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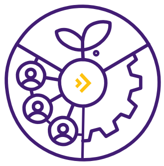
Competence Center

ESG & Sustainable Finance

Sustainability is playing an increasingly important role in the financial sector. More than anything else, three simple letters represent this development: ESG – Environment, Social & Governance.

The Competence Center ESG/Sustainable Finance advises financial institutions on ESG issues, i.e. environmental, social and legal as well as self-defined organisational framework conditions. In addition to topics such as portfolio management and risk management, the focus is on consulting for regulatory requirements with a strong impact on the data, processes and systems of the financial institution.

Sustainable support in all financial sectors with strong ESG solutions



Examples include sustainability reporting, CRR disclosure or the expansion of risk management to include new requirements such as stress tests and scenario analyses.

The Competence Center ESG/Sustainable Finance would gladly support customers in this starting from project management to technical and IT-technical conception, the adaptation of the existing IT landscape to the ongoing run-and-change of ESG applications.

Regulatory & Reporting

As part of the EU action plan "Sustainable Finance", additional reporting obligations for companies were introduced through regulatory measures. Not only will existing reporting obligations be tightened, but new ones will also be created.

CSRD

The Corporate Sustainability Reporting Directive (CSRD) significantly extends the existing rules for non-financial reporting by companies. In addition to extending the reporting obligation to all larger companies in the EU and all capital market-oriented companies (except for very small companies), the CSRD also includes tightening of the content to be reported, e.g. the double materiality aspect (double materiality).

EU-Taxonomy

EU taxonomy is a classification tool that can be used to classify economic activities as sustainable if certain technical parameters are met. The objective is to create a Europe-wide uniform definition of sustainable economic activities in order to create transparency for investors.

SFDR & MiFID

Based on sustainability-related requirements and disclosure obligations for financial institutions, investors are given the opportunity to make better informed decisions. Since March 2021, financial institutions are therefore obliged to disclose specific environmental, social and governance (ESG) indicators in order to make different financial products comparable.

CRR II

The CRR regulation contains various regulatory requirements for banks. In addition to regulations on equity and liquidity, the European Banking Authority (EBA) will also require the disclosure of environmental, social and governance risks (ESG) as part of Pillar 3 of the regulation from 2022 as part of CRR2. You can find more on the subject of CRR2 in the Competence Center Regulatory Reporting.

ESG risk management

The classic risk management in the company is currently undergoing a transformation. Various methods are used to attempt to integrate risks resulting from sustainability factors and thus make the financial effects of sustainability risks tangible.

Stress testing and scenario analysis

In particular, stress tests can include sensitivity and scenario analyses to examine the company's resilience to adverse events or scenarios caused by physical and transitory risks. Based on plausible future developments, various organisations are working on climate-related stress tests that should be used by individual companies.

Transitions risks

Transition risks exist in connection with the transition to a low-carbon economy. For example, political measures can lead to an increase in the price and/or shortage of fossil fuels or to high investment costs due to the necessary renovation of buildings and systems.

New technologies can displace familiar ones, changed customer preferences and social expectations can endanger business models for companies that do not react to this in a timely manner and take countermeasures.

Physical risks

According to the TCFD, physical risks resulting from climate change are one of the two key climate-related risk sources that companies and financial institutions should consider in their strategy, risk management and reporting.

A distinction is made between an increasing frequency and intensity of acute extreme weather events (e.g. heat waves, storms, floods) and longer-term chronic changes in mean values and fluctuation ranges of various climate variables (e.g. temperature, precipitation amounts, sea level).

ESG Architecture & Data Management

Die IT-Architektur bildet die Organisation und Prozesse eines Finanzinstituts ab und bildet somit das Fundament für die regelkonforme und revisionssicher Umsetzung in einem systemgestützten Betrieb. Neben der Fachberatung bieten wir daher explizite Beratung im Bereich Architektur und Providermanagement an. Die targens Leistung umfasst den gesamten Prozess von der Anforderungserhebung gemeinsam mit den Fachbereichen, über das Architektur und Solution Design bis hin zur Umsetzung mit ausgewählten Technologien.

At a glance -
ESG & Sustainable Finance

- Environment
- Social
- Governance

ESG Architecture

Requirements in the context of ESG affect a large number of departments in the bank. Therefore, a holistically conceived implementation of the requirements in the existing IT architecture and the development of a suitable data warehouse is essential in order to obtain the most homogeneous and automated data supply possible across the entire institution. In addition to the definition of automatic reports for regulatory reporting or control, the expansion of processes to create appropriate data input media and the creation of an ESG data management framework are essential components for a successful implementation.

Provider management

ESG data is considered one of the major challenges in meeting current regulatory and strategic requirements. It is therefore often a decision to receive data from an external provider in addition to collecting data in your own processes. The market for these providers has grown continuously in recent years and has become more confusing due to the large number of offerings. For this reason, the data provided by the providers must be analysed and checked against the technical requirements in terms of models, quality and coverage as part of a selection process.

ESG Management

Portfolio management

Sustainability risks have an effect on all classic risk types and have to be considered there. The regulatory requirements therefore force financial institutes to implement a holistic integration of ESG risks into the overall bank management. The active controlling of the ESG risks inside the credit portfolio is a challenge and an opportunity at the same time: On the one hand matters of objective assessment and implementation into the existing IT architecture have to be tackled, on the other hand this move offers further consulting and earnings potentials.

ESG-Scoring

Scoring and ratings are used to assess how extensively and sustainably companies and funds take existing sustainability criteria into account. There are currently many different providers of such ratings on the market, some of which differ greatly in the calculation of the respective score.

Impact Management

Impact management describes a forward-looking approach that integrates impact considerations into every phase of the investment process. This focus aims to better understand the impact of an investment and thus optimise the social and environmental impact.

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As an expert consultancy for banking, compliance and digital innovation, targens is the leading provider of consulting and software solutions. Based in Germany, Austria and Switzerland, the company has 30 years of experience in the development of internationally proven compliance services for financial institutions with futuristic and disruptive technologies. Using artificial intelligence and blockchain technology to create innovative products that provide the highest possible value to our clients. With its consulting portfolio, targens supports clients in their banking and corporate management, trading activities and the safeguarding of business processes.

You have questions or
want more information?
Then get in touch with us!

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