ESG Reporting Standards in The Banking Sector: A Global Analysis

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Abstract

Integrating environmental, social and governance (ESG) factors into the banking sector is an increasingly important concern worldwide. This process involves adopting policies and practices that take into account the impact of banking activities on the environment, communities and corporate governance. The aim of this article is to analyse the state of alignment of the banking sector with ESG sustainability principles. To achieve this, we collected data from several countries, covering different regions and economies. Our research methodology involved selecting a number of major banks from different countries and regions, with a focus on the largest financial institutions worldwide and collecting the data from annual reports, sustainability reports and other public sources regarding the ESG practices of these banks. Our results provide a clear picture of the current state of alignment of the banking sector with ESG principles globally.

Key words: banks, corporate governance, social responsibility, government policy
J.E.L. classification: G21, G34, M14, Q48

1. Introduction

In the context of growing global concern for sustainable development, the banking sector plays a crucial role in promoting economic, social and environmental sustainability. More and more banks worldwide are making commitments to improve their practices and integrate environmental, social and governance (ESG) factors into their activities. This ESG orientation is a strategic approach to ensure sustainable economic development and to address global challenges such as climate change and social inequalities.

Banks are increasingly aware of the importance of a responsible and sustainable approach to their business, given the long-term impact on their profitability and reputation. Integrating ESG into the banking sector brings significant benefits, such as reduced risks, improved financial performance and better relationships with investors and customers. However, the implementation of ESG practices is not without challenges, such as the lack of common standards and the difficulty in measuring social impact and long-term benefits. Through collaboration between banks, regulators and other stakeholders, common standards and methodologies need to be developed to ensure transparency and comparability in ESG reporting.

Our analysis focused on different aspects of ESG sustainability, including governance, strategy, risk management and disclosure. We assessed the level of commitment and implementation of ESG principles within each bank and compared the results with international standards and practices. In our study, we identify both banks that are leaders in adopting sustainable practices and areas where further progress is needed. This information can be valuable for financial institutions, regulators and other stakeholders to improve the ESG performance of the banking sector globally.

With this article, we aim to contribute to the development of knowledge about ESG sustainability in the banking sector globally and to highlight the importance of a responsible and sustainable approach to banking. Our methodology can be adapted and used in further research to assess progress and drive change in the banking sector towards more sustainable and responsible development.

In the following, we explore in detail the theoretical issues and review the relevant literature on ESG sustainability in the global banking sector and present our specific findings. In doing so, we hope to stimulate debate and constructive action for a more sustainable transformation of the banking sector globally.

Mainstreaming ESG in the banking sector is an essential step towards building a more sustainable, responsible and ethical economy.

2. Literature review

In recent years, addressing environmental, social and corporate governance (ESG) issues in the banking sector has become increasingly important. Studies in the literature highlight the positive link between ESG integration and banks' financial performance, as it can reduce the risks and costs associated with environmental and social factors. Investors and customers are taking a greater interest in ESG issues in their investment decisions and in their dealings with banks, giving financial institutions a competitive advantage.

Banks have started to adopt environmental policies and practices, including financing green projects and ESG reporting to ensure transparency and relevant information for investors. They are also getting involved in social issues, promoting social inclusion, gender equality and supporting local communities by funding social projects. In addition, banks are subject to strict corporate governance requirements, which cover transparency, accountability and board involvement.

However, implementing ESG practices in the banking sector is not without its challenges. These include a lack of common standards and metrics, difficulty in measuring social impact and long-term benefits, and resistance to change in organisational culture. However, there is a growing recognition of the importance of ESG and a positive development in addressing them in the banking sector, supported by government directives and regulations and the efforts of international organisations.

Private equity and environmental and social governance (ESG) investments have received increasing attention in the investment landscape, due to growing awareness of the importance of responsible investment practices. Traditionally, private equity firms have focused on maximising returns for their investors, but embracing environmental, social and governance (ESG) principles has become essential for firms to remain competitive and attract capital from investors who prioritise sustainable investments. According to C. Alfonso-Ercan's Sustainable Investing and ESG Reporting (2020), "ESG factors can impact a company's reputation, financial performance and long-term viability, making it essential for private equity firms to integrate ESG considerations into their investment decisions." Private equity firms recognise that incorporating ESG factors into their investment strategies can lead to better risk management and improved portfolio company performance. In addition, firms can enhance their reputation and differentiate themselves from competitors by demonstrating their commitment to sustainable investment. Private equity firms take a proactive approach to ESG investing by developing frameworks and guidelines to assess ESG risks and opportunities in their investments. Private equity firms recognise that ESG investment is not only a moral obligation, but also a strategic investment decision that can lead to long-term value creation for the benefit of both investors and society as a whole.

In general, private equity firms recognise the importance of ESG investing and incorporate these principles into their investment strategies. Adopting ESG principles can lead to better risk management, improved performance of portfolio companies and enhanced firm reputation. Private equity firms take a proactive approach to ESG investing by developing frameworks and guidelines to assess ESG risks and opportunities in their investments. According to C. Alfonso-Ercan, "ESG investing is not only a moral obligation, but also a strategic investment decision that can lead to long-term value creation for the benefit of both investors and society as a whole" (2020). Private equity firms should therefore continue to prioritise ESG investments and integrate these principles into their investment strategies to remain competitive and attract sustainable capital.

In the article "Environmental motivations: a classification scheme and its impact on environmental strategies and practices", Paulraj (2009) proposes a classification scheme of environmental motivations that can have a significant impact on environmental strategies and practices in companies. The four categories of environmental motivations identified by Paulraj are regulatory, financial, ethical and strategic. Regulatory motivations are driven by compliance requirements and environmental regulations. Financial motivations are related to cost reduction and competitive advantage. Ethical motivations are driven by moral and social values, while strategic motivations are linked to long-term business objectives. According to Paulraj (2009), understanding these motivations is important for businesses to develop effective environmental strategies and practices.

The impact of these motivations on environmental strategies and practices can be seen in various studies. For example, a study by Klassen and Whybark (1999) found that companies with regulatory motivations were more likely to adopt pollution prevention practices, while companies with financial motivations were more likely to adopt end-of-pipe treatments. Similarly, a study by Bansal (2005) found that ethically motivated companies were more likely to adopt proactive environmental strategies, while strategically motivated companies were more likely to adopt reactive environmental strategies.

In conclusion, the classification scheme proposed by Paulraj (2009) can help businesses understand their environmental motivations and develop effective environmental strategies and practices accordingly. As seen in various studies, different types of environmental motivations can have different effects on the adoption of environmental strategies and practices. It is therefore important for companies to take these motivations into account when developing their environmental strategies and practices.

The concept of corporate social responsibility (CSR) has become increasingly important in the banking industry in recent years. Burianová and Paulík (2014) conducted a case study of CSR practices in the commercial banking sector in the Czech Republic, focusing on three major banks in the country. The study found that these banks implemented CSR practices in various areas such as environmental protection, social responsibility and ethical business practices. For example, one of the banks has implemented a green policy that includes reducing energy consumption, implementing recycling programmes and using environmentally friendly products. In addition, banks have also contributed to social responsibility by supporting various projects related to education, culture and health. The study also found that these banks have adopted ethical business practices by promoting transparency, accountability and fair treatment of their customers. Overall, the study highlights the importance of CSR in the banking industry and demonstrates that CSR practices can benefit both society and business. It also highlights the need for more research on CSR practices in the banking sector to better understand their impact and benefits.

The study conducted by MA Rahman and J Islam in 2018 aimed to investigate the impact of corporate governance on the performance of Bangladeshi banks. The study used secondary data obtained from the annual reports of 30 commercial banks in Bangladesh for the period 2010-2016. The study used multiple regression analysis to analyze the data and found that corporate governance significantly affects the performance of Bangladeshi banks. The study found that board size, board independence, CEO duality and audit committee have a significant impact on bank performance. This finding is consistent with previous studies conducted in other countries such as the study conducted by Amran et al. (2014) in Malaysia. The results of the study have significant implications for policy makers and bank managers in Bangladesh. It highlights the importance of having a good corporate governance system to ensure better performance of banks in the country. In addition, the study provides evidence to support the argument that good corporate governance practices can lead to better financial performance and help banks mitigate risks and improve their reputation. Overall, the study provides valuable insights into the importance of corporate governance in the banking sector in Bangladesh and highlights the need for continuous improvement in banks' corporate governance practices to ensure their long-term sustainability and success.

3. Research methodology

The methodology used in this study combines elements from the baseline study and own analysis carried out in the final study. To assess banks' approach to sustainability, we started by selecting a sample of banks, in line with the baseline study, which included the largest banks in Africa, the Americas, Asia-Pacific and Europe in terms of total assets.

Data collection was done by reviewing public reports, such as CSR reports/annual reports and information available on banks' websites until July 2021. This information included data on banks' governance, strategy, risk management and sustainability disclosure/reporting.

The assessment matrix in the baseline study, covering aspects such as governance, strategy, risk management and disclosure/reporting, was adapted and used to assess banks' approach to sustainability. The assessment criteria were based on expectations set by the United Nations Environment Programme Finance Initiative (UNEP FI) and global financial regulators.

Each bank was assessed according to its level of compliance with the assessment criteria. Scores were awarded according to the degree of compliance with the criteria and were used to rank and group the banks according to the percentage of positive scores achieved.

Analysis of the data collected and the results obtained was carried out to identify relevant trends and patterns in banks' approach to sustainability. Information and graphs taken from the baseline study were integrated into the own analysis to support the arguments and conclusions.

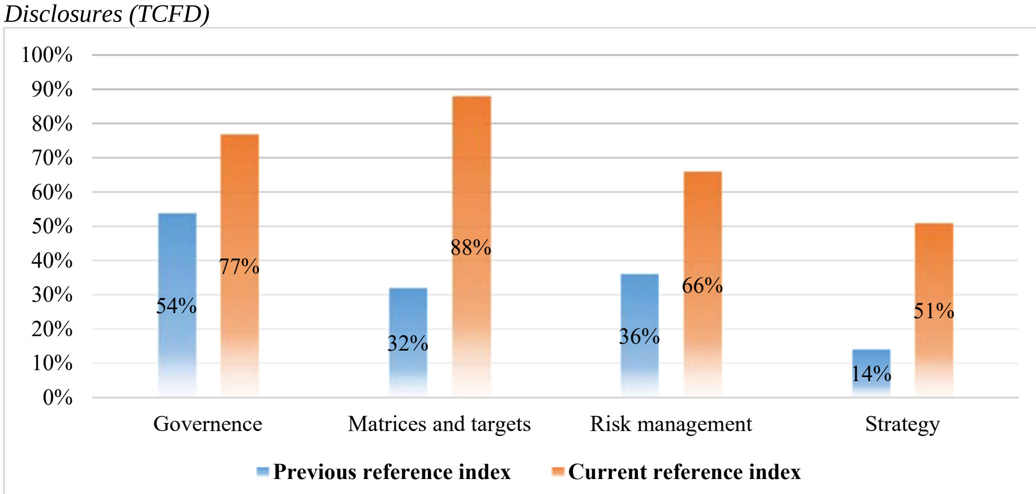
Based on the analysis of the data, conclusions were drawn on the banks' approach to sustainability. These findings have been integrated into the final study to provide a broad and relevant perspective on the subject.

This combined methodology provides a robust framework for assessing banks' approach to sustainability and for drawing relevant and valid conclusions in your study.

4. Findings

Disclosure and reporting standards on socio-economic and environmental issues provide banks with guidelines to demonstrate ESG impacts, the implications of these issues on business performance and how they are managed within the organisation. Banks also standardise disclosures, increasing transparency for external stakeholders.

Figure no. 1. Status of alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



Source: (Gomard, Ribes and Ngouadje, 2021)

According to the data presented, there is a significant improvement in the current benchmark compared to the previous one in terms of governance (from 54% to 77%), matrices and targets (from 32% to 88%), management risk (from 36% to 66%) and strategy (from 14% to 51%). These figures reflect a notable progress in the state of alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

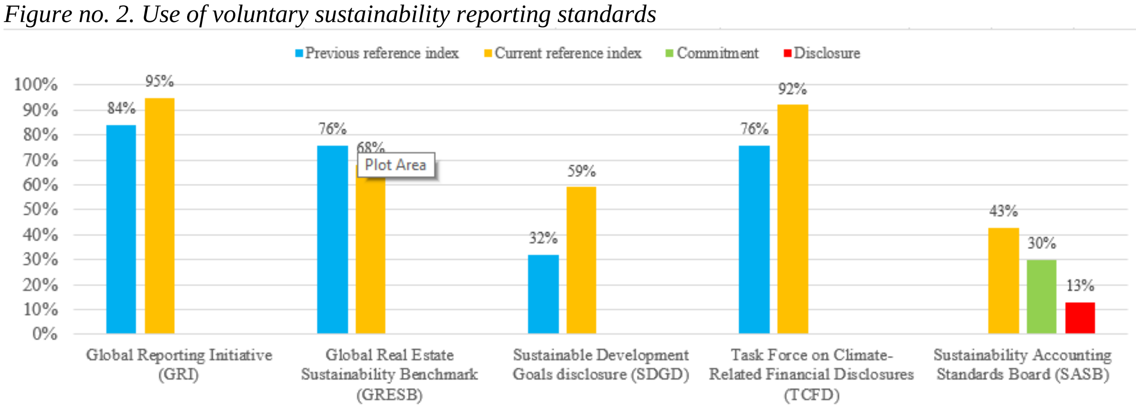
In terms of governance, there has been a significant increase in the degree of alignment with TCFD recommendations. This suggests that banks in Romania have paid more attention to governance structures and processes to manage climate change risks and opportunities. The improvement in this index reflects their efforts to ensure sound and responsible corporate governance on climate issues.

The higher index for matrices and targets shows that banks have made significant progress in identifying and setting relevant targets and indicators for managing climate-related risks and opportunities. This highlights banks' focus on developing coherent policies and strategies to address climate change and contribute to the transition to a low-carbon economy.

However, the indicators for management risk and strategy indicate that there is still room for improvement in addressing these issues within banks. More can be done to identify and manage climate-related risks more effectively and to develop long-term strategies that integrate environmental factors into banking decisions and operations.

Overall, the data suggest that Romanian banks have made significant progress in aligning with the TCFD recommendations in terms of governance, matrices and targets. However, there is still room for improvement in addressing risk management and strategy. It is important that banks continue to engage and take concrete steps to align with the TCFD recommendations and play an active role in managing climate-related risks and opportunities.

Figure no. 2. Use of voluntary sustainability reporting standards



Source: (Gomard, Ribes and Ngouadje, 2021)

Analysing the data provided on the use of voluntary global sustainability reporting standards, we see significant developments in the different benchmarks.

The current Global Reporting Initiative (GRI)/Global Reporting Initiative benchmark has increased to 95% from a previous benchmark of 84%. This indicates a strong commitment by organisations to adopt and use GRI standards for their sustainability reporting.

On the other hand, the current Global Real Estate Sustainability Benchmark (GRESB)/Global Real Estate Sustainability Benchmark index has fallen to 68% from a previous index of 76%. This may indicate a lower level of engagement by the real estate industry in using GRESB standards to assess and report their sustainability performance.

The current Sustainable Development Goals disclosure (SDGD)/Sustainable Development Goals benchmark has increased significantly to 59% from a previous benchmark of 32%. This indicates a growing commitment by organisations to report on their progress towards achieving the Sustainable Development Goals (SDGs) set by the United Nations.

For the Task Force on Climate-Related Financial Disclosures (TCFD), the current benchmark has increased to 92% from a previous benchmark of 76%. This shows a high level of commitment by companies to report climate-related financial information in line with TCFD recommendations.

For the Sustainability Accounting Standards Board (SASB), the current benchmark has dropped to 30% from a previous benchmark of 43%. However, it should be noted that 13% of companies are committed to implementing SASB standards, indicating a recognition of their importance in the context of ESG financial reporting.

Overall, we see a significant increase in engagement and disclosure in the use of voluntary global sustainability reporting standards, with the exception of the SASB standards, which have seen a decrease in the current benchmark. This indicates a positive development in the ESG approach and adoption of standards for reporting on companies' impact on environmental, social and governance factors.

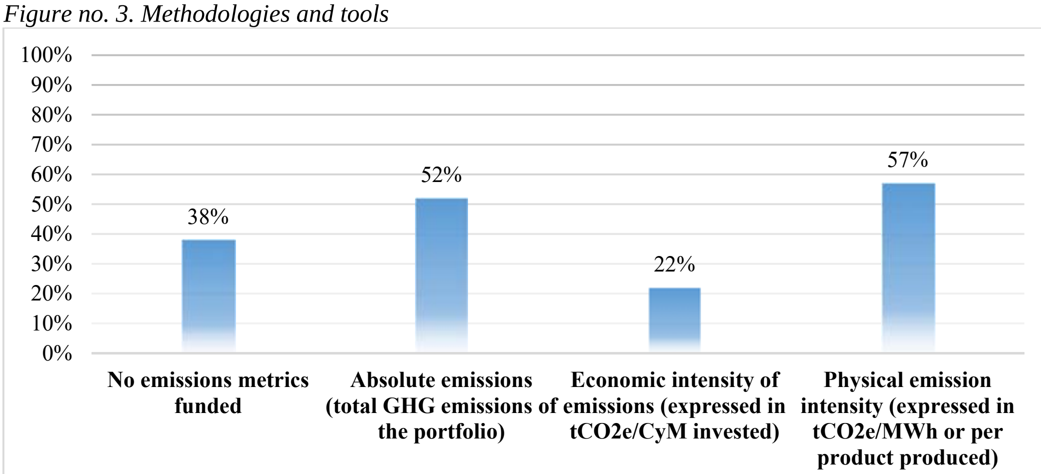
It can be seen that there is a growing commitment to the use of voluntary sustainability reporting standards in the banking sector worldwide. Companies and banks recognise the importance of transparent reporting on environmental, social and governance (ESG) issues and are adopting relevant standards to assess and communicate their impact on these issues.

The current benchmark for the Global Reporting Initiative (GRI) has increased, reflecting a high level of commitment to using GRI standards for sustainability reporting. However, the Global Real Estate Sustainability Benchmark (GRESB) has seen a decrease in the current benchmark, indicating the need for greater commitment from the real estate industry.

The use of voluntary reporting standards on Sustainable Development Goals (SDGs) and climate-related financial reporting as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD) has seen a significant increase in current benchmarks, reflecting a greater recognition of the importance of these issues and the need for transparent reporting on them.

However, there are opportunities for improvement in the adoption and use of other standards, such as the Sustainability Accounting Standards Board (SASB), and indicators such as Weighted Average Carbon Intensity (WACI). In addition, the reporting of greenhouse gas (GHG) emissions associated with loans and investments under the Platform Carbon Accounting Financials (PCAF) has an increasing rate of use.

Figure no. 3. Methodologies and tools



Source: (Gomard, Ribes and Ngouadje, 2021)

Analysing the information on the metrics for measuring financed emissions in the banking sector, we can draw the following conclusions:

Funded emissions are not properly measured in 38% of cases. This suggests that there is a lack of clarity and consistency in the measurement and reporting of emissions associated with bank financing. Accurate measurement and reporting of financed emissions is essential to assess and control financial impacts on climate change.

Absolute emissions, i.e. total portfolio greenhouse gas (GHG) emissions, are measured in 52% of cases. This indicator provides insight into the total climate change impact of financing activities. Measuring absolute emissions is important for assessing emission reduction performance and setting appropriate reduction targets.

The economic intensity of emissions, expressed in tonnes of CO2 equivalent (tCO2e) relative to the volume invested (CcyM - Currency in Circulation), is measured in 22% of cases. This indicator allows the assessment of financial efficiency and sustainability in relation to climate impact. With this indicator, banks can identify and implement measures to reduce emissions intensity and support climate-friendly transactions and investments.

Physical emissions intensity, expressed in tonnes of CO2 equivalent (tCO2e) in relation to the amount of energy produced (MWh) or the product obtained, is measured in 57% of cases. This indicator provides an insight into the energy efficiency and climate impact of activities in the banking sector. Measuring and monitoring physical emissions intensity can help banks to identify and adopt measures to reduce energy consumption and support the transition to renewable energy sources.

Overall, we see that there is variation in the measurement of financed emissions and indicators used in the banking sector. It is important that banks adopt and implement common measures and standards to accurately measure and report emissions associated with their financing activities. This will contribute to a better understanding of their impact on climate change and to more informed and sustainable decisions in the financing process.

5. Discussion and conclusions

The review of data and relevant literature highlights the growing importance of integrating ESG principles in the banking sector worldwide. Recent studies and reports show that banks are increasingly aware of their impact on the environment and society at large, and the adoption of sustainability practices is becoming a strategic priority for them.

An important issue discussed in the literature is the positive link between ESG integration and banks' financial performance. Empirical studies reveal that banks that adopt sustainability practices and engage in ESG activities can reduce risks associated with environmental and social factors and gain long-term competitive advantages. This is partly due to increased demand from investors and customers for transparency and accountability in terms of their environmental and community impacts.

However, implementing ESG practices in the banking sector is not without its challenges. One of these is the lack of common standards and metrics for measuring ESG performance. Without a set of clearly defined criteria and indicators, it is difficult for banks to consistently and comparably report their ESG performance. In addition, measuring social impact and long-term benefits is an additional challenge as they involve subjective assessments and difficulties in quantifying social and governance aspects.

However, significant progress is being made towards the adoption of voluntary sustainability reporting standards in the banking sector. Standards such as the Global Reporting Initiative (GRI), the Global Real Estate Sustainability Benchmark (GRESB), the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) are increasingly being used by banks to report their ESG information. These standards provide a common framework and clear criteria for reporting and assessing ESG performance, which facilitates comparability between banks and promotes transparency of information.

There are also significant differences in the level of engagement and alignment with ESG standards between different banks and regions. Some banks and regions have made significant progress in ESG integration and have become leaders in sustainability practices, while others are facing difficulties in adopting these practices. This points to the importance of sharing best practices between banks and regions and the need to promote common standards and guidelines to ensure a consistent and coherent approach to ESG across the banking sector.

In conclusion, the integration of environmental, social and governance (ESG) factors into the global banking sector is increasingly important and a strategic priority for banks. Adopting sustainability practices can bring competitive advantages, reducing risks associated with environmental and social factors and contributing to better long-term financial performance.

However, implementing ESG practices in the banking sector is not without its challenges. Lack of common standards and metrics, difficulties in measuring social impact and long-term benefits, and resistance to change in organisational culture are obstacles that banks need to address in their ESG integration process.

There is significant progress in the adoption of voluntary ESG reporting standards in the banking sector, which facilitates transparency and comparability of ESG information. The use of standards such as GRI, GRESB, TCFD and SASB helps banks to consistently report and assess their ESG performance in a consistent way.

To ensure sustainable and responsible development, it is essential that banks continue to make progress in integrating ESG into their strategies and operations. Sharing best practices between banks and regions and promoting common standards will contribute to a consistent and effective approach to ESG across the banking sector.

Finally, ESG integration in the banking sector represents a significant opportunity for banks to play an active role in addressing environmental and social challenges and contributing to a more sustainable and inclusive global economy. By adopting sustainability practices and promoting transparency and accountability, banks can gain competitive advantages and contribute to the well-being of society as a whole.

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