**CREAZIONE DI VALORE E SOSTENIBILITÀ:**
**VERSO NUOVI MODELLI DI REPORTING E GOVERNANCE**
***Università Cattolica – Milano 9 ottobre***

INTESA SANPAOLO

# Rischi ESG e Climate Change nel sistema di valutazione e gestione dei rischi

**Guido Genero** – Head of Risk Clearing – Enterprise Risk Management

# What does ESG mean? Towards sustainable finance

- **ESG** means using **Environmental, Social and Governance** factors to evaluate companies and countries on how far advanced they are with **sustainability**
- In recent decades, both **supply and demand for sustainable products are rapidly increasing** on the part of institutional investors and private savers. Investing according to ESG criteria means making choices that are consistent not only with your own return and risk objectives, but also with your own values and moral convictions

## ENVIRONMENTAL

- **Climate change** due to greenhouse emissions
- Resource depletion, including water
- Waste and pollution
- Deforestation

## SOCIAL

- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict and humanitarian crises
- Health and safety
- Employee relations and diversity

## GOVERNANCE

- AML & Embargo Compliance
- Bribery and corruption
- Board diversity and structure

# ISP positioning on ESG / Climate Change risk and what the bank is doing: different areas of intervention

- Intesa Sanpaolo is aware of having a **significant impact** on the social and environmental context, thus choosing to act **not only on the basis of profit**, but also with the aim of creating **long-term value** for the Bank, its employees, customers, community and the environment
- The management of **ESG/climate change risks** has been developed over the following streams:

| Management of ISP direct exposure to ESG risks | Assessment of business related ESG risks | Evaluation of ESG linked business opportunities |
|---|---|---|
|  |  |  |

Focus della presentazione

# Management of Intesa Sanpaolo direct exposure to environmental and climate change risks

## What we have done

Intesa Sanpaolo considers environment and the more specific topic of climate change as a fundamental part of a wider management **model of social and environmental strategy,** therefore it has:

- ✓ issued a **specific policy** (Group's "Rules for the environmental and energy policy") in order to reduce its ecological footprint and that of its customers and suppliers
- ✓ adhered to important **international initiatives** such as UNEP FI, CDP, UNGC aimed at promoting dialogue among firms, international organisations and society in general and to pursue respect for the environment
- ✓ applied **technological innovations** for the modernisation of plants and introduced more energy-efficient systems

## What we are doing

- ✓ We are working to fulfill the goal set by **Climate Change Action Plan** of a 37% reduction in $CO_2$ emissions over the 2012-2022 period (2018-2021 Intesa Sanpaolo Business Plan)
- ✓ Implementing **TCFD - Task Force on Climate-related Financial Disclosures recommendations**

# Evaluation of environmental and Climate change risks linked business opportunities

*Many Institutional investors regard sustainable finance as a way to manage long-term risk. Banks should tap this demand offering specific products*

## What we have done

- ✓ **Investment products** characterized by sustainability criteria and attention to environmental, social and good corporate governance (ESG) factors (e.g. Eurizon Sustainable Global Equity fund and the Eurizon ESG Target)
- ✓ Issuing of **green bonds** (e.g. Intesa Sanpaolo Green Bond, issued in 2017 for 500 million euro, fully allocated to 77 projects, which made it possible to avoid the generation of over 213,000 tonnes of CO2 emissions annually)
- ✓ **Green loans**: loans and mortgages for environmental purposes (retail customers), projects for renewable energy and energy efficiency works (for professionals and businesses). In 2018, the Group disbursed approximately 1,922 million euro to the green economy (3.2% of all Group loans)
- ✓ Allocation of a specific 5 billion euro credit plafond dedicated to the **Circular Economy**

## What we are doing

- ✓ Participation to **EBF working group** on sustainable finance incentives
- ✓ Further **development of sustainable products** in order to promote the transition towards a more sustainable economy

# Assessment of business related environmental and climate change risks and involvement of  Risk Management area

## What we have done

The Evaluation of ESG risks at present is performed mainly through:

- ✓ the **reputational risk management framework,** especially with reference to the reputational risk clearing process **aimed at assessing  potential ESG risks** (by a qualitative scorecard) related to the most significant business / credit transactions
- ✓ the adoption of **Equator Principles' guidelines** for the assessment of social and environmental risks for Project finance
- ✓ the inclusion of "Social" and "Environmental" information in the "qualitative and quantitative component" of the **Corporate rating model**

## What we are doing

- ✓ **Strengthening the ESG risk framework**, applying a ESG scorecard to all corporate exposures and extending scope and expertise of the ESG internal unit.
- ✓ **Developing a specific Climate Change (CC) Risk** framework in the **Risk Appetite Framework** in order to actively manage this risk and influence the bank strategy
- ✓ **Developing CC Risk stress test capabilities** also by means of an active participation to the **TCFD Banking Group Phase II** coordinated by UNEP (next slides);
- ✓ **Adopting Credit underwriting risk policies** for industries highly exposed to ESG / CC risks
- ✓ In the medium term, **improving ESG / CC risk factors assessment in the Corporate rating model / process**

# Intesa Sanpaolo has decided to support TCFD and undertake the journey towards a sustainable finance

## Regulatory framework is changing… and banking system is adapting

### Paris agreement & TCFD creation

**Paris Agreement**

- Signed **to limit the increase in the average temperature** for this century well below 2°C with respect to the Pre-Industrial Era by reducing GHG emissions
- Ratified by 181[1] Parties

**TCFD**

- Established in December 2015 by the **Financial Stability Board** with the aim of **developing climate-related disclosures** that "could promote more informed investment, credit [or lending], and insurance underwriting decisions"
- Includes 32 members[2] including: 8 financial companies, 8 non-financial companies and 8 experts

### Final Report on recommendations of the TCFD

**Recommendations of the TCFD**

- **Developed by the TCFD to provide guidelines for institutions to disclose** clear, comparable and consistent information about the risks and opportunities presented by climate change
- Recommendations are clustered in 4 areas: **Governance, Strategy, Risk Management and Metrics and Targets**
- As of September 2018, more than 500[3] organizations stated their support for TCFD recommendations

### ISP supports TCFD & best practices

- Intesa Sanpaolo has **declared its support to TCFD recommendations and its commitment** «to the dissemination of a transparent reporting on the risks and opportunities related to climate change»
- *Launch of a* ***cross-functional working group, led by CSR,*** *for the implementation of best practices*

Financing a Sustainable European Economy

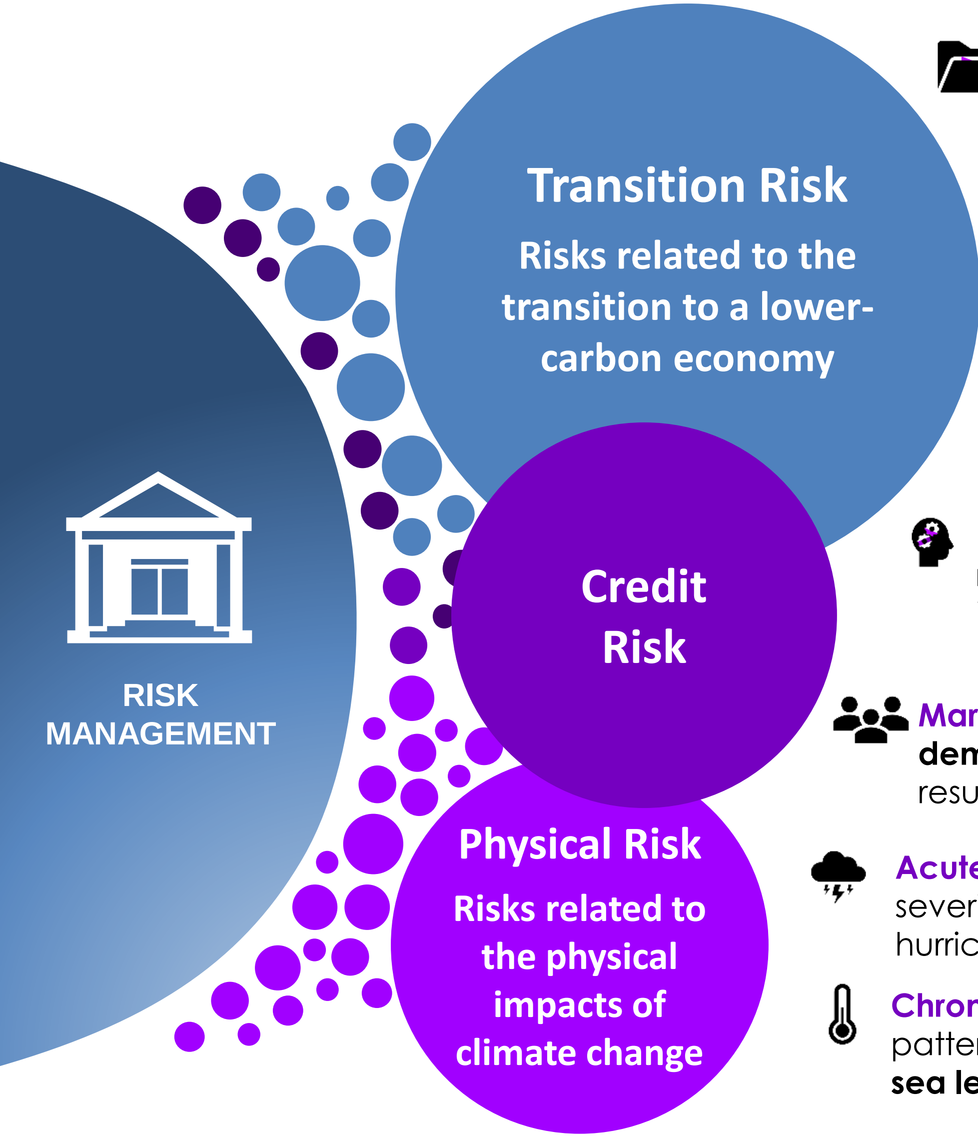
UNEP Finance Initiative

EU Action Plan

Agreement by European Parliament and Council

1.180 Countries and EU; 2. More information available at: https://www.fsb-tcfd.org/about/
3. More information available at: https://www.fsb-tcfd.org/tcfd-supporters/

# Climate Change: which risks?
# Transition and Physical – TCFD Taxonomy




**Policy and Legal Risk**: risks stemming from continuously **evolving policy actions**, attempting to either constrain actions that contribute to adverse effects or to promote adaptation to climate change and from litigation risks (e.g. claims and court hearings)

**Technology Risk**: risk related to technological **improvements or innovations** that support the transition to a lower-carbon economy and that can have a significant impact on firms to the extent that old systems are disrupted by new technologies

**Reputation Risk**: risk of an organization’s **image and reputation** being affected by its customers’ perception of its contribution to (or detraction from) the transition to a lower carbon economy

**Market Risk**: risk describing the potential **shifts in supply and demand** for certain commodities, products and services as a result of climate changes

**Acute Risk**: risks that are **event-driven**, including increased severity of extreme weather events, such as cyclones, hurricanes or floods

**Chronic Risk**: risks that refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause **sea level rise or drought**

# Focus: TCFD has identified 4 areas impacted by climate change, encompassing all key aspects of bank activities

## Framework of recommended Climate-Related financial disclosure

| | Governance | Strategy | Risk Management | Metrics and targets |
|---|---|---|---|---|
| | Organization's governance around climate related risks and opportunities<br>**Board and management role** | **Risks and opportunities**:<br>• over the short, medium, and long term<br>• on businesses, strategy, and financial planning | Organization processes for:<br>• **identifying** and **assessing** climate-related risks;<br>• **integrating** climate risk management into overall Risk Management Framework | Metrics and targets used to assess and manage relevant climate-related risks and opportunities |
| Examples | BoD Reporting | Stress test on climate-scenarios | Credit risk models | List of metrics and targets |
| | Roles and Responsibilities | Specific strategies | Credit risk processes | |
| | Risk Appetite Framework | Risk identification | Operative controls | |

# TCFD Banking Group – Phase I

UNEP FI [1], along with 16 of the world's leading banks, tried to implement **TCFD recommendations**. **Phase I** of the pilot project provided interesting results in terms of scenarios, models and metrics to enable a current and prospective assessment of risks and opportunities related to **Climate Change**


**Extending our Horizons**
The **first report** of April 2018 describes a scenario estimation method linked to **Transition Risk**

**Source:** UNEP FI/Oliver Wyman


**Navigating a New Climate**
The **second report** of July 2018 deals with the evaluation methods of **Physical Risk**

**Source:** UNEP FI/Acclimatise


**Climate Change: Managing a New Financial Risk**
The **final report** of March 2019 includes a survey of **45 global financial players**

**Source:** Oliver Wyman

## Scenarios

> **Transition Risk:** description of a coherent macroeconomic environment through time, sectors and geographical areas

> **Physical Risk:** description of extreme weather events and incremental climate shifts

## Methodologies

> Identify the most **climate sensitive** sectors

> **Calibration sector/borrower level:**
- specifies the relationship between economic scenarios and credit risk
- proxy estimate of the scenario impact on individual borrowers

## Impacts on Portfolio

> **Impacts on stressed PDs** compared to baseline projections, identifying consequences on **sectors** and **operating margins** (**revenues and COGS**)

[1] http://www.unepfi.org/banking/tcfd

# TCFD Banking Group – Phase II

UNEP FI, expanding the number of banks and starting from methodologies, evidences and recommendations emerged during Phase I, is promoting an improvement in the implementation of the **TCFD recommendations**

**Phase II** of the project aims to broaden and improve the results of the previous phase

## WHAT'S NEXT?

### ASSET DATA & SCENARIOS

> **Partnership / coordination** with external companies that provide "**climate scenarios**" (e.g. IPCC, CICERO, IEA, IIEASA, PIK) and/or able to examine **aggregate asset-data** (e.g. Stanford, Oxford, CDP, WRI, 2di)

### METHODOLOGY

> Deepening on the typology of **methodological framework**

> Greater **awareness** of **analysis tools** and **governance processes**

### LEGAL

> **Disclosure** of the impact estimations based on **high-level dataset aggregations** (e.g. **geographical** and/or **sectorial analysis**)