



EQUIPPING FINANCIAL SERVICES FOR THE ESG ERA

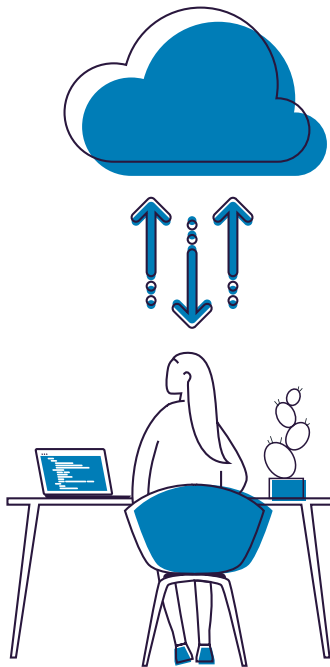
Environmental, Social, and Governance (ESG) –
A business imperative for a growth strategy and social responsibility.

EXECUTIVE SUMMARY



The business world's commitment to sustainability has been growing rapidly, and it is increasingly clear that sustainability improvements are more than a matter of just "doing the right thing." They are also key to building customer loyalty, developing new revenue channels, and driving future growth. As a result, companies around the globe no longer view corporate responsibility as a secondary issue but as a central business imperative.

To measure their progress, most large financial institutions have developed ambitious long-term goals for environmental, social, and governance (ESG), typically targeting dates a decade or more in the future. While some have made progress, many companies struggle to translate these long-term ESG visions into shorter-term initiatives that will deliver results in the next two to three years while moving them forward incrementally toward their longer-range goals.



One of the key roadblocks to fast, near-term action is the inability to measure and track ESG performance and exposure – a problem that stems from a lack of comprehensive, accurate ESG-related data. Without such data, financial services companies find it difficult to know where and how to get started identifying and executing the concrete improvements that will allow them to achieve results in the near term.

What's needed is a more rigorous approach to ESG-related data – one that manages the data in a centralized fashion at the enterprise level. This approach should draw on a comprehensive ESG data-collection strategy; a central technology platform for integrating ESG data; and artificial intelligence and analytics tools for making effective use of that data.

Using this centralized approach, companies can build an end-to-end "ESG data supply chain" for gathering, processing, and using ESG data. This data can then be used to track ESG metrics, select sustainability-focused supply chain partners, and make operational improvements to reduce carbon footprints. It can also be used to create new ESG-related products and services for customers, including personalized ESG investing tools for private investors.

By improving their ability to measure ESG performance and exposure, financial services companies can build an ESG-friendly brand, tap into the growing amount of money going into ESG-focused investments, and manage the marketplace and compliance risks associated with poor ESG performance – for themselves and their customers.

At the same time, financial services companies can put themselves in position to pursue and manage key initiatives that can deliver short-term results – and lay the groundwork for achieving long-range visions. These initiatives include creating transformation plans, engaging stakeholders, establishing responsible operations, making IT greener, and developing new income streams with new products and services. As they implement these changes, **financial services companies can move from treating ESG as a compliance and reputational need – a cost of doing business – to using it as a fundamental strategy to increase revenue and drive growth.**

ESG: INCREASINGLY IMPORTANT – AND CHALLENGING



In recent years, interest in environmental, social, and governance (ESG) goals and initiatives has grown quickly among consumers, investors, and companies across industries. In mid-2020, for example, the World Economic Forum published a report that laid out a number of universal ESG metrics. Drawing on that report, a group of more than 60 business leaders committed to 21 universal Stakeholder Capitalism Metrics¹ that focus on people, planet, prosperity, and governance.²

ESG drives business performance

Interest in ESG is driven in large part by a desire to make companies more sustainable, responsible, and aligned to societal goals – a desire that has grown stronger during the COVID-19 pandemic. **But it is increasingly clear that an emphasis on ESG is good business as well.** In a meta-study of more than 1,000 research papers, NYU and Rockefeller Asset Management found a significant positive link between ESG-focused business strategies and better financial performance in 58% of the studies, while only 8% showed a negative relationship.

The study also found that sustainability initiatives drive better financial performance, because they tend to improve risk management and encourage innovation – and that ESG investing provides some downside protection, particularly during social or economic crises.³

More broadly, many observers see tremendous growth opportunities in the expected emergence of the “circular economy,” in which waste is designed out of production and consumption practices, and products and materials are reused and recycled rather than simply thrown away at the end of their life. This will create demand for a range of new products and services. In the financial services arena, this has already resulted in the creation of new investment funds targeting circular-economy projects and businesses.

In short, ESG programs are no longer viewed as something that’s “nice to have,” but rather as a business imperative. As a result, companies across industries have created long-term strategies for meeting certain ESG goals for everything from decarbonization to increased diversity or inclusion, and greater executive accountability.

Financial institutions are no exception, and many have created strategies that spell out ESG goals for the coming decades. In particular, they have focused on sustainability. Many individual institutions have targeted higher levels of green financing or reductions in their carbon footprints, while the recently formed Net-Zero Banking Alliance, which includes more than 50 banks representing almost a quarter of global banking assets, is committed to aligning lending and investment portfolios with net-zero emissions by 2050.⁴ In addition, many institutions have been setting interim goals for increasing the use of sustainable financing and other green products by 2030.



ESG: INCREASINGLY IMPORTANT – AND CHALLENGING

Challenges turn ESG vision into reality

Overall, these types of commitments are important for establishing a vision, but too often institutions struggle to turn those long-term visions into short-term realities. That is, many of them find it difficult to identify and execute the concrete improvements that will allow them to deliver results in the coming two or three years while moving them forward toward their long-range goals.

A number of roadblocks impair fast, near-term action. For one thing, achieving ESG goals can be a complex and multifaceted undertaking. It can be difficult to create roadmaps for moving forward; to identify and pursue initiatives; or to understand which improvements in technology and processes will have the greatest ESG impact. And it is often unclear how ESG initiatives can help meet essential business objectives, such as creating new offerings and increasing revenues. In short, there is a clear understanding on the part of financial services companies and businesses in general on *why* ESG is important, but not on the *what* and *how* of moving forward.

Much of this difficulty stems from an inability to measure and track ESG performance and risk – a challenge that comes from a general lack of sound ESG-related data and insights. Without that data, businesses cannot determine the state of ESG in their own or other organizations, how well ESG initiatives are progressing, and what works and what doesn't in the effort to drive improvements. The lack of high-quality, standardized data that is integrated across the organization has often resulted in “greenwashing,” with companies – either knowingly or unknowingly – making false or exaggerated claims about their progress in achieving ESG goals.

Good data is a prerequisite for robust ESG programs, because without the ability to measure ESG performance, companies struggle to manage it.



Finding solutions to the challenges of ESG measurement are especially important for financial services organizations. A deeper understanding of ESG performance and exposure can give them an important tool for tracking progress toward their current, and often high-profile, commitments to sustainability. And beyond that, it can help them improve their internal operations to enhance their brands, keep in step with customer values, help their customers navigate the ESG landscape to become greener, and create ESG-focused products and services, such as investments and loans.

ESG: INCREASINGLY IMPORTANT – AND CHALLENGING

Capitalizing on ESG business opportunities

The growth opportunity associated with getting it right is tremendous. Capgemini’s 2020 Consumer Behavior survey found that consumers are increasingly interested in investing in assets with societal impact, such as green bonds, with 39% saying they prefer such investments even if they offer lower returns.⁵ In 2020, investments in ESG-focused funds and products accounted for one quarter of the dollars under professional management in the United States and half the dollars in Europe. Globally, that figure is expected to reach more than one-third overall (\$53 trillion) by 2025.⁶ (Figure 1) And it is likely to keep growing, with \$48 trillion in generational wealth being transferred in the coming years. With the bulk of that going to Millennial and Gen-Z individuals, who tend to place a high value on sustainability and social responsibility, about one-quarter of that wealth is expected to go to ESG investments.

More broadly, financial services companies have an opportunity to help ensure that ESG measurements become a mainstream business metric; a standard source for disclosures to regulators, investors and the public; and a driver of greater transparency in ESG investing.

Insurance companies can make climate risk a key factor in their decisions on property and casualty coverage and premiums, as well as in managing their own investment portfolios. As allocators of capital, banks and capital markets companies can help ensure ESG factors are incorporated more effectively into decision making about loans and investments. In all these ways, financial services companies can play a central role in helping business and society work more effectively to meet their collective ESG goals.

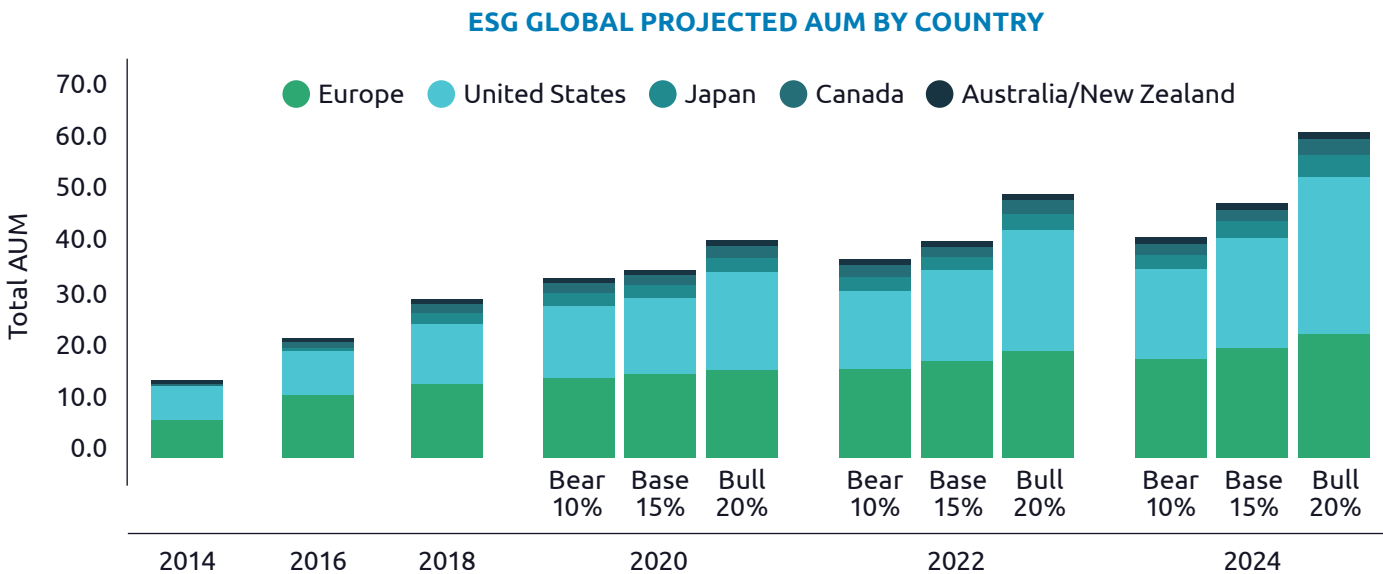


Figure 1: The rapid growth of ESG investing

Source: GSIA, Bloomberg Intelligence, February 23, 2021

MEASURING ESG: THE UNDERLYING PROBLEM



Effective management of ESG metrics is hampered by three fundamental, data-related issues.

1. ESG data can be a needle in a haystack.

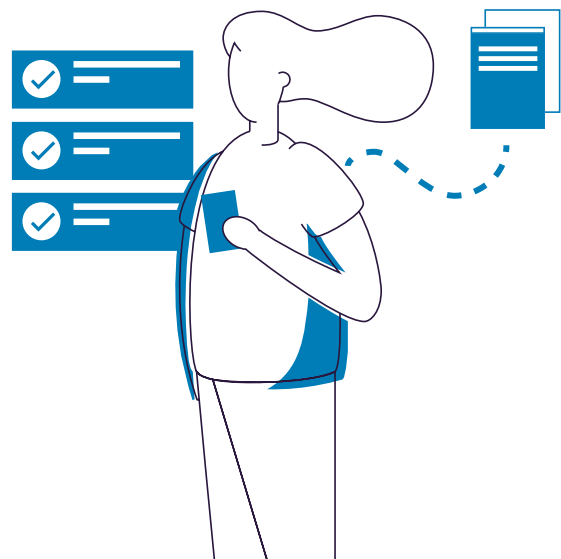
Companies are awash in data, but for a variety of reasons, they often struggle to identify and access the comprehensive, quality ESG data needed for accurate measurement. One problem is that there are no government mandates in place that require organizations to collect, monitor, and report ESG-related data as there are with financial data. As a result, the data used by companies and traditional third-party data vendors can be inconsistent and lacking in detail, and gaps in the data can lead to an incomplete understanding of ESG factors and metrics. Thus, while this data is important, it is not in itself enough. In addition, the ESG data from company reports tends to be backward-looking and potentially out of date, often becoming available only months after the fact. And the need to consider a growing volume and variety of unstructured data – everything from press releases to Twitter – only adds to the challenge of pinpointing high-value data.

2. There is no standard ESG taxonomy.

Different organizations use different terminology, definitions, and methodologies for ESG activities and performance metrics. For example, recent reports from two data vendors gave the same major company two different ESG scores, because one placed more weight on “governance,” while the other weighted the three ESG areas equally and the company received a lower score on “social” factors. This lack of standards for describing ESG activities and data makes it difficult to track and compare results across companies and topics over time.

3. Approaches to ESG are siloed and fragmented.

The activities that have an impact on ESG performance and exposure take place across the organization and beyond, but financial services organizations typically do not have an enterprise-wide ESG data strategy in place. Thus, data from these activities is fragmented and gathered for different purposes across multiple sources and functions such as human resources, travel, facilities management, vendor management, marketing, and compliance – often with each area taking its own unique approach to gathering and organizing its data. ESG data from vendors, supply chain partners, rating agencies, and third-party data providers further complicates the mix. As a result, ESG data is often disparate, disconnected, and hard to find, preventing companies from understanding ESG activity from a holistic, enterprise-wide perspective. Data integrity becomes an issue as well, with the varied, non-integrated sources leading to overlapping data, errors, and inconsistencies, and the use of subjective processes to bring data together.

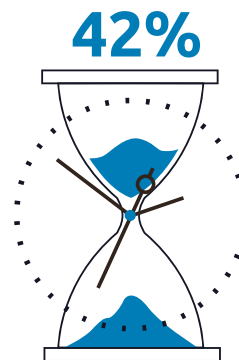


MEASURING ESG: THE UNDERLYING PROBLEM



Many companies voluntarily report on their ESG efforts, but because of these data challenges, those reports are generally limited and incomplete – and often inaccurate. According to the European Commission, 42% of the company reports on ESG performance involve “greenwashing” – that is, either inadvertently or intentionally offering exaggerated or misleading claims about the environmentally friendly nature of their products.⁷ In addition to confusing consumers, this makes it harder to develop accurate data on what companies are doing in terms of ESG. The problem is significant enough that the European Commission now scans company websites for greenwashing, and the U.S. Securities and Exchange Commission has increased its scrutiny of ESG labeling of funds.

With the growing importance of ESG in business, governments are taking note of these problems. In March 2021, the EU implemented a new Sustainable Finance Disclosure Regulation that requires financial services institutions to provide more detailed information about the ESG investments they offer. And in June 2021, the U.S. House of Representatives passed the ESG Disclosure Simplification Act of 2021, requiring clearer ESG reporting from public companies. These moves underscore the growing need for financial services companies to have better ESG data.



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BUILDING THE ESG DATA SUPPLY CHAIN



If financial services companies are to improve their ability to measure ESG performance and exposure, they will need to take a more rigorous approach to their ESG-related data. In essence, they will need to manage it the same way they manage other important reference data, such as their product and customer account data – in a centralized fashion at the enterprise level.

The key will be building an end-to-end “ESG data supply chain” that enables a repeatable, industrialized process for keeping ESG data relevant and current, and using it on an ongoing basis as an enterprise-wide asset.

To do so, financial services organizations need to take three key steps:

1. Create an ESG data-collection strategy that taps into more integrated data from better qualified and enhanced sources. To understand and assess ESG performance, companies need to complement their existing internal data with additional data from new internal sources and a broader range of external sources. This should include unstructured data such as publicly available sustainability reports, press releases, media reports, and social media posts, which can be mined with sentiment analysis and natural language processing tools. Data collection efforts can also include partnerships with outside vendors – in particular, the increasingly sophisticated providers of ESG data that are emerging in response to the growing interest in ESG investing and compliance. Data collection efforts should also be audited to help ensure that the same data is not used repeatedly or that important data is not missed.

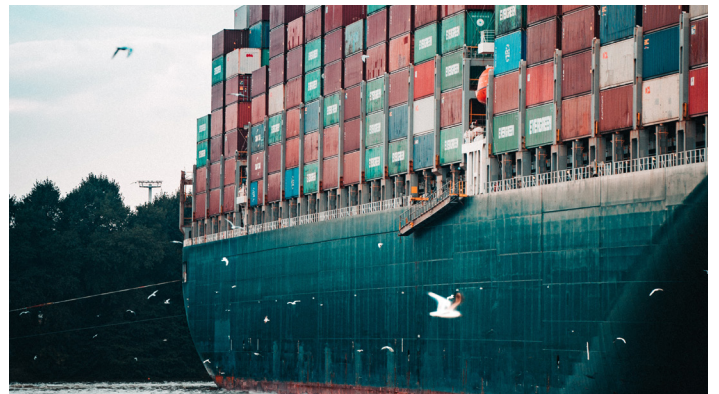
Advancing technology is making it easier to gather and integrate data from a wide range of sources. For example, artificial intelligence (AI) and machine learning technologies can power sophisticated web crawlers that quickly find and assess relevant online media and scientific reports to determine how specific companies are perceived externally in terms of ESG, providing valuable insights that can go beyond the potential greenwashing of corporate disclosures.

2. Implement an ESG “data exchange” platform.

This type of platform can provide a central ESG data foundry that enables financial services companies to seamlessly collect, integrate, standardize, and distribute the large amounts of data gathered under the ESG data strategy. It can also help limit the formation of ESG data silos across the organization, thereby reducing the licensing and operational costs associated with them. Overall, the data exchange platform can provide a “single source of truth” for ESG data that can be used for internal decision making, meeting mandatory and voluntary reporting requirements, and developing ESG-related products and services

3. Employ AI and analytics tools to increase transparency and deliver intelligence.

Drawing on the ESG data platform, companies can use AI and analytics tools to manage and assess large volumes of data, model risk, create reports, power ESG dashboards, customize information for customers, and so on.



BUILDING THE ESG DATA SUPPLY CHAIN

With this platform and approach, companies can build an ESG data supply chain encompassing everything from initial data gathering and preparation to the use of data in decision making. (Figure 2):

- **Discover:** Identify relevant data from a range of sources.
- **Aggregate:** Combine and summarize a variety of structured and unstructured data.
- **Enrich:** Enhance current data to expand datasets, typically for use in machine learning.
- **Automate:** Leverage technology to efficiently manage and process data and prepare it for consumption and distribution.
- **Visualize:** Create graphic views to enhance and accelerate the understanding of data.
- **Monetize:** Use data to achieve an economic benefit through better reporting, improvements to the business, new products and services, and improved experiences for customers, employees, suppliers, and partners that drive greater engagement and loyalty.

Companies can benefit by designating a senior, higher-level executive to oversee the effort and creating an ESG Data Office or Center of Excellence to manage the integration and management of ESG data. This executive and office should be charged with working with assigned professionals in procurement, marketing, operations, and lines of business (such as lending, wealth management, or property insurance), to coordinate the collection of data. Overall, this can help ensure there is an effective focal point for bringing together ESG data from internal sources, the supply chain, data vendors, and online sources.

In a constantly changing world, the ESG data supply chain can make it possible to frequently update ESG assessments, track ESG metrics for specific companies



or entire investment portfolios, select sustainability-focused supply chain partners, make operational improvements to reduce carbon footprints, better understand ESG-related risk, and so on.

In addition, these types of ESG data-management capabilities provide a foundation for creating new ESG-related products and services for customers.

For example, banks might develop offerings that vary commercial borrowers' interest rates based on their ability to achieve and maintain certain sustainability key performance indicators. Or insurers could better tailor policies and premiums to account for the potential of climate change-driven catastrophes, while protecting themselves from excessive risk.

BUILDING THE ESG DATA SUPPLY CHAIN

Financial services companies could also use the data supply chain to provide more in-depth ESG information to retail investors. Currently, eco-funds and green bonds are typically “black boxes.” They are sold as sustainability-focused investments, but the retail investor knows little about the ESG details of the companies within the offering and is essentially unable to link investments with their personal interests and values, such as saving dolphins or fighting deforestation. With better ESG data, financial services companies could offer truly personalized products, services, and interactions by allowing customers to drill down to gain a better understanding of potential investments.

For example, Capgemini’s Profiler solution provides granular, detailed ESG-related information through concise, easy-to-use dashboards that offer visualizations of ESG history, trends, and projections for specific companies. It then lets investors personalize their portfolios to focus their investments on companies that match their interest in specific areas such as clean oceans, fair labor practices, or engagement with NGOs, while providing them with reports on how their investment portfolios align with their values.

This solution could even be applied to credit card transactions to help customers keep track of how well their personal spending on food, clothing, and other

products fits with the ESG values spelled out in their profiles. Altogether, these capabilities would support consumers’ interest in more “ESG-aware” investing spending and lifestyles. This could be especially important for reaching Millennials and other younger customers, who are typically more attuned to ESG goals and investing – and who will be making decisions about how to invest the coming multi-trillion dollar generational transfer of wealth.

Overall, having solid ESG data and an improved ability to measure ESG performance and exposure can bring a number of broader business benefits to financial services organizations, including the ability to:

- Build an ESG-friendly brand, which is an increasingly important factor for increasing customer “stickiness,” as well as for recruiting talent.
- Meet customer demand for ESG-friendly financial services products and deepen customer relationships by tapping into the flow of money going into ESG-focused investments and providing greater transparency into the sustainability of spending habits.
- Manage the marketplace and compliance risks associated with poor ESG performance and exposure, internally and in their supply chains, and help their customers to do the same.

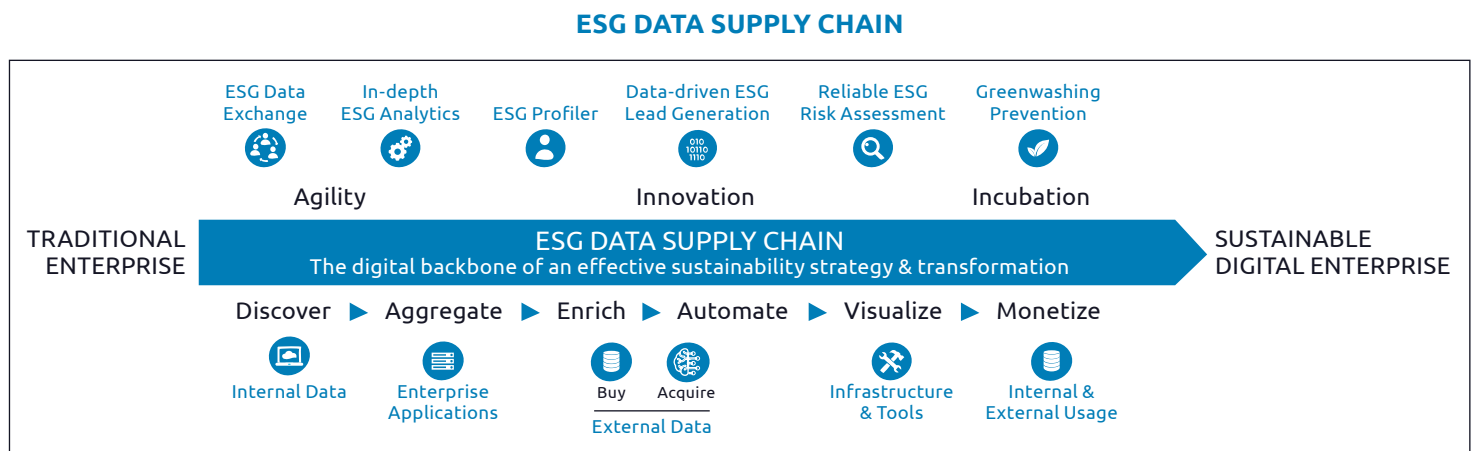


Figure 2: ESG Data Supply Chain

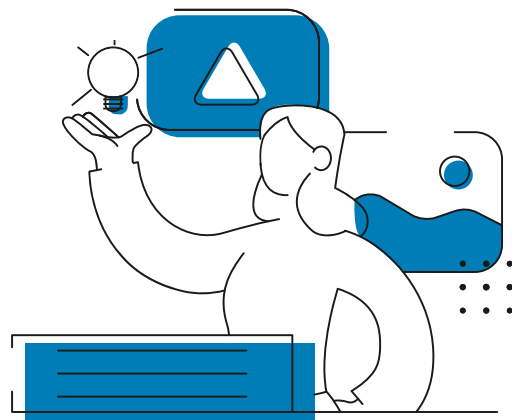
AN ENGINE FOR THE ESG DATA SUPPLY CHAIN



To create an ESG data supply chain, financial services companies can draw on 890 by Capgemini, a platform that supports a full range of data management activities. **The 890 platform consists of three components that work through a single interface:**

1. **Data Exchange**, which combines, secures, and provides access to data from a wide variety of sources, including a company's internal systems and a comprehensive ecosystem of third-party ESG data providers.
2. **Insights Exchange**, which provides analytics solutions that can draw on internal and external data and link with a company's systems to power ESG-related business decisions in the organization.
3. **Outcomes Exchange**, which combines the data and analytics to help achieve business results – for example, to track ESG portfolio performance and exposure, align investments with ESG and business goals, use what-if analyses to re-set portfolios in line with changing conditions, and create personalized investment products for ESG-conscious customers.

Overall, 890 by Capgemini offers an integrated, complete environment that can help financial services companies better manage ESG data. It can enable them to rapidly explore various sustainability use cases across the enterprise and test the potential of innovative products and services. And it can support the governance, model-building and deployment needed to turn those innovations into business realities – and ultimately, help financial services companies measure and manage ESG performance more effectively.



NEXT STEPS ON THE ESG JOURNEY



Having a robust ESG data supply chain – and the resulting ability to measure ESG performance more consistently and accurately – will allow financial services companies to turn their high-level ESG strategies into concrete actions, undertaking initiatives that will have a rapid impact in the near term. Armed with quality, standardized ESG data, they will be well placed to address the following additional areas in an effective ESG program.

- **Engage stakeholders.** Effective communication with stakeholders builds commitment to ESG initiatives. In particular, financial services companies need to start with a strong change management program to train and engage employees in ESG topics, which will help the organization attract and retain talent and build an ESG-focused mindset.
- **Establish responsible operations and processes.** Armed with better ESG data, financial services companies can focus on bringing greater sustainability to the way work is done – internally and at supply chain partners – through everything from increased efficiency and energy savings to green buildings.
- **Create new products and services.** In addition to the data-driven offerings described earlier, financial services companies can build sustainability into products by offering, for example, recyclable cards, incentives for low-carbon lifestyles for retail customers, green bonds for investment banking, reduced premiums for insurance coverage of sustainable operations, and so forth. They can also support net-zero carbon and circular economy -related financial instruments and products, helping them increase revenue and engage more closely with ESG-conscious customers.
- **Adopt green IT practices.** Information and communication technologies are responsible for an estimated 5% to 9% of the world's total electricity consumption, and a 2019 study indicated that the carbon emissions created in the training of one large AI model could equal those of five cars over their entire lifetimes. To improve internal IT operations, financial services companies can use software to more efficiently manage and optimize the use of hardware, software, and storage, consolidate

servers, and engage in smart recycling. Such programs can be effective. One major European bank's green IT initiative resulted in an energy savings of nearly 76% per employee, and increased energy efficiency in the bank's data centers four-fold.

Having a robust ESG data supply chain will allow financial services companies to turn their high-level ESG strategies into concrete actions, undertaking initiatives that will have a rapid impact in the near term.

By pursuing such initiatives, financial services companies can instill an ESG focus throughout the company, and make the tenets of Stakeholder Capitalism a mainstream element of doing business, helping them strengthen the brand and strengthen relationships with internal and external stakeholders. As that happens, companies can progress from approaching ESG as a compliance and reputational need – and as a cost of doing business – to taking advantage of it to reach customers more effectively, increase revenue, and drive growth.



MOVING AHEAD ONE STEP AT A TIME



Although all major financial services companies are touting their commitment to ESG, the few that can crack the code of achieving concrete success in the near term will capture an important competitive advantage in attracting customers, investors, and talented professionals. These companies will take the lead in the evolution and implementation of ESG initiatives – while strengthening their own ESG efforts and bringing innovative new ESG-focused products to market. A critical first step will be adopting a more rigorous approach to ESG data that allows them to tap into more data, standardize and share data, and use AI and analytics to put that data to work internally and for customers.

Making the shift to this approach can be done incrementally, without excessive disruption or the need to modify existing systems. Financial services companies can begin with a roadmap for their ESG journey, and then fill in the components of that roadmap gradually. They can expand their ESG data capabilities in stages and have an impact on the business as they proceed – and then use those capabilities to make concrete progress on ESG initiatives across the company to meet the ever-increasing ESG requirements for business success today.

References



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