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Banks' strategies lack integrated ESG criteria

Banks around the world have not yet fully integrated environmental, social and governance criteria (ESG) into their strategies.


Bongiwe Mbunge, partner at Mazars South Africa's advisory division

A report by Mazars reveals just three out of the 30 banks assessed demonstrate best practice across a wide range of sustainability factors, with 10 banks showing a sustainable approach across some factors and more than half (17) the number of banks showing limited evidence of a sustainable approach across most factors.

Room for improvement

After assessing banks such as Barclays, BBVA, Citi, Credit Suisse, Santander, Standard Bank and UBS among others, Mazars found no banks to be 'outstanding' – a scoring reserved for banks with a positive score in more than 90% of the criteria. Benchmark criteria included culture and governance, risk management, reporting, targets and more.

The report comes at a time when banks are reflecting on their purpose and values as the rise of social movements reshape how financial actors ensure what they invest in is not just environmentally sustainable but also socially inclusive. The international assessment, undertaken by Mazars' London office, focused on European banks and included African, Southeast Asian, and American banks for illustration purposes.

Bongiwe Mbunge, a partner for advisory services, Mazars South Africa, says that although Mazars will not reveal the details of each bank's individual score, the firm does note the recently released Investec Private Bank's climate related financial report for 2020 with keen interest.

"At present, these disclosures are voluntary, yet we need this kind of anticipatory leadership across the board. Banks are being called upon, to make transparent climate-related financial disclosures and to commit to policy changes in relation to fossil fuel lending. South African banks have made progress in their engagements with stakeholders on the policy and reporting, considering thermal energy and fossil fuel policy," says Mbunge.

She says that there is still room for improvement in climate-related disclosures in climate-change scenario planning. This is the area where South African banks, in particular, will need professional support and greater stakeholder engagements in determining the action plan towards responsible banking.

Corporate citizenship

Leila Kamdem-Fotso, Partner at Mazars in the UK, which produced the report, adds that Covid-19 has reaffirmed the positive role the banking sector can play by working with governments and regulators to keep the economy going. "These findings should remind banks that the crisis is an opportunity to look beyond immediate priorities, re-assess their purpose and values and use some of the best practice outlined in our report to truly embed ESG factors in their decision-making on investments for the good of the business, their clients and society."

Mbunge, says that the report is an important industry benchmark for a relatively new – but extremely important – way of looking at corporate citizenship. "Integrating ESG into one's reporting may seem like a simple or obvious thing to do in today's business world, but the report reminds us of the stark reality that no bank is perfect in this regard yet. There has been much progress made in recent years, but there is still a significant amount of work to do to ensure that ESG is truly at the heart of our banking system."

Banks starting to focus on socio-economic issues

The benchmark finds most banks have adopted, or are implementing, voluntary ESG reporting standards. However, the majority (57%) have yet to fully integrate ESG factors into their risk management framework using both qualitative and quantitative approaches.

Similarly, most banks support sustainability frameworks and have launched corporate social responsibility programmes but the definition and disclosure of sustainability targets is not yet common practice. And while all banks assessed offer environmentally responsible products, only 43% of them have developed a product offering that fully addresses socio-economic issues.

Mbunge says that within the South African context, the social imperative is by far the most urgent and requires the most authenticity and strategic action in attempting to bridge the inequalities in the country. "Greater transparency is required from banks on how they account for, manage and govern non-financial risks. There is a reasonable expectation for South Africa's banks to play a significant role in driving sustainable and inclusive growth. Innovation and agility are critical in the post pandemic phase of the country's economy."

Targets and incentives

The benchmark report finds that the introduction of explicit targets could help banks increase their ESG achievements. Only 27% have set specific and measurable socio-economic targets in line with sustainability frameworks. On the other hand, just 13% of the banks assessed have sustainability-related financial incentives for the board and top management.

A broader range of commitments

The report cites recent examples of banks ensuring they meet social goals. For example, Barclays is working to embed human rights considerations into its client due diligence process. Also, Citi will develop an environmental and social action plan as a condition of financing when there are gaps between international standards and a client's environmental and social practices. The report also references Goldman Sachs (which was not one of the banks assessed) and who will now only advise companies on IPOs where there is at least one diverse board member as an example of increasing action on diversity.