



ESG Performance Management: Sustainable value creation in Financial Services



Call to action

There has been a significant trend in recent years for organisations to monitor and account for Environmental, Social and Governance (ESG) activities. This increasing focus on the ESG agenda will alter how businesses are viewed going forward, including how executives in charge of these businesses manage financial and non-financial performance.

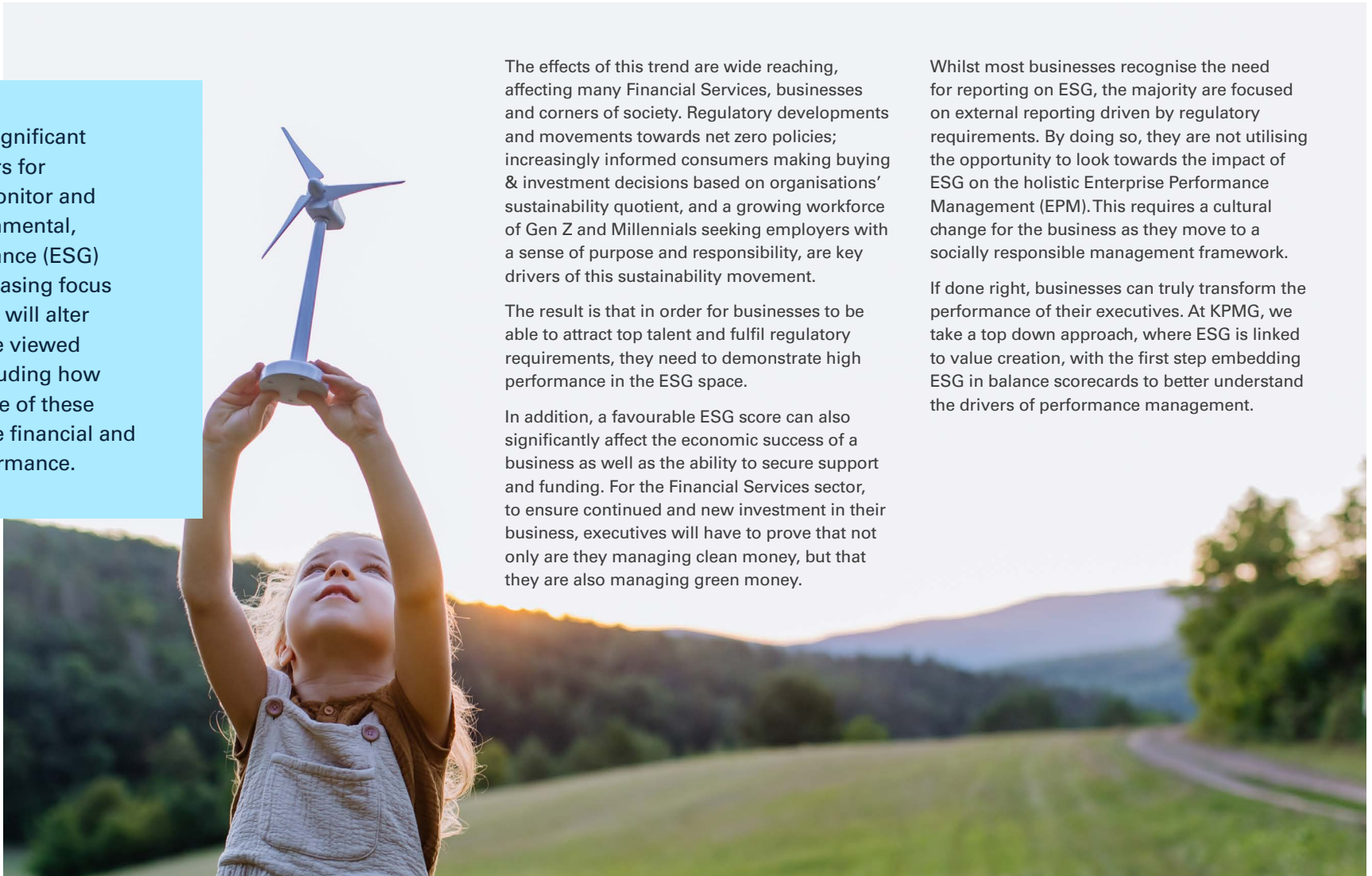
The effects of this trend are wide reaching, affecting many Financial Services, businesses and corners of society. Regulatory developments and movements towards net zero policies; increasingly informed consumers making buying & investment decisions based on organisations' sustainability quotient, and a growing workforce of Gen Z and Millennials seeking employers with a sense of purpose and responsibility, are key drivers of this sustainability movement.

The result is that in order for businesses to be able to attract top talent and fulfil regulatory requirements, they need to demonstrate high performance in the ESG space.

In addition, a favourable ESG score can also significantly affect the economic success of a business as well as the ability to secure support and funding. For the Financial Services sector, to ensure continued and new investment in their business, executives will have to prove that not only are they managing clean money, but that they are also managing green money.

Whilst most businesses recognise the need for reporting on ESG, the majority are focused on external reporting driven by regulatory requirements. By doing so, they are not utilising the opportunity to look towards the impact of ESG on the holistic Enterprise Performance Management (EPM). This requires a cultural change for the business as they move to a socially responsible management framework.

If done right, businesses can truly transform the performance of their executives. At KPMG, we take a top down approach, where ESG is linked to value creation, with the first step embedding ESG in balance scorecards to better understand the drivers of performance management.








ESG forces which need management focus, transparency and forward looking steer

As the ESG agenda becomes increasingly important for a wide range of stakeholders, including management, consumers and investors, the reporting and forecasting of these metrics require the right tools and capabilities to support an enterprise-wide strategy.

The table below summarises the ESG value chain by external and internal forces. The value drivers represent factors that increase the appeal, worth or capability of the product or service and hence lead to enterprise value creation. These drivers can be integrated into financial models to monitor and provide forward steering for the organisation.

Performance can be assessed across each of the key areas with a balanced scorecard of financial and non-financial measures to encourage long-term value creation.








How ESG can be used to enhance enterprise value: External

ESG forces	ESG value drivers	Enterprise value creation	FP&A capabilities needed	
			Transparency (MI)	Forward steering (planning/forecasting)
 <p>Customers</p>	Promote green products e.g. deposits, mortgages and carbon-cautious motor policies	<ul style="list-style-type: none"> Provide transparency by adhering to regulatory taxonomy and definitions Customer profitability – engaging with ESG compliant customers when company operations are also ESG compliant creates stability 	<p>Single customer view</p> <ul style="list-style-type: none"> ESG ratings of products Know Your Customer checks, anti-money laundering checks etc. Cost of service for ESG complaint customers 	<p>Customer profitability</p> <ul style="list-style-type: none"> Innovative products to help customers ‘go green’ to reduce their environmental impact Align sustainability targets to strategic product offerings to support transitioning to a low carbon economy
 <p>Supply chain</p>	Support ethical practices across the supply chain	<ul style="list-style-type: none"> Engaging third parties with a strong ESG reputation can enhance operational performance and in turn improve reputation Enhance ethical and environmental footprint 	<p>Procurement MI</p> <ul style="list-style-type: none"> Supplier ratings Carbon footprint of operations e.g. power usage, pollution control 	<p>ESG compliant procurement</p> <ul style="list-style-type: none"> Work towards a visible and sustainable supply chain Improving the ability to understand supply chain impacts and risks
 <p>Investors</p>	Present a clear strategy with KPIs, metrics and sustainability goals	<ul style="list-style-type: none"> Investors can use ESG metrics to assess the behaviours of the company which can lead to improved ROI Comparable ESG metrics with clear narrative on steps to achieve targets 	<ul style="list-style-type: none"> Corporate governance metrics e.g. balance of power within the board, transparency of accounting and audit policies, shareholders’ rights, market behaviour, business ethics etc. 	<p>Risk management</p> <ul style="list-style-type: none"> Address issues before they become violations or fines with triggers based on regulatory thresholds
 <p>Government</p>	Comply with mandatory reporting frameworks e.g. Streamlined Energy and Carbon Reporting (SECR) and Task Force on Climate Related Financial Disclosures (TCFD)	<ul style="list-style-type: none"> Governments are more likely to offer subsidiaries and contracts to companies which demonstrate favourable ESG scores Assist governments tackle the adverse effects of global warming 	<ul style="list-style-type: none"> Investor Day MI Measure performance against published targets 	<p>Strategic planning</p> <ul style="list-style-type: none"> Align sustainability targets to strategic business goals e.g. offering green mortgages to support transitioning to a low carbon economy
 <p>Regulators</p>	Management of the regulatory environment	<ul style="list-style-type: none"> Strong ESG reputation will reduce the risk of fines, sanctions and restrictions by regulators in operating regions Good relationships with regulators are likely to reflect favourably in the future with increasing freedom and support to operate in new markets 	<ul style="list-style-type: none"> Disclose carbon footprint by direct & indirect type emissions Pillar 3 disclosures (where applicable) 	<p>Financial planning & stress testing</p> <ul style="list-style-type: none"> Inclusion of climate change in scenario analysis by taking into consideration different climate-related scenarios

ESG forces which need management focus, transparency and forward looking steer

Continued

How ESG can be used to enhance enterprise value: Internal

ESG forces	ESG value drivers	Enterprise value creation	FP&A capabilities needed	
			Transparency (MI)	Forward steering (planning/forecasting)
Workforce 	Responsible and responsive employer	<ul style="list-style-type: none"> Diverse & inclusive environment Build the capability of the workforce Reflects favourably as a place to work and likely to attract more talent 	<ul style="list-style-type: none"> FTE reporting by performance targets Employee satisfaction can be correlated to positive shareholder value 	Workforce planning <ul style="list-style-type: none"> Ensuring competitive salaries, evidence of opportunities across genders & high workforce retention Linking executive remuneration to ESG targets
Governance 	Maintain a robust control environment	<ul style="list-style-type: none"> Security for shareholders in knowing there is strong governance in place in order to support risk management Abide by legal and regulatory requirements 	<ul style="list-style-type: none"> KPI reporting ensuring internal ESG controls are in place for satisfying internal and external auditors 	ESG reporting framework <ul style="list-style-type: none"> Ensuring alignment with regulatory, statutory and management requirements e.g. embedded Sox controls Greater transparency and accountability through clear RACI
Treasury 	Financing products that link to sustainability performance	<ul style="list-style-type: none"> Treasury's role evolving into an advisory and collaborative role with sales, procurement and technology Borrower's interest rates linked to whether company meets sustainability targets Encourage suppliers to comply with ESG targets 	<ul style="list-style-type: none"> ESG Investment Ratings Reporting on investments, supply chain finance SI driven pension plans for employees 	Capital planning <ul style="list-style-type: none"> Reducing the level of carbon intensity investments within funds and portfolios Divesting from high-impact fossil fuels linked to specific targets
Product 	Lifecycle impacts of products and services	<ul style="list-style-type: none"> Ensuring that products are compliant with ESG related guidance, as well as supporting the ESG direction of company Promote new product innovation Attract new customers and market share 	Product profitability <ul style="list-style-type: none"> MI to support reduced carbon emissions and transition to net zero ESG related add-ons to services 	Driver-based product models <ul style="list-style-type: none"> Products will need to reflect consumer and societal shifts and trends e.g. transition towards wider suite of sustainable product offerings Provision of broader ESG related services e.g. revenue generated from sustainable finance
Technology 	Transition to energy efficient technologies for the business	<ul style="list-style-type: none"> Investment in increasing green technology usage throughout the company Eligibility for capital allowances when sourcing energy efficient, low or zero-carbon technology for business 	MI <ul style="list-style-type: none"> Prioritisation of R&D expenditure into green technologies Reporting targets in annual accounts & financial reports 	Capex planning <ul style="list-style-type: none"> Embed climate related drivers for calculating asset value in use and impairments Accelerated depreciation schedule reducing tax effects
Operations 	Make operations Climate Positive by leveraging sustainable sources of power	<ul style="list-style-type: none"> Leveraging sustainable sources of power at present may be subject to tax relief Long-term business model resilience 	MI <ul style="list-style-type: none"> Reporting net zero carbon across operations Renewable electricity target & usage 	Operational risk management <ul style="list-style-type: none"> Continued R&D and investment into greener production techniques Increasing reliance on sustainable sources of power
CSR 	Business ethics, data security and customer privacy	<ul style="list-style-type: none"> Consumers choosing to transact with organisations that have positive CSR initiatives A responsible approach to tax Positive response to human rights and community relations 	<ul style="list-style-type: none"> Number of CSR activities completed Number of sectors supported through CSR hours 	Reputation risk management <ul style="list-style-type: none"> Identifying and reporting of high-risk sectors to minimise risk Greater tax transparency with reporting of global tax contribution and operations in low tax jurisdictions

Going beyond ESG disclosure reporting, what do you need to do

Addresses key gaps to deliver:



The right insight



At the right time



To the right people

Key focus areas

Risks to mitigate

Enablers/action to support

<p>01 Develop your ESG KPI framework for internal performance management</p>	<p>Unclear communication and articulation of the ESG strategy as it relates to daily operations and functions</p>	<ul style="list-style-type: none"> • Definition and alignment on what is relevant to measure and manage business on for ESG • Plans and targets cascaded to functions and individuals aligned with the business
<p>02 Enhance your planning and forecasting models for ESG</p>	<p>ESG disconnected from planning processes, which are disconnected from reporting results</p>	<ul style="list-style-type: none"> • Clear understanding and visibility of ESG drivers and events impacting KPIs and business outcomes • Integrated business and financial plans with the capability to predict and accurately plan and forecast performance
<p>03 Improve your ESG performance reporting</p>	<p>Information lags and inaccuracies hinder the ability to make decisions and take corrective actions</p>	<ul style="list-style-type: none"> • Accurate and timely impact of ESG on cost and profitability across multiple dimensions • Common ESG data definitions and integrity with cloud access to improve timeliness
<p>04 Provide self-service reporting to drive transparency for the business</p>	<p>Lack capabilities to effectively make decisions or take actions that have impact</p>	<ul style="list-style-type: none"> • Access to the right information on a timely basis to make impactful decisions • Tools and capability (skills) to analyse and influence the drivers and measures
<p>05 Embed a sustainable operating model</p>	<p>Weak enforcement and accountability with operations and at the individual level</p>	<ul style="list-style-type: none"> • Governance to ensure accuracy, consistency and use of the data and information • People held accountable to take action and make decisions that impact performance

Addressing these actions will support the drive towards more complete ESG reporting

How to start: Small and value-led



FP&A strategy for ESG



Gap analysis



Prototype



Embed



Expand



Improve

Define internal KPIs for ESG

KPMG data scan

Validate solutions

Sustain and improve

Identify improvement targets

Prioritise opportunities

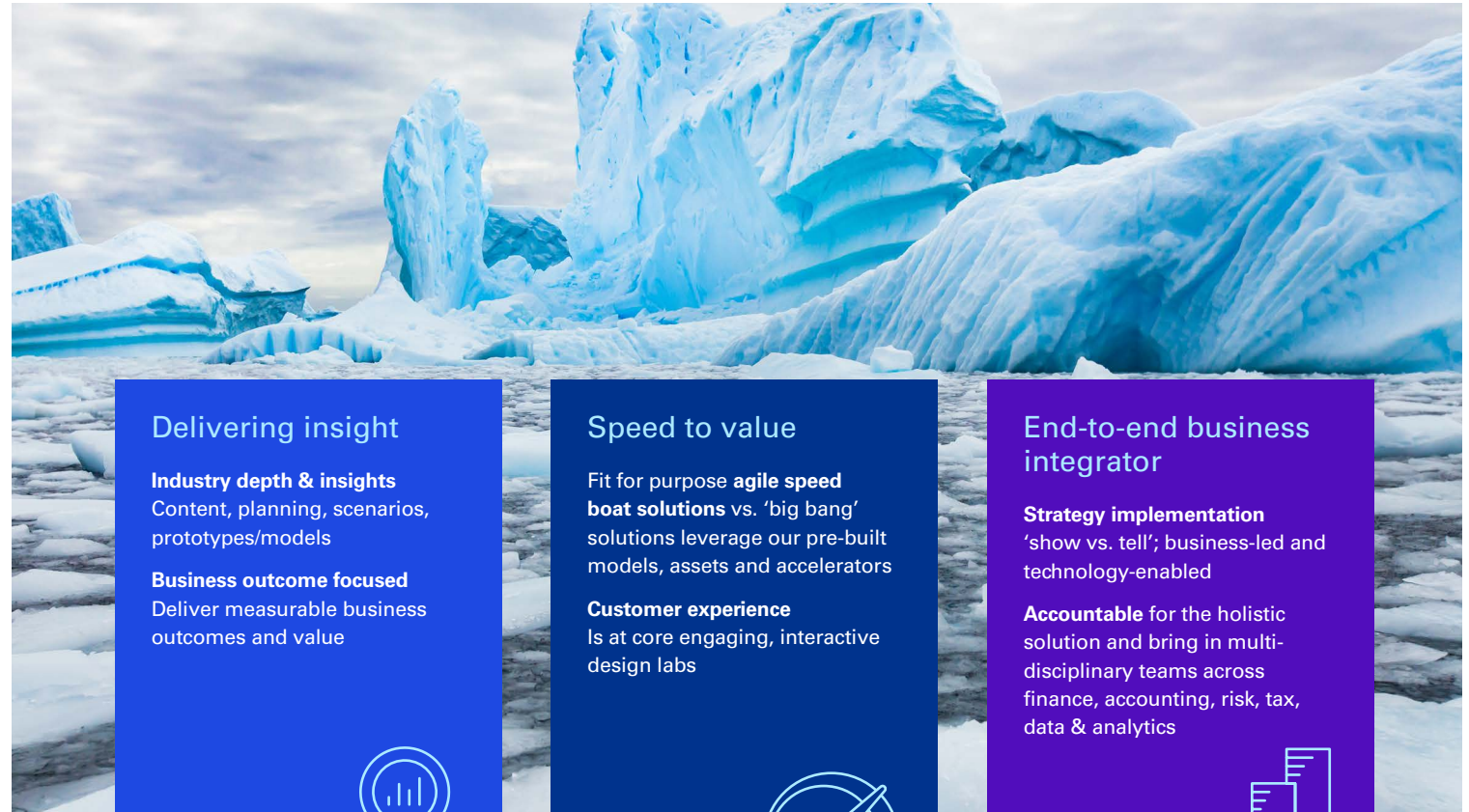
Quantify the business benefits

Measure results

How can KPMG help and accelerate and de-risk your ESG performance management journey

KPMG professionals can partner with you to:

- ✓ Understand the ESG issues that are material for your organisation and your stakeholders
- ✓ Choose the right reporting approaches and framework for your business
- ✓ Integrate financial and non-financial information in your reporting leveraging ready to deploy asset libraries
- ✓ Report information for specific purposes, such as sustainability indices
- ✓ Benchmark the quality of your reporting against industry peers
- ✓ Gain independent assurance for your internal and external reporting systems and your sustainability reporting
- ✓ Undertake a review of ESG performance management to ensure you are leveraging an appropriate framework to deliver on ambitions



Delivering insight

Industry depth & insights
Content, planning, scenarios, prototypes/models

Business outcome focused
Deliver measurable business outcomes and value



Speed to value

Fit for purpose **agile speed boat solutions** vs. 'big bang' solutions leverage our pre-built models, assets and accelerators

Customer experience
Is at core engaging, interactive design labs



End-to-end business integrator

Strategy implementation
'show vs. tell'; business-led and technology-enabled

Accountable for the holistic solution and bring in multi-disciplinary teams across finance, accounting, risk, tax, data & analytics



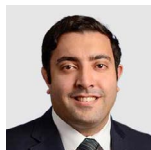
Contact us

To learn more about how KPMG can help with your ESG Performance Management reporting needs, please contact us.

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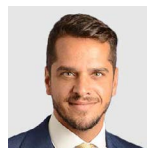
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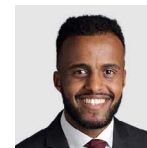
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