

# ESG services for Swiss financial institutions



# Service offering

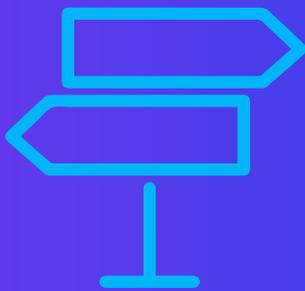
Environmental, social and governance (ESG) considerations are an area of focus for regulators, investors, suppliers, employees and clients alike, driving financial institutions to approach the topic from a strategic perspective. This is illustrated by the escalating global war for talent assets in this space. This fast-moving topic poses many challenges, but there are real commercial and reputational upsides to being a frontrunner. Financial institutions need to understand the relevance of the topic for their organization and identify key risks and opportunities related to sustainability trends.

**To support our clients in the transition to a more sustainable future, we offer services in the following areas:**

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# ESG portfolio analysis and ratings

There is growing regulatory and investor demand for the consideration of ESG criteria in the investment decision-making process, performance measurement and subsequent reporting. Reliable metrics are key to quantifying positive and negative impacts as well as to limiting greenwashing risks.



## Client challenge

- ESG information is often self-reported by companies, thus open to the possibility of 'greenwashing'.
- The ability to monitor ESG data is complicated and time-consuming.
- Off-the-shelf ESG scores are often subjective (depend on which attributes are included into the scoring model, how attributes are measured and weighted) and do not provide the level of transparency required for informed decision-making.



## KPMG offering

- Provision of **bespoke ESG ratings** through our ESG IQ platform. Emphasizing different factors depending on the client's needs. Ratings can combine structured data (such as regulatory filings) with unstructured data (such as news feeds).
- ESG ratings can be **fed into credit (and underwriting) decisions, and into reporting and portfolio models**. Combining ESG ratings with traditional risk-return metrics can help build a portfolio with strong ESG characteristics but minimal impact on the portfolio's performance.



## Credentials

- We supported a Canadian bank in computing their respective carbon scores and in expanding the analysis to calculate other ESG factor scores. This helped the bank understand at a strategic level the ESG impact of the businesses they are looking to finance.
- We supported a trade association in quantifying the ESG standing of their supply chain and their member firms as well as helped them to transition to a more sustainable future.

# KPMG tool – ESG IQ

ESG IQ, KPMG’s flagship ESG data analytics platform, provides bespoke, highly granular ESG ratings. These ratings facilitate decision-making, risk mitigation and ESG reporting. ESG IQ lets the bank define ‘ESG good’ and uses multiple data sources to triangulate a more transparent, verifiable and real-time version of the ‘ESG truth’.



Provides **transparent bespoke scores** using advanced statistical modelling such as topic modelling, entity scoring, anomaly detection, sentiment analysis.



Integrates and scores large quantities of **structured** ESG reference data from several providers **and unstructured data**, such as news, social media, NGO reports, legal documents to provide a richer and fuller source data set.



**The Glassbox methodology**, unlike other methods, lets clients drill down into scores to understand the underlying drivers



Provides **flexibility to customize ESG analysis and supporting data universe** to meet intended objectives such as alpha generation, investment decision-making, risk management or regulatory compliance.



Uses natural language processing and document analysis to **assess and monitor public sentiment, debate and conversations** to provide early view of emerging risks and events including advanced notification.



**Portfolio analytics and investment decision making tool** that can be integrated with and refreshed on a real time basis (where data is available).

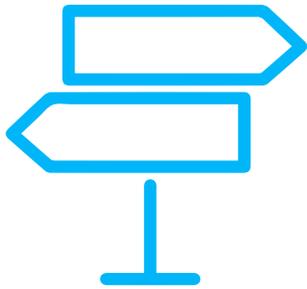


**Report generating and dynamic dashboarding capability** utilising portfolio or trade book positions and constituent knowledge.



# Climate stress testing and scenario analysis

Regulatory requirements, such as TCFD, mandating detailed climate stress testing are becoming more widely applicable. Mandated by regulators, financial institutions will need to report effectively on both physical, transition and combined risks.



## Client challenge

- Construction of a consistent set of scenario variables in line with the narrative and linking them with appropriate macroeconomic variables.
- Data availability and granularity, lack of well established methods, long term forecasting of complex systems.
- Translating model results in creditworthiness adjustments.



## KPMG offering

- **Development (or validation) of bespoke solutions** to compute the impact of climate stress on assets and liabilities. For example, stressing the balance sheet of corporates and deriving the associated default probabilities.
- Provision of self-consistent **variable pathways** across physical and transition risks in line with various regulatory (and client's internal) scenarios.
- **Framework design** and incorporation into risk, business steering and reporting.



## Credentials

- We supported a global financial institution in their climate stress test and helped the client to manage climate impact and prepare for an effective risk disclosure.

# KPMG tool – Climate IQ

KPMG’s flagship tool that uses tried and tested methodologies to set net zero targets, quantify climate risks and identify opportunities. The tool reflects transition and physical risk and includes a state-of-the-art computable equilibrium model to generate self-consistent scenarios.



**Scenarios:** 1.5°C, 2°C, 4°C of global warming incorporating assumptions on early/late transition or no additional policy actions



**Time Horizon:** annual output for 30+ years



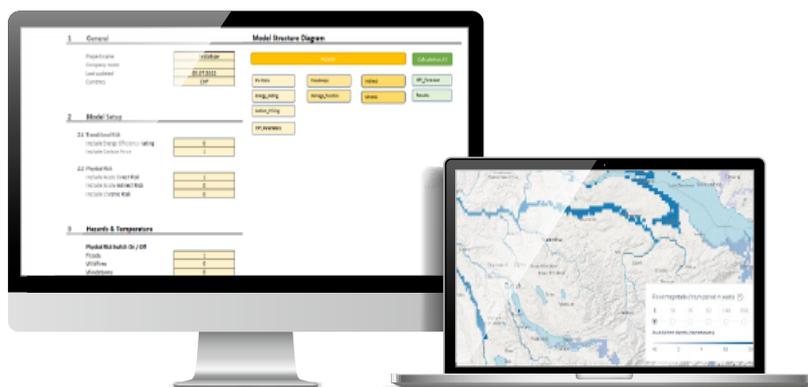
**Granularity / coverage:** transition risk: 141 countries / regions and 67 sectors. Physical risk: global coverage based on geo-location

## Climate IQ module

<b>Physical Risk module</b>	Examines the severity and frequency of a range of physical climate-related risks over time, and assesses the vulnerability and exposure of physical assets and the downstream impact to counterparties.
<b>Transition Risk module</b>	Translates global temperature impacts into sector transition profiles which consider up to 141 regional characteristics, including policy, economic and technology constraints, which are mapped to 67 sectors within each economy.
<b>Proxy module</b>	Generates regional and sectoral profiles in order to estimate counterparty exposure and data points where counterparty-specific data is not available.
<b>Business Plan module</b>	Combines the physical and transition risk modelling outputs and counterparty-specific financial data to perform company-level analysis to define the impact on a financial statement under a number of different scenarios.

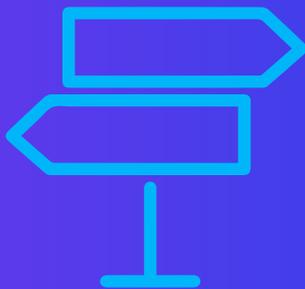
## Key outputs

- Intensity metrics (e.g. damage of flood) for 7 extreme weather events
- Damage curves (impact of hazards on damage to assets / stock, business interruption)
- Sector/geography level emissions profiles
- Technology mix & costs
- Commodity prices
- Other macroeconomic metrics (e.g. GDP, inflation)
- Estimated company-level transition risk data points (e.g. emissions, energy mix, technology use)
- Impact of climate risk on cashflows
- Impact of climate risk on collateral values
- Translation into credit risk metrics (PD, LGD, EAD)



# ESG strategy

To achieve sustainable growth, financial institutions will need a business strategy that withstands the challenges and seizes the business opportunities related to ESG. Financial institutions need to understand the business case for sustainability, key impacts and how it can steer the company towards a sustainable future.



## Client challenge

- Lacking knowledge of ESG, related trends and market developments on the management level and within the broader organization.
- Identifying trends and requirements that are relevant for the institution, understanding their impact and prioritizing them.
- Assigning responsibilities for various ESG-related tasks and topics within a firm's governance framework.



## KPMG offering

- **Training** for BoD, senior management or specific functions within the firm to understand market practices, map risks and opportunities and identify options.
- Assessment of an institution's **extent of ESG integration** across the entire business (e.g. "health check").
- Systematic approach to **defining an institution's material ESG topics**, forming the basis for a holistic sustainability strategy.
- Definition and implementation of **ESG ambitions** in the context of a sustainability strategy, including the identification of qualitative and/or quantitative target and measures.
- Design and implementation of **governance models** around ESG topics such as climate risks or human rights.



## Credentials

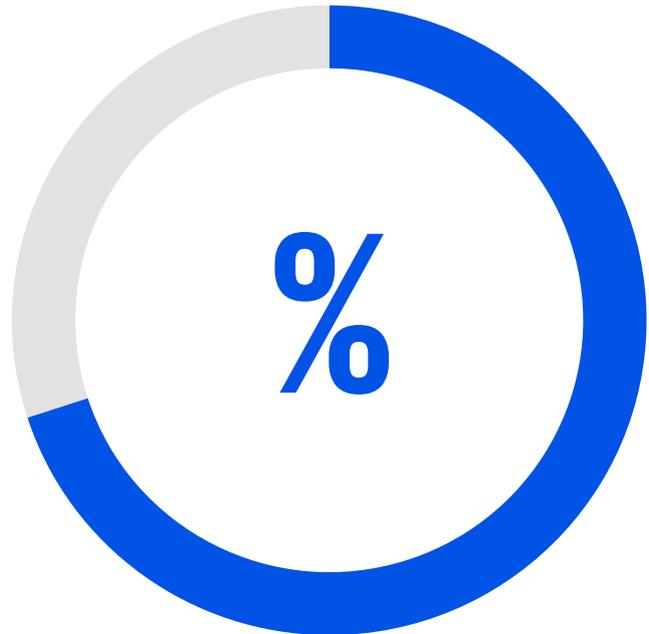
- We conducted several ESG health checks for banks and insurance companies to assess the firm's maturity with regards to incorporating sustainability in its operations.
- We supported a Swiss health insurance company in the drafting of their first materiality map and in the subsequent establishment of an action plan to improve on its most material topics.

# KPMG tool – ESG Health Check

The ESG Health Check offers quick overview of the maturity-grade of a financial institution regarding ESG implementation. The check covers a number of key topics, from governance to reporting, both for own operation and for investment, financing or underwriting activities. Each topic is assessed in terms of the degree of formalisation (policies/strategies), implementation (implementation of specific measures, KPIs, etc.) and reporting (external reporting). In addition, we highlight areas where current or upcoming regulatory requirements are relevant and how the firm performs against these requirements.

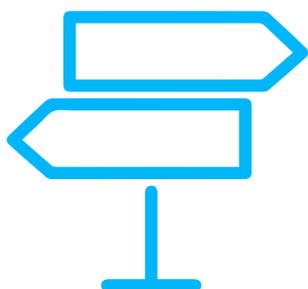
## Results

The categories are based on generally accepted industry standards such as the OECD Due Diligence Guidelines for Responsible Business Conduct, the UNEP FI Principles for Responsible Banking (PRB), UNEP FI Principles for Sustainable Insurance (PSI), the UN Principles for Responsible Investment (PRI) and the principles currently considered good practice.



# Regulatory, risk and business integration

Financial institutions will only be able to manage their business effectively in the coming years if ESG risks and opportunities are taken into account systematically. This includes embedding ESG considerations across all business units in a consistent manner. A successful ESG initiative as part of the company's strategy and business model reflects the requirements and expectations of the firm's key stakeholders.



## Client challenge

- Understanding the various Swiss, European and global regulatory initiatives and how they apply to an institution.
- Identifying gaps between the current setup and regulatory minimum requirements or good market practices and prioritizing the work to address such gaps.
- Implementing requirements consistently across policies, processes and control frameworks of the various functions of an institution.



## KPMG offering

- **Gap analyses, impact assessments and implementation** for new regulatory requirements.
- **Definition of ESG considerations and integration into key processes** such as investment advice/suitability, remuneration, risk management, investment decisions, etc.
- **Drafting or review** of remuneration policies, sustainable investment policies, due diligence policies, risk management policies, etc.
- **Greenwashing checks** to assess the risk of greenwashing within the institution.



## Credentials

- We performed an assessment of greenwashing risks of a Real Estate Asset Manager's ESG funds, based on the FINMA Anti-Greenwashing Guidance.
- We supported the asset management division of a global Swiss bank with the implementation of EU sustainable finance regulations (SFDR, EU Taxonomy).

# KPMG tool – Investment Navigator

**Sustainable Investment Framework** Navigator can assess investment portfolios based on a common impact standard and provide asset managers and investors with insight into real-world sustainability impacts of investment portfolios. The tool is based on the Sustainable Investment Framework with the goal of measuring the alignment of investment funds with the United Nations Sustainable Development Goals.

## The Navigator can be used for:



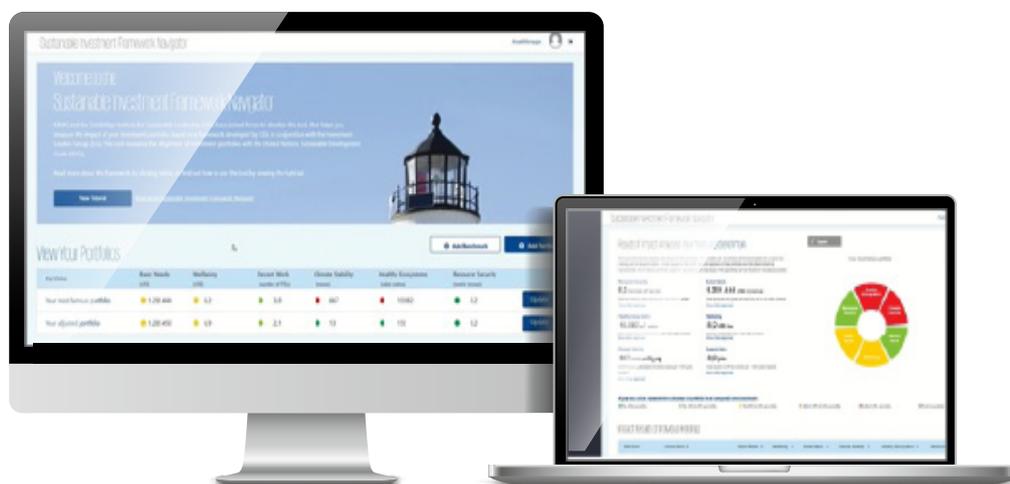
**Gaining insights** into the current impact of an investment portfolio and tracking changes in its impact over time



**Reporting the impact** of an investment portfolio to both internal and external stakeholders



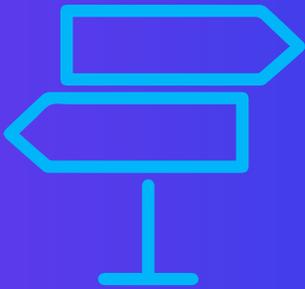
**Assessing asset managers** according to the impact of their investment portfolio instead of strictly focusing on the more traditional approach



# Business steering and controlling

Among investors, there is growing demand for transparency about businesses' performance, backed up by quantitative key performance indicators, with regards to their ESG commitments.

Robust processes to capture and report relevant data points is key to demonstrate progress on a firm's sustainability journey.



## Client challenge

- Transparently disclose progress on sustainability topics and goals to build trust.
- ESG data is scattered across the organization, availability and quality of data is hugely diverging.
- No or insufficient control processes to ensure reliability of information and allow monitoring or controlling of non-financial matters.



## KPMG offering

- **Implementation of non-financial KPIs**, including the setup of governance, training, drafting or revising of accounting manuals, defining reporting processes or setting up controls.
- **Calculation of the carbon footprint** of portfolios and design of reduction measures (e.g. net-zero).
- Methodologies and tools to monetarize externalities and **design approaches to remediate negative effects or boost positive effects**, using our proprietary methodology "KPMG True Value".
- Design and implementation of process- and entity-level **controls** to ensure firms are key to demonstrating progress on a firm's sustainability journey.



## Credentials

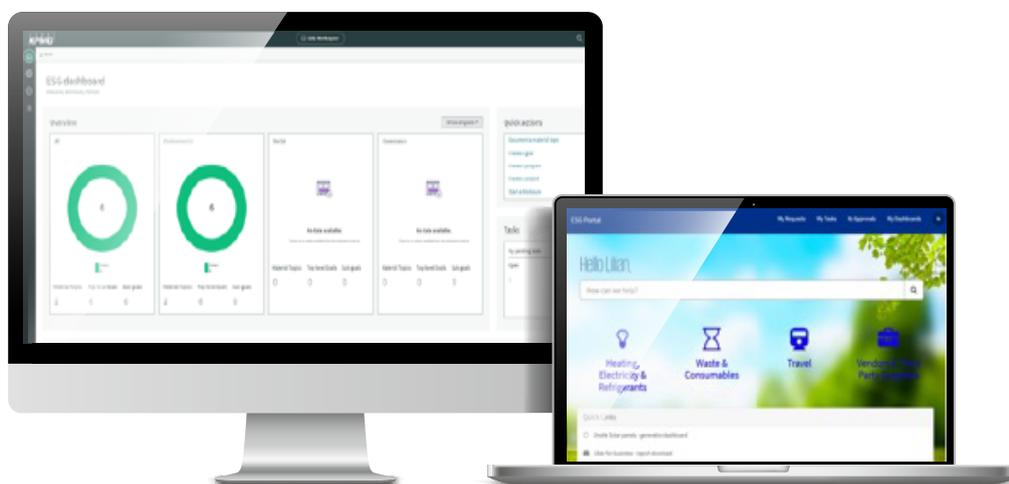
- We supported a Swiss impact investor with the definition of an impact investing framework in line with the OPIM (Operating Principles for Impact Management) and SFDR.
- We assisted a global insurance company in defining a detailed implementation plan for climate risk reporting (TCFD) in close cooperation with the finance function.

# KPMG tool – ServiceNow ESG

ServiceNow ESG transforms the way you manage, visualize, and report on issues across the ESG spectrum. It streamlines data collection, organization, and storage of information in one easy-to-use system and automates dashboards and reports for internal audiences, as well as external disclosures aligned with ESG standards and frameworks.

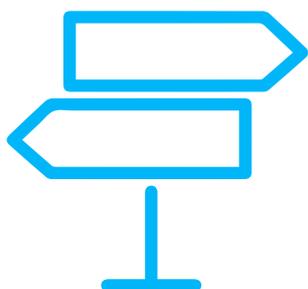
## ServiceNow ESG can be used for:

- Capture the ESG strategy through defining material topics and goals
- Set specific targets for each goal
- Plan, manage and execute ESG projects to achieve the goals
- Define ESG policies, continuously monitor compliance of these policies and automate attestations
- Assign owners to import, manage or approve data
- Automate data collection from other systems
- Calculate metrics
- Measure and monitor the progress towards the goals
- Report on ESG



# Transparency and disclosures

Transparency is essential as investors and companies need a common language so they can better understand one another and make the mechanics of sustainable finance unfold its momentum. An insightful report on non-financial impacts, performance, risks and opportunities signals a more sustainable and resilient business and a commitment to transparency. ESG disclosures need to comply with mandatory and voluntary reporting requirements and be credible, verifiable and comparable.



## Client challenge

- Rising expectation of regulators, clients, investors and rating agencies regarding transparency on sustainability matters and specific data points.
- Differing standards for ESG disclosures across the globe need to be considered.
- ESG-related communications must be consistent across all channels and both at entity level and financial product level.



## KPMG offering

- **Impact assessments** for upcoming reporting requirements such as Swiss Code of Obligations/TCFD, SFDR, EU Taxonomy or CSRD.
- **Benchmarking** or gap analyses of non-financial reports compared to industry best practice or regulatory expectations.
- Creation of a **reporting strategy** and improvement of ESG ratings by better taking into consideration the raters' methodologies in external reporting.
- **Compilation of non-financial disclosures** in accordance with recognized reporting Standards.

## Credentials



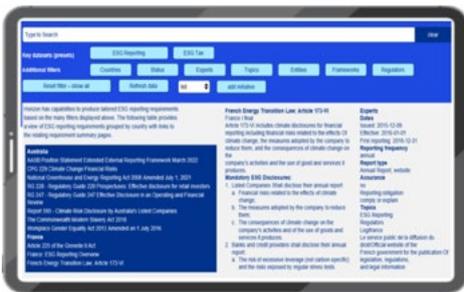
- We performed a benchmarking exercise for the ESG disclosures (according to SFDR) for the asset management arm of an insurance company.
- We supported a life insurance company in conceptualizing its first SFDR entity-level adverse impact report.

# KPMG tools for ESG reporting 1/2

KPMG has the experience required to deliver high-quality reporting comparisons through our robust tools and internal expertise on the subject matter.

## Regulatory Horizon

Identify existing and potential governmental regulation and ESG standards that could impact client's ESG reporting requirements.



## SEC/TCFD/CSRD Reporting Diagnostic

Evaluate publicly available disclosures against 119 unique SEC disclosures and provide rapid insights in 3 weeks.



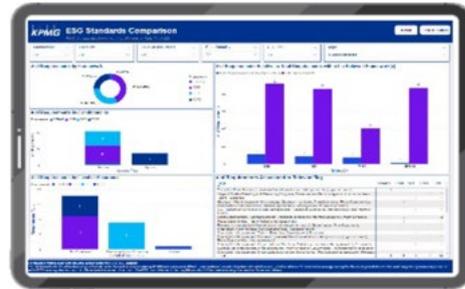
## Reporting Readiness Assessment

Gap analysis of entity's current state vs regulatory reporting requirements and development of a roadmap to achieve compliance.



## Multi-Framework Reporting Comparison

Deliver a single global ESG readiness reporting tool, advising on client readiness against ISSB, TCFD, SEC, ISSB, and CSRD/EFRA.

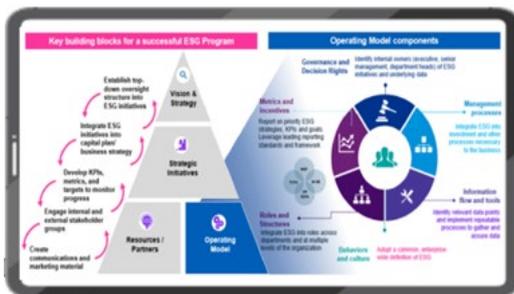


# KPMG tools for ESG reporting 2/2

KPMG has the experience required to deliver high quality reporting comparisons through our robust tools and internal expertise on the subject matter.

## ESG Target Operating Model

Assess and document the current state of the organization's ESG program in relation to the operating model to determine the effectiveness of the firm-wide governance program.



## ESG Metrics Translator

Assists in mapping ESG metrics to leading guidance frameworks and ESG data vendors.



# Summary

Sustainability is one of the main pillars of the Swiss financial market strategy adopted by the Federal Council in December 2020. In order to better understand and address risks and opportunities associated with transitioning to a sustainable future, financial institutions need to act in key areas such as strategy, risk management, disclosures and reporting. This poses a challenge, with requirements and practice evolving at a rapid pace. The sustainability specialists at KPMG offer experience and insights on every facet of this journey, across all sectors and geographies. Please do not hesitate to get in touch with us if you need support with any of these topics, or if you would simply value another perspective. We look forward to working with you.

## Why KPMG

KPMG has been supporting clients on their ESG journey for many years. Our sustainability specialists employ their extensive understanding of building a more sustainable and resilient future to help you navigate complex business challenges.



### Dedicated subject-matter expert pool

Our experts combine industry experience in banking, insurance and asset management with in-depth knowledge of ESG topics.



### Compliance with regulatory requirements

Our services and tools are compliant with regulatory requirements and we constantly monitor new policies.



### Innovative tools

We offer a variety of tools which support the incorporation of ESG. Our tools are being continuously tested, improved and enriched with up-to-date portfolio and ESG data.



### Experienced with ESG implementation

We have extensive experience with ESG implementation through working with different clients.

If you have any questions,  
please reach out to our specialists:

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