

NEAT EVALUATION FOR CAPGEMINI:

ESG Services in Banking

Market Segment: Overall

Introduction

This is a custom report for Capgemini presenting the findings of the NelsonHall NEAT vendor evaluation for *ESG Services in Banking* in the *Overall* market segment. It contains the NEAT graph of vendor performance, a summary vendor analysis of Capgemini for ESG services in banking, and the latest market analysis summary.

This NelsonHall Vendor Evaluation & Assessment Tool (NEAT) analyzes the performance of vendors offering ESG services for the banking sector. The NEAT tool allows strategic sourcing managers to assess the capability of vendors across a range of criteria and business situations and identify the best performing vendors overall, and with specific capability in professional services, social services, governance services, and environmental services.

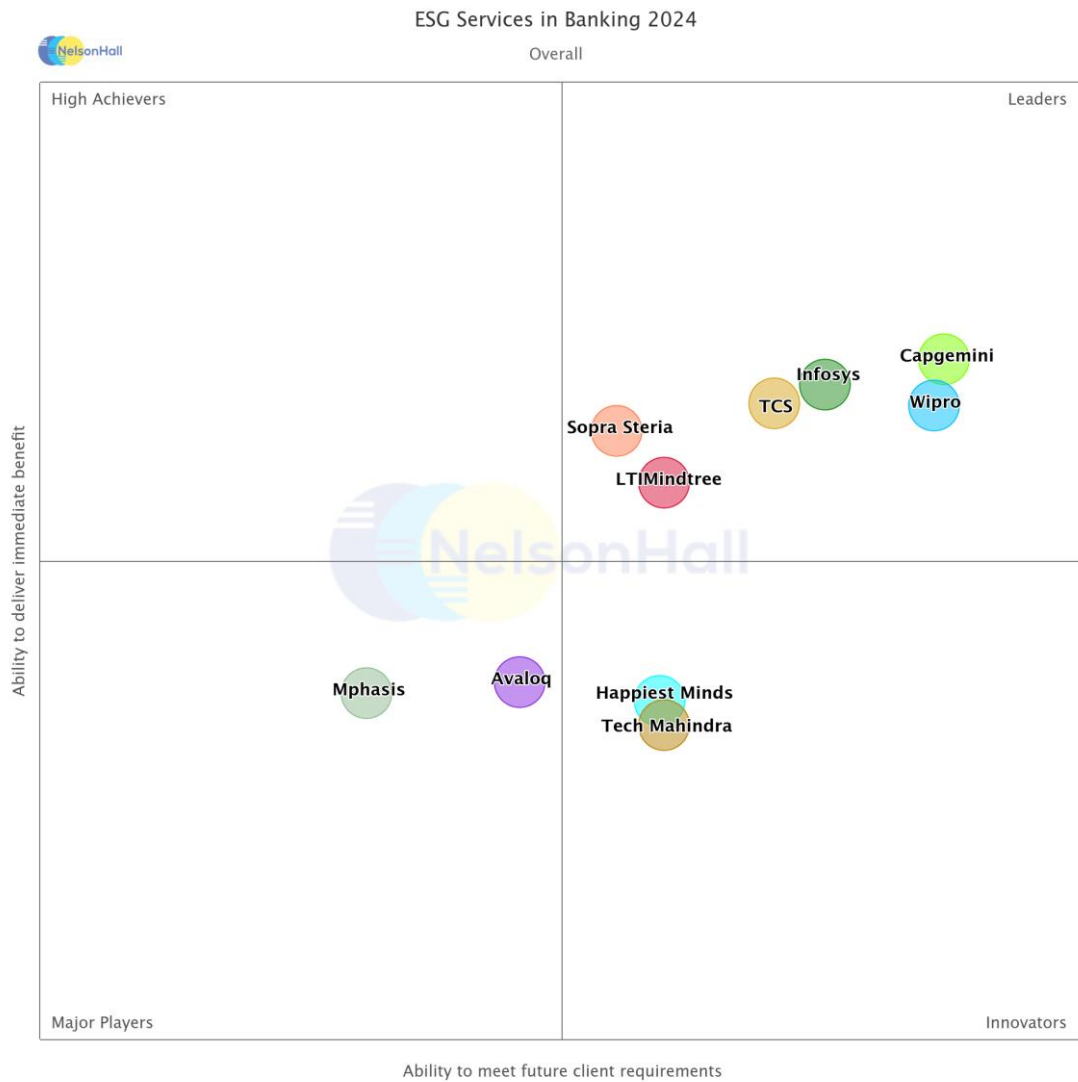
Evaluating vendors on both their 'ability to deliver immediate benefit' and their 'ability to meet client future requirements', vendors are identified in one of four categories: Leaders, High Achievers, Innovators, and Major Players.

Vendors evaluated for this NEAT are: Avaloq, Capgemini, Happiest Minds, Infosys, LTIMindtree, Mphasis, Sopra Steria, TCS, Tech Mahindra, and Wipro.

Further explanation of the NEAT methodology is included at the end of the report.



NEAT Evaluation: ESG Services in Banking (Overall)



NelsonHall has identified Capgemini as a Leader in the *Overall* market segment, as shown in the NEAT graph. This market segment reflects Capgemini’s overall ability to meet future client requirements as well as delivering immediate benefits to its ESG services clients in the banking sector.

Leaders are vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high ability relative to their peers to meet future client requirements.

Buy-side organizations can access the *ESG Services in Banking* NEAT tool (*Overall*) [here](#).

Vendor Analysis Summary for Capgemini

Overview

Capgemini has provided ESG services for a decade, but when its current CEO joined in May 2020, sustainability became one of the top three priorities for the company. At that time, Capgemini set aggressive timelines for achieving net zero faster than required. As part of its contribution to achieving this goal, Capgemini believes it can have the highest impact on sustainability by working with its clients to support their own ESG goals more effectively. Capgemini delivers ESG services to all industries. Achieving net zero across the economy will require vast investments in operational transformation.

Capgemini's cross-industry research indicates that most enterprises and bankers perceive ESG initiatives as solely a compliance exercise, leading to a slow adoption rate in the financial services industry. Capgemini is educating executives on how sustainability can be a profit driver, not just a cost driver. They are helping these executives develop business cases that justify the costs of being sustainable to transform their businesses and drive growth and differentiation using sustainability.

Capgemini's ESG services are structured around four pillars:

- Sustainable enterprise
- Compliance and reporting
- Risk/transition management
- Growth and CX.

Capgemini's primary targets are banking industry service providers and capital markets institutions in Europe, North America, and APAC. It has an estimated 30 ESG services clients in banking and financial services, including retail banks, commercial banks, and industry service providers (20 clients), and capital markets firms (10 clients).

Capgemini has an estimated 350 to 400 FTEs working in ESG services for banking and financial services. ESG services are delivered from centers including:

- IT services delivery centers
- Applied Innovation Exchanges: a global network of 22 innovation labs
- Capgemini Labs: 90 Research Labs, 3 5G Labs, 1 Quantum Lab, and 1 Metaverse Lab.
- Tech for Positive Futures: partnerships with government bodies, nonprofits, and social agencies to develop solutions in the areas of health & well-being, social inequalities, and climate adaptation.



Revenue Proportions

NelsonHall estimates that Capgemini's 2023 full-year revenues from ESG services comprise:

- Environmental services: 60%
- Social services: 30%
- Governance services: 10%.

Strengths

- Strong partnerships with academic institutions and developed thought leadership POV
- A high number of engagements with both large financial institutions and in-house clients
- Enables setup of client environmental strategy and initiatives supported by strong consulting capabilities.

Challenges

- Needs to develop a broader set of offerings covering social and governance
- Needs to expand presence with tier two and local banks in multiple geographies to drive sales of ESG services for business processes.

Strategic Direction

Capgemini works with a wide range of financial institutions across all major subindustries and geographies. It has built a solid internal ESG program, which it uses to test use cases and make offerings for its clients, and has focused on delivering environmental and social services. Capgemini does not believe ESG is simply a compliance requirement for enterprises; it thinks it can be a profitable business model. To achieve that goal, it has invested significant resources into developing:

- Research and thought leadership on the ESG market, partially in concert with partners such as universities and industry consortia. It provides the results of this research to its clients in thought leadership pieces, COEs, training, and consulting engagements
- Proprietary IP to enable its clients to implement solutions at lower cost with best practices functionality. The primary focus of these solutions has been environmental and sustainability. Recent launches have been the ESG Lens and the Business Model for Planet
- Improved data sourcing, both for cost and accuracy, by building partnerships with data providers.

Capgemini supports its clients with consulting, designing, deploying, implementing, and managing services. It focuses on supporting banking and financial services clients' ESG initiatives in:

- Sustainable enterprise: reducing carbon footprint; improving environmental, social, and governance impact; and reporting
- Compliance and reporting to stakeholders and regulators
- Risk and transition management



- Customer/employee experience and growth (revenue, organizational, and product growth).

Outlook

Capgemini has an ESG services business that delivers consulting, design, deployment, and implementation services for European, North American, and APAC clients. It continues to develop climate scenario solutions, enhance risk management tools, and improve reporting functionality.

NelsonHall estimates that Capgemini's ESG services revenues will grow by 15% per year over the next three years. If it successfully builds climate scenario solutions, it should be able to expand its business an additional 3% per year.

ESG Services in Banking Market Summary

Overview

The financial industry is responding to the increasing demands of regulators to implement ESG capabilities to support greater transparency and increase sustainability. The industry is also responding to a generational shift in customer thinking, preferences, and values.

Operationalizing ESG capabilities is very costly, and the industry is under pressure. By finding the right use cases, banks should be able to offer new products and services that clients will pay for and, in turn, be able to cover the cost of ESG enablement.

The focus has been on data acquisition, analysis, and reporting. In the future, banks are looking to convert this information to actions that will change the overall sustainability of the institution.

Applying ESG capabilities to data management across markets, businesses, and entities enables banks to identify the least cost path to remediation and apply best practices to challenges.

ESG services in banking are immature. Primary adopters are tier-1 banks looking to respond to regulatory requirements. Banks are increasing the size and selectivity of their data management and AI purchasing.

Banks will move towards increasing their focus on social and governance services. ESG will change how banks approach all sourcing decisions. Eventually, this will change how all product offerings are designed and developed. All financial product development will include sourcing decisions as part of the design process.

Vendors are investing in market customization services, data management tools, benchmarking, and orchestration tools. Key areas of investment include:

- Investment in data management and AI capabilities to track and reduce emissions
- Consulting services for client AI and data management with a focus on market-specific requirements
- Setting up COEs in multiple locales to enable customization by market
- Fraud and cybersecurity threat analysis and reporting
- Regulatory reporting capabilities.

Emerging areas of investment include:

- Regulatory reporting capabilities
- Data management tools, analytics tools, and data provider partnerships
- Benchmarking of KPIs and metrics to enable cross-entity comparisons
- Orchestration tools and APIs across LOBs and markets
- Development of engineering tools for ESG-friendly offerings.

Tier 1 banks are looking to increase transparency to enable compliance and drive the acquisition of a new generation of customers to help them work with new counterparties and customers. They are beginning to standardize their benchmarks and service delivery.



Buy-Side Dynamics

Tier 1 banks are primary adopters (~75%); regional banks, wealth managers, and service providers are starting to scale their demand (25%). Local banks have not yet begun to adopt ESG services (and are currently exempted by regulations).

In the future, the adopter profile will show that the fastest-growing client segment for these services will be regional banks and wealth/asset managers. APAC and Middle Eastern markets are beginning to adopt these services and will grow faster than the mature markets. These clients prefer standardized offerings with managed services.

Buy-side drivers include:

- Regulatory change, including reporting Scope 1, 2, and 3 emissions and social inclusion
- The need to reduce costs with improved sourcing and higher stakeholder satisfaction
- Risk mitigation by focusing on social and governance initiatives
- Changing customer/worker/stakeholder demographics who want to drive non-financial goals.

Key challenges in ESG services in banking include:

- Accessing relevant, accurate data, which has been benchmarked, to use in reporting
- Responding to evolving regulations quickly and flexibly at a reasonable cost
- Standardization and coordination of data management across silos, LOBs, and markets
- Developing ESG use cases that will drive profits and revenues rather than just costs.

Market Size & Growth

NelsonHall estimates the size of the ESG services market in financial services was ~\$755m in 2023 and forecasts that it will grow at 24.6% per year from 2023 to 2028.

ESG services start with environmental services, which account for ~46% (\$350m) of client spending and are growing at ~20% per year over the forecast period. Social services account for ~22% (\$165m) of client spending and are growing at ~25% over the forecast period. Finally, governance services account for ~32% (\$240m) of client spending and are growing at ~30% over the forecast period.

Challenges & Success Factors

The key challenges faced in ESG services for banking include:

- Access to quality data:
 - Accessing relevant, accurate data from third-party vendors and suppliers
 - Identifying the best sources of data for specific data types and uses
 - Developing market-specific IP to manage data in each market
- Regulations:
 - Applying country-specific regulations to reporting while creating a globally standardized process execution for ESG reporting and analysis
 - Changing process execution as regulations change
- Access to scarce resources:
 - Access to skilled staff: changing requirements change the required mix of staff skills. Accessing staff with both domain and technical skills is difficult
 - Access to leading technology when fast-evolving best practices require ongoing technology developments
- KPI identification and usage:
 - Process mapping and identification are needed to identify the highest-value remediation targets
 - Setting up data fields for novel measurement criteria to value and track
 - Identification of high-value use cases that can be successfully replicated across silos
- Benchmarking:
 - Identifying relevant data to benchmark, finding benchmarks, and applying them to relevant processes
 - Standardization and coordination of data management across silos, LOBs, and markets
- Development of process-specific IP:
 - Governance and management within client organizations of LOB-specific ESG initiatives
 - Developing proprietary IP, both alone and in coordination with third parties

Key competitive differentiators (success factors) for vendors include:

- ESG knowledge:
 - Support for clients building ESG systems for bespoke processes (e.g., alternative assets)
 - Application of best practices from across clients and markets
 - Industry process knowledge and how to apply that to the technical challenges of ESG reporting



- Knowledge of emerging technology vendors (especially ESG data vendors)
- Proprietary IP:
 - Tools to integrate supplier and client systems and produce a common record
 - Frameworks and accelerators to support the transformation of processes
 - Productized offerings to accelerate operationalizing programs
- Delivery skills:
 - Change management programs and toolsets to facilitate the adoption of ESG programs
 - Training programs for new hires, employees, and client staff
 - Ability to source, scrub, analyze, and orchestrate data across markets, businesses, and silos
 - Speed of operational deployment for new compliance deadlines.

Outlook

The future direction for ESG services in banking will include:

- Increasing focus on enabling better transparency with AI
- Support for business model change by enabling revenue generation with green lending and sustainable investing
- Beginning to standardize data management across silos and markets
- Identifying and trialing use cases more likely to be operationalized successfully.



NEAT Methodology for ESG Services in Banking

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet future client requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet future client requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders:** vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high ability relative to their peers to meet future client requirements
- **High Achievers:** vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet future client requirements
- **Innovators:** vendors that exhibit a high ability relative to their peers to meet future client requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players:** other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Note that, to ensure maximum value to buy-side users (typically strategic sourcing managers), vendor participation in NelsonHall NEAT evaluations is free of charge and all key vendors are invited to participate at the outset of the project.



Exhibit 1

‘Ability to deliver immediate benefit’: Assessment criteria

Assessment Category	Assessment Criteria
Offerings	<ul style="list-style-type: none"> Breadth of application of ESG to banking Application of ESG technology to retail banking processes Application of ESG technology to capital markets processes Consulting and strategy development Application of AI/cognitive technology for ESG to banking ESG services implementation capability Ongoing ESG management Monitoring and observability Ability to offer new process models for ESG with digital technologies Ability to benchmark processes and offer roadmap
Delivery Capability	<ul style="list-style-type: none"> Overall performance Scale of ESG process delivery capability Cognitive delivery capability Use of pre-existing technology implementation templates ESG process change management capability Caliber of personnel Maturity of services delivery model Services governance capability Extent of partnerships in support of ESG services Ability to transform your ESG operations in line with your company strategy
Market Presence	<ul style="list-style-type: none"> Overall presence in ESG processes Presence in environmental processes Presence in social processes Presence in governance processes Presence in managed services processes North American presence Europe presence
Benefits Achieved	<ul style="list-style-type: none"> Overall level of benefit achievement Improvement in regulatory compliance Improvement in data sourcing and scrubbing Improvement in reporting Improvement in ESG scores (Self) Improvement in ESG scores (investments) Improvement in ESG scores (suppliers and partners)



Exhibit 2

‘Ability to meet client future requirements’: Assessment criteria

Assessment Category	Assessment Criteria
Service Innovation Culture	<ul style="list-style-type: none"> Perceived suitability to meet future client needs in intelligent ESG Ability to apply ESG services to banking processes Ability to apply ESG services to investing processes Perceived suitability to develop new business models & processes Service culture Innovation & creativity Ability to apply new technologies Transformation capability
Maturity of Roadmap	<ul style="list-style-type: none"> Maturity of roadmap in support of ESG strategy development Maturity of roadmap in ESG deployment Maturity of roadmap in support of process management in ESG Maturity of roadmap in monitoring and observability capability Maturity of roadmap in data management Maturity of roadmap in orchestration technologies Maturity of roadmap in own tools & platforms in support of clients Maturity of roadmap in new systems of reporting
Market Momentum	<ul style="list-style-type: none"> Environmental services momentum Social services momentum Governance services momentum

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.



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Sales Inquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:
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