicated teams and policies for ensuring transparent ESG disclosures, only 22% of insurers have done the same.

Exhibit 61: Banks vs Insurers - Dedicated teams in place to overlook transparency of ESG disclosures

Disclosed information on dedicated teams and policies to overlook transparency of ESG disclosures



The rise in greenwashing claims and risk incidents stems from unclear targets, incomplete action plans, and commitments lacking practical roadmaps. Providing comprehensive and dedicated sustainability reports at increased frequencies with clear metrics-specific data and progress can enable financial institutions to keep their stakeholders informed, gather feedback and improve accuracy and reliability at a much quicker pace. Updating and refining sustainability strategies based on performance data, stakeholder feedback, and emerging best practices helps to demonstrate a genuine commitment to continuous improvement.

Best practice:

Société Générale has increased the frequency of sustainability disclosures on sustainability financing and new ESG initiatives implemented to a quarterly report. The bank also discloses their latest sustainability ratings given by external rating agencies in each quarterly report[57].

2.4.4 Climate change adaptation and mitigation

"Inclusion of varied types of climate risks into risk assessment can empower decision-making strategies and align with global sustainability goals"

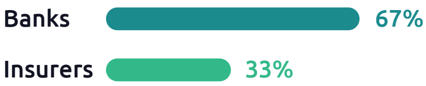
Financial institutions are facing growing pressure from investors, regulators, consumers, and other stakeholders to identify, assess, and address the risks associated with climate change. These risks can manifest as physical risks (e.g.damage from extreme weather events) and transition risks (e.g., policy changes, market shifts towards low-carbon technologies). Physical risks could seriously threaten the stability of the financial system, potentially leading to loan losses and the repricing of financial instruments, which would impact the solvency and profitability. Transition risks, such as policy and market shifts towards decarbonisation, further impact the risks, for example, through the devaluation of carbon-intensive activities or losses generated by stranded assets.

The escalating impacts of climate change, coupled with the necessity to avert even greater future consequences highlight the urgent need to scale up efforts on adaptation and mitigation. While climate change adaptation refers to the process of adjusting to current or expected changes in climate and their effects, climate change mitigation refers to efforts to reduce or prevent the emission of greenhouse gases (GHGs). In line with this, financial institutions have started incorporating climate risk factors into their overall risk assessment and developing tools to assess climate risks of portfolios to make better informed decisions. Financial institutions have also started to report on increased climate change exposure, which helps identify which assets, sectors, or regions are most at risk and enable better risk management and mitigation strategies.

- 67% of banks compared to 33% of insurers have reported on exposure of portfolio to increased climate risks.

Exhibit 62: Banks vs Insurers - Reporting exposure of portfolio to increased climate risk

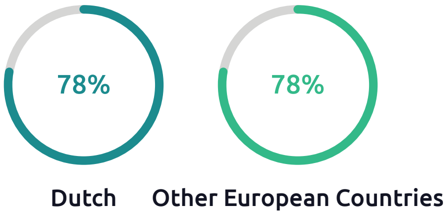
European Financial Institutions reporting on exposure of portfolio to increased climate risk



- 78% of financial institutions disclose tools used to assess climate risks during client onboarding and risk assessment.

Exhibit 63: Dutch vs Other European peers - Disclose tools to assess climate risks during client onboarding and risk assessment

Disclose tools to assess climate risks during client onboarding and risk assessment



In recent years, climate change has caused more frequent extreme weather events, resulting in higher claims, collateral devaluations, and increased credit risk. Financial institutions have recognized the need for a decision-making strategy that considers the impacts of climate change.

Methodologies used in the past might not be enough to account for new weather patterns and extreme weather events. By using climate and weather data, financial institutions can better adapt to future events and make better decisions. Tools such as climate risk modelling, geospatial analytics to monitor environmental changes and assess physical risks, climate scenario simulations using digital twins and other technologies are being implemented to operationalize strategy across key aspects of financial services. Financial institutions need to introduce climate-focused products and services to deepen their engagement with customers and meet the rising demand of climate finance.

Best practice:

ING has implemented climate dimension in the transaction approval process for corporate transactions, with ING's Green-Light Committee (GLC), which now also validates fit and alignment of potential transactions from a climate alignment perspective. To better assess the climate performance of clients and use these insights to identify risks and opportunities for supporting them in their transitions, ING has also developed a bespoke 'Client Action plan' tool[58].

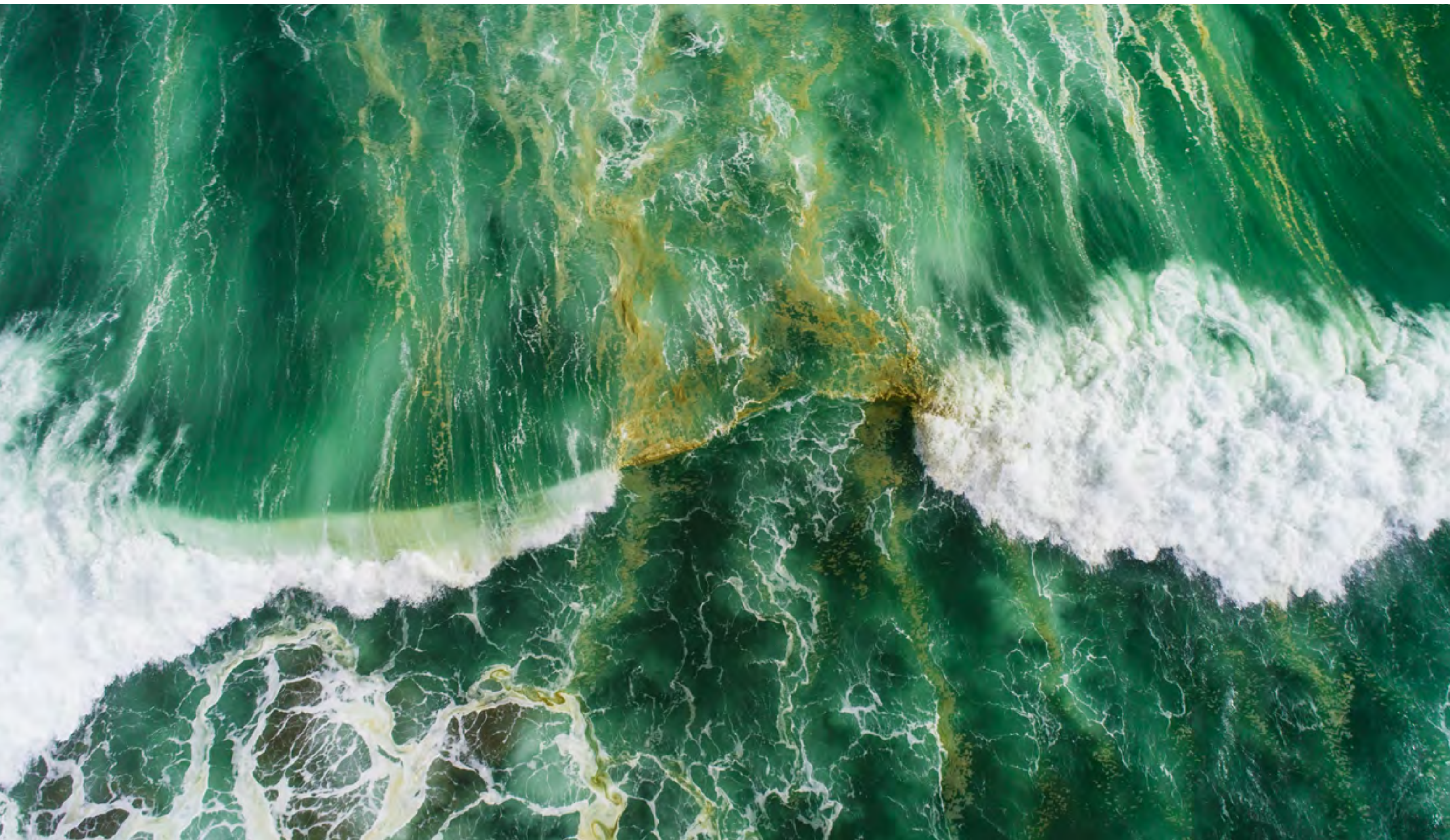
3. Conclusion

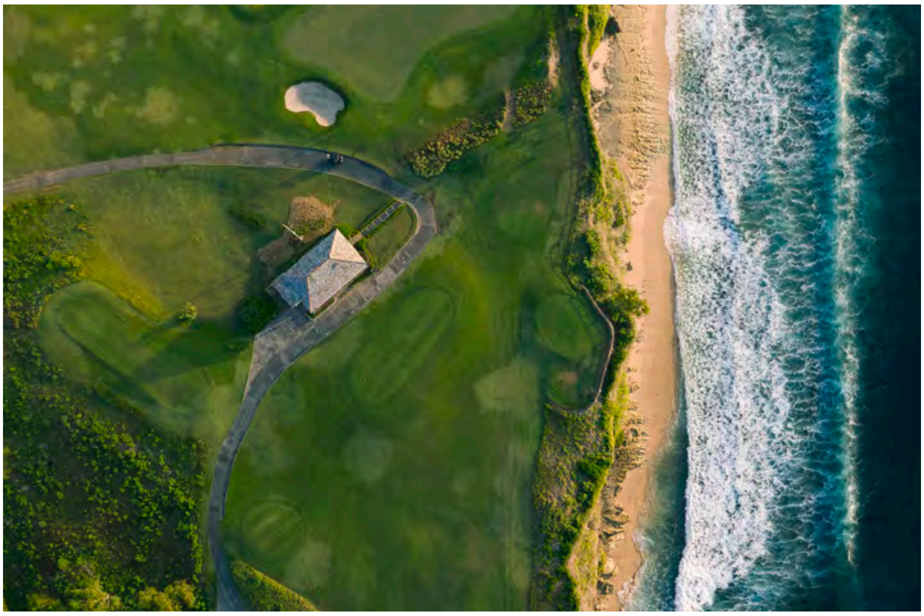
The integration of Environmental, Social and Governance (ESG) factors within the financial services sector represents more than just a trend. It is a fundamental shift towards a more sustainable and responsible approach to investing and decision-making.

By embracing ESG , financial institutions can not only contribute to a more sustainable world but also strategically position themselves for resilience in evolving market dynamics. As investors increasingly demand transparency, accountability, and a commitment to positive societal impact, integration of ESG practices have evolved from a moral imperative to a pragmatic necessity for long-term business success.

In Products and services, at an overall topic level, real estate and energy transition achieved higher scores, while biodiversity and agriculture emerged to be the transformational areas with improved scores compared to last year. Water management and health and well-being are areas with low scores, where financial institutions have room to further improve sustainability of their offerings and supporting initiatives. One of the key insights from this year's benchmark is the renewed focus on value chain partnerships adopted by financial institutions across each topic to enhance the impact of product offerings. Value chain partnerships are adopted by a high proportion of financial institutions across real estate, mobility and circular economy. The majority of sustainable financial products presently have a stronger environmental focus compared to social considerations. This trend is expected to shift towards a more balanced approach with development expected in measurement metrics, regulatory frameworks, and market demand.

Biodiversity is rapidly becoming a key topic of consideration, as financial institutions recognize the risks and opportunities associated with natural ecosystems. Recent developments, including disclosure frameworks, biodiversity investment funds, and regulatory initiatives, are driving a more integrated approach to biodiversity. This trend is expected to continue, with biodiversity playing an increasingly important role in sustainable finance strategies.





With financial institutions expanding their investments in hard-to-transition sectors, scrutiny over definitions, authenticity, and impact is intensifying. In this regard, the European regulators have proposed new rules that classify sustainable investment products and green loans as either "sustainable" or "transition" and implement sustainability indicators for assessment. These changes are intended to curb exaggerated climate-friendly claims and greenwashing risks as well as provide simpler and clearer information for investors. These changes also are expected to increase the recognition and adoption of environmental products.

In **Internal assets and operations**, energy sourcing and own Investments have been two key areas where most of the financial institutions have high scores. Sourcing renewable energy, exclusion policies and engagement for investment have been prioritized by most financial institutions. IT stood out as an improving topic with significantly better scores for financial institutions compared to the last edition, with focus on the optimization of data centres and circular IT practices.

Financial institutions need to increase sustainability thematic investing and improve sustainability of investment portfolio by engaging with portfolio companies and support them in achieving their transition plans. Financial institutions also need to establish GHG inventories across each of their operational aspects to holistically capture emissions status and manage reduction opportunities.

Internal governance continued to be a high performing pillar for financial institutions with increased focus on organizational governance structure, diversity & inclusion and employee engagement. A major turnaround is seen in financial institutions adopting sustainability-linked remuneration to get the top leadership aligned and committed with organization's sustainability goals.

With concerns over the ability of carbon marketplaces to balance between funding environmental solutions and motivating organizations to avoid emissions, there has been a significant divide between institutions' standing on carbon offsetting. This creates uncertainty over future of carbon offsetting through carbon credits and it remains to be seen if corporates can reach a consensus and create a transparent and credible carbon marketplace with the intent of offsetting backed by emission cuts.

Building partnerships with industry peers to foster innovation and develop sustainable tools will be essential for driving sustainability and increasing energy efficiency throughout the industry.

Within a dynamically evolving financial sector and ever-changing regulations, analysis across the Monitoring and reporting pillar shows financial institutions' increased focus on disclosure of climate-related risks and performance and assurance on sustainability information from independent auditors. A significant gap exists in the proportion of financial institutions engaged in driving transparency of sustainability disclosures, which creates a strong need to further improve policies and put more resources in place to assess, benchmark and improve disclosure quality.

While scope 3 emissions have a significant relevance for financial institutions, most of the focus has been on driving disclosures of financed emissions for specific sectors, with facilitated emissions largely ignored. Facilitated emissions, which are emissions from off-balance sheet activities such as securitization, advisory and underwriting, are crucial to complement financed emissions and completely understand a financial institutions exposure to transition risk. With new industry standards being launched, there will be renewed focus on facilitated emissions that can improve the quality of disclosures and enhance risk management and transparency.

As we navigate an era of heightened awareness regarding the interconnectedness of global challenges, from climate change to social inequality, the financial industry's commitment to ESG will emerge as a catalyst for positive change. Beyond a mere compliance exercise, ESG considerations are proving to be integral to risk management, long-term value creation, and stakeholder trust.

4. Key Contributors to report

ALEXANDER EERDMANS
Vice President

*alexander.eerdmans@
capgemini.com*

SHULAMIT BOT
Senior Director

*shulamit.bot@
capgemini.com*

Martijn van Schaik
Director

*martijn.van.schaik@
capgemini.com*

ANAMIKA SAHOO
Senior Manager

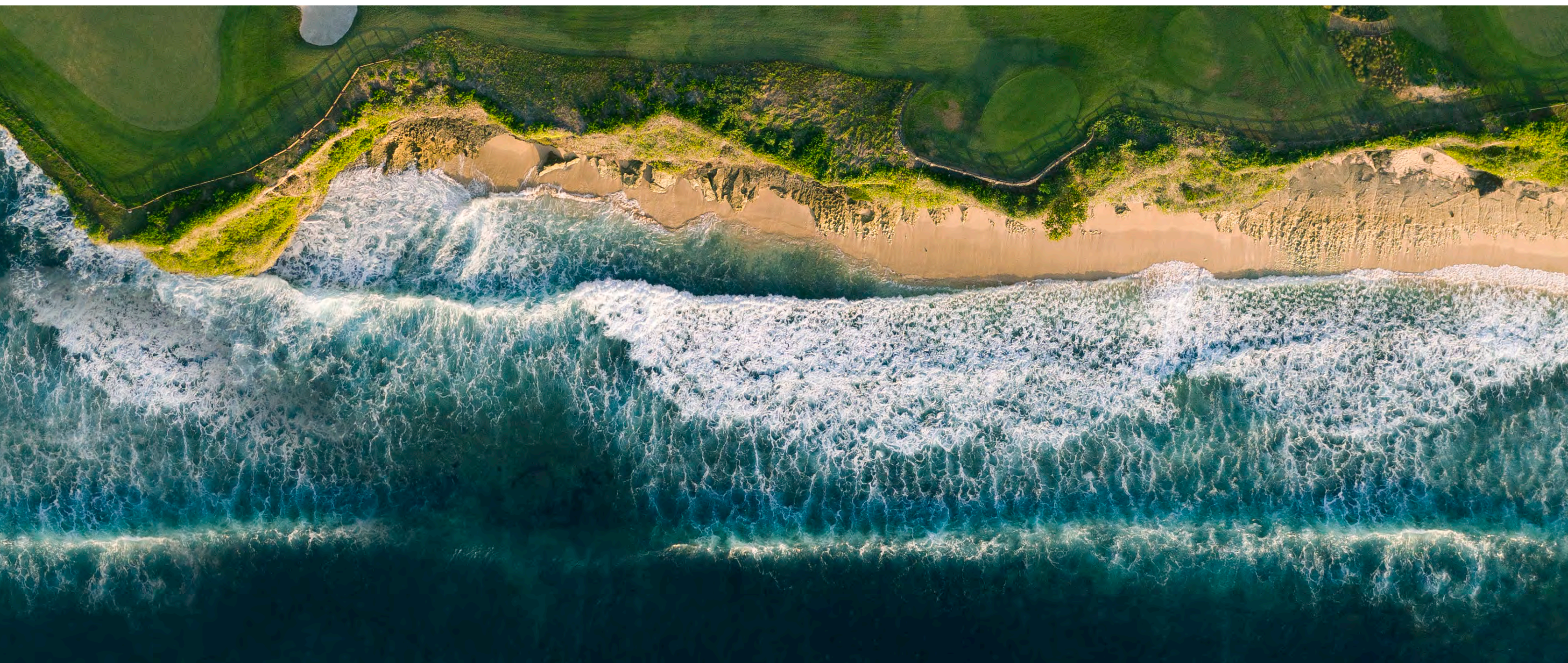
*anamika.sahoo@
capgemini.com*

Rupali Gupta
Manager

*rupali.a.gupta@
capgemini.com*

Ananth Narayana
Senior Consultant

*Dommeti-ananth.
narayana@capgemini.com*



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Capgemini Invent
Postbus 2575 - 3500 GN Utrecht
Tel. + 31 30 203 05 00
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