UNEP FINANCE INITIATIVE

IMPACT

IMPACT IDENTIFICATION & ASSESSMENT FOR BANK PORTFOLIOS

TOOL PROTOTYPE

INTRODUCTION MANUAL

September 2019

CONTENT OVERVIEW

1. INTRODUCTION

What is the tool?

The tool is a unique resource for banks to identify their significant impact areas. Banks can use it to set targets that will increase their positive impacts and decrease their negative impacts in the impact areas that are significant, based on the nature, content and geographic scope of their portfolios.

This document provides a narrative introduction and overview of the interactive prototype (available for download from the UNEP FI website from early 2020).

How did it come about?

In 2019, UNEP FI launched the Principles for Responsible Banking (PRB). Principle 2 is about Impact and Target Setting:

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

In 2017 the UNEP FI Positive Impact Initiative (PII) released the Principles for Positive Impact Finance (PI Principles), a meta-framework for holistic impact analysis, management and delivery by financial institutions and their clients. In 2018, the Principles were complemented by two resources. An Impact Radar, which provides a taxonomy of impact areas and their definitions, and a set of Model Frameworks to guide banks, investors and their service providers interpret and implement the PI Principles.

The PII and a group of PRB Founding Signatory banks and endorsers, and other UNEP FI banking members,[1] joined forces to build on the PII approach and resources to develop a new tool for banks to identify and assess their impacts at portfolio level.

What is special about this tool?

The tool is unique in several respects. It is specifically tailored to banks and considers different types of bank activities such as retail and corporate banking, among others. It is uniquely based on an objective and holistic set of impact areas covering all three dimensions of sustainable development and hence responds fully to the SDGs. It systematically considers both positive and negative impacts for all impact areas. Finally, it provides both a global and country-by-country view of the bank's significant impact areas and helps contextualize these vis a vis the banks' current impact performance, and countries' impact needs.

How do I use the tool prototype?

The prototype will be available for download from the UNEP FI website from early 2020. This document provides an overview of the workflow, main data points and key concepts contained in the prototype to help banks identify and assess their significant impact areas. The tool will be consolidated based on user testing of the prototype.

What else do I need to know?

A complementary tool, to perform client impact analysis on corporates is also available (see UNEP FI website) and is based on the same approach as this self-assessment tool, thus enabling a seamless connection between top down portfolio analysis and the pursual of impact targets in day-to-day business operations and transactions.

1. Working Group participants: BMO, Bradesco, CaixaBank, CIB, CIMB, FirstRand, Garanti, Golomt, KCB, Land Bank, NAB, Piraeus, Santander, Shinhan, Societe Generale, Standard Bank, Shinhan Financial Group, Sumitomo Mitsui Financial Group, Westpac, YES Bank.

2. KEY CONCEPTS

Bank cartography

Overview of the bank's business activities, countries of operation and sectors of involvement.

Type of business activities

For the purpose of this tool, banking activities have been categorized as follows:

Retail banking

Provision of services (loan and deposits) to local individuals, professionals, associations, cooperatives, SMEs, corporates, FIs, municipalities, regions, sovereigns. Local means from the country where the bank or bank subsidiary is incorporated.

Wholesale banking

Provision of services to larger entities and/or entities beyond the bank's country/ies of incorporation. These include:

- **Corporate banking** - Loan and deposit services to international clients (corporate, FIs, sovereigns), specialized finance (project finance, trade and commodity finance, export credit, aircraft and shipping finance, leverage finance)
- **Investment banking** - Raising capital / providing access to capital markets via bonds, equity, securitization, M&A and other advisory services

Capital markets

Trading of cash and derivatives (currencies, equity, fixed income, commodities)

Other activities

Any other activity not included above, typically wealth & asset management, insurance, etc.

Bank country of operation

In this tool the bank's countries of operation are those where the bank is incorporated or has an otherwise registered presence.

Sectors

For the purpose of this tool, sectors are areas of activity as per the ISIC industry classification. A converter to other industry classifications (e.g. NACE, NAICS) will be available.

Impacts

An impact is the effect or influence of one person, thing or action on another (New Oxford Dictionary).

Impact Areas

Impact areas are the "themes" of the impacts, under the three pillars of sustainable development (economic, environmental, social). The impact areas used in this tool are based on the PI Impact Radar (PII, 2018).

Figure 1: Impact Radar

Source: Impact Radar, PII, 2018

Significant Impact Area

A significant impact area for a bank is one where there is a strong correlation between the impact area and the bank' s current and/or future business, as a function of its business activities, the sectors it supports and the countries in which it and its clients operate. Understanding their significant impact areas enables banks to take action and set targets where they can deliver the most impact.

Impact Identification

In this tool, Impact Identification is the process by which the bank's significant impact areas are identified, as a basis for an assessment of its impact priorities and target-setting.

Impact Assessment

In this tool, Impact Assessment is the process by which the banks significant impact areas, as determined via impact identification, are analysed with a view to prioritizing impact areas and, ultimately, setting targets.

Impact needs

Impact needs, are the environmental, social and economic needs of the countries in which the bank operates. These are considered as part of Impact Assessment to establish priority impact areas for the bank.

Impact performance

A bank's impact performance is its actual delivery of positive impacts and management of negative impacts. It can be quantitatively and/or qualitatively measured per impact area through indicators and metrics. It is judged relative to specific targets and benchmarks (e.g. as set by policy goals and targets or in industry standards). The bank's impact performance, among other things, is considered during Impact Assessment in order to establish its priority impact areas.

Impact targets

Setting meaningful impact targets is the what the bank is enabled to do at the end of the Impact Assessment process. These targets will be set vis a vis its most significant impact areas.

Bank impact profile

This is the final output of the tool. It shows the bank's significant impact areas, as well as its current performance (where known), and any targets it has set itself vis a vis these impact areas.

Impact management

Impact management covers all actions taken to drive positive impact and reduce negative impacts: identifying significant impacts, measuring them, setting appropriate targets, taking action to reach those targets, monitoring their attainment, constantly improving processes and outcomes/performance, communicating both on process and performance. Effective impact management is a function of the quality of the governance, resources and processes established by the bank to reduce its negative impacts and increase its positive impacts.

3. OVERVIEW OF PROCESS & OUTPUTS

Below is an overview of the key steps and outputs contained in the tool prototype.

Figure 2 Impact Identification & Assessment - Workflow

A. IDENTIFICATION

I. Bank Cartography
- Type of business
- Geographic scope
- Sectors of activity

II. Significant Impact Areas
- Positive impacts
- Negative impacts

In-built resources:
- Sector to impact map
- Industry classification code converter

Output:
Portfolio impact maps (significant impact areas by type of business activity, by country & globally)

B. ASSESSMENT & TARGET-SETTING

I. Assessment
- Negative Impacts
- Country Impact Needs
- Impact Performance

II. Target-setting
- Existing impact targets
- New targets

In-built resources:
- Country-impact mapping tool
- EU Taxonomy navigation tool

Output:
- Bank impact profile

4. TOOL CONTENT

A. IDENTIFICATION

A bank's impacts are linked to the nature of its business activities; they depend on the clients, sectors and activities that these support, and where these clients, sectors and activities are based or taking place. The first step is therefore to understand what the bank actually does. This cartography of the bank can then be used to map out its significant impact areas.

i. Bank Cartography

The following should be mapped out:

1. What are the bank's business activities and what portion of the bank's overall business does each type of business activity represent (as a percentage of gross income)?

   The following types of business activity should be considered:

   - Retail banking
   - Corporate banking
   - Investment banking
   - Capital markets
   - Other

2. For each type of business activity, which countries does the bank operate in? The portion and/or volume of business per country should also be considered.

3. For each type of business activity, what sectors do the bank's clients or client activities belong to, and what percentage of the bank's portfolio do these represent, per country?

   Large/international banks may prioritise countries that represent 15% or more in the bank's gross income, as well as any additional countries where the bank is a leading player (i.e. where the bank is among the top 3 of the country).

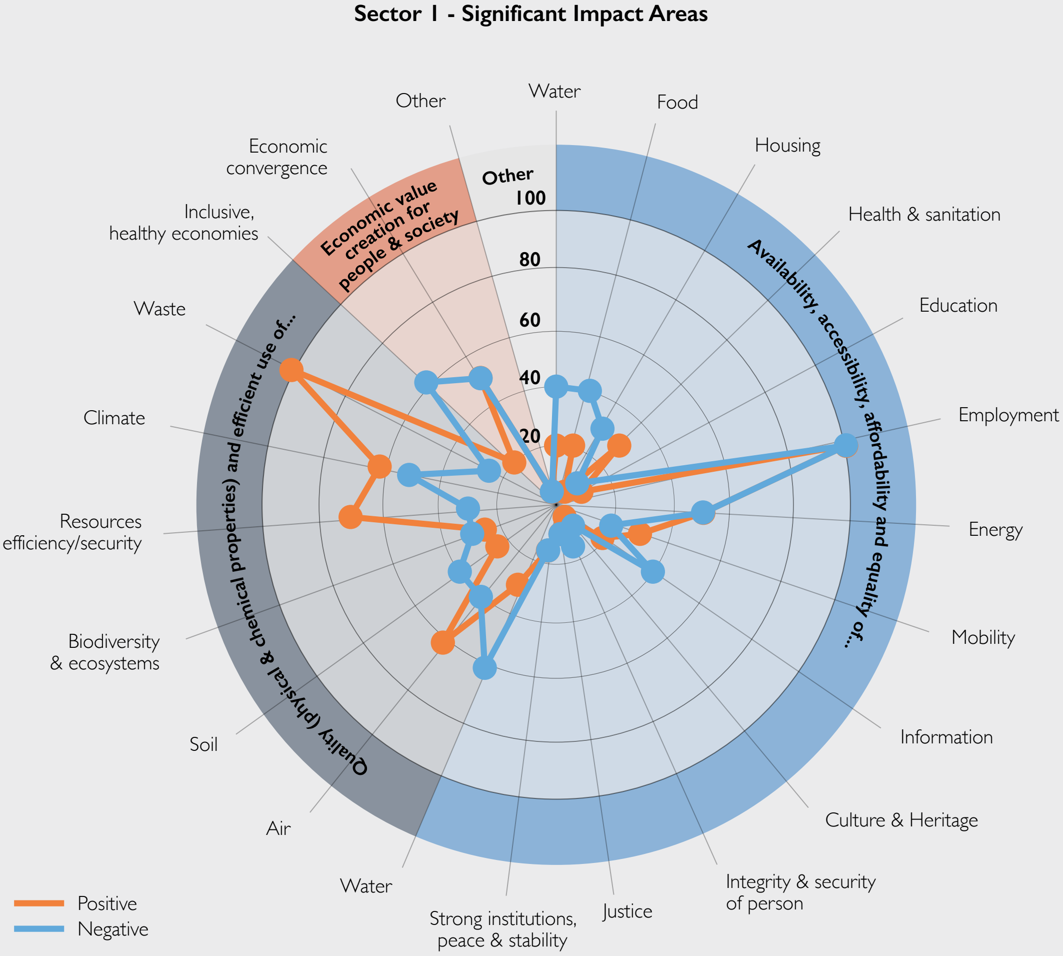
   NB. For corporate banking portfolios, bottom-up corporate analysis will be a necessary complement to top-down portfolio analysis in order to fully capture significant impact areas, bearing in mind the cross-border and cross-sector nature of larger corporations serviced by this part of banks' business. A tool prototype to perform corporate client impact analysis is available separately on the UNEP FI website.

ii. Significant Impact Areas

Based on the above cartography, a map of the bank's significant impact areas will be automatically generated per country and portfolio segment (i.e. per type of business activity, e.g. retail banking or corporate banking). Each map shows the percentage of the portfolio for which an impact area is significant. For banks active in multiple countries the maps can be aggregated to provide a global map per portfolio segment.

The maps are generated on the basis of the tool's in-built sector/impact mapping (and which users can view). Positive and negative impacts associated with the sectors and activities in the ISIC industry classification code are mapped out based on the PII's Impact Radar. This mapping builds on the IFC's EHS Guidelines, as well as UNEP FI's Risk Briefings. The mapping will be refined and updated over time based on engagement with experts, as well as to take into account user experience.

Figure 3 Example of a map of significant impact areas generated by the tool (retail banking/global)



B. ASSESSMENT & TARGET-SETTING

Once the significant impact areas of the bank have been determined, the next step is to assess what to prioritise, and decide what targets and actions to take.

i. Assessment

Three types of consideration are proposed to inform which impact areas could or should be prioritised. One or several of these can be used to prioritise the bank's action:

1. Assessment of negative impacts

   Ensuring that negative impacts are addressed is the pre-condition for claiming positive impacts. (PI Principle n.1). Based on the mapping of the bank's significant impact areas, the bank should prioritise:

   - Impact areas that are associated with the largest portions of its portfolios
   - Impact areas that are associated with portfolios through positive impacts as well as negative impacts

2. Assessment of the impact needs in the bank's country/ies of operation

   Objective impact needs, i.e. the environmental, social and economic needs of the countries in which the bank operates, should be at the heart of what guides target-setting. The bank should prioritise impact areas with the highest level of needs.

   Banks can use the tool's in-built country/impact mapping tool and cross-check with their impact map in order to assess the level of coincidence (high, medium or low) between the bank's significant impact areas and high levels of impact needs and/or policy priorities in the countries in or with which the bank does business.

In addition, relevant stakeholders (e.g. governments, local communities, etc.) can be engaged by the bank.

3. Assessment of the bank's impact performance

To determine the bank's performance the following should be considered:

- Indicators, metrics and current values for the impact areas established in A. Identification.
- Where this can be assessed: whether these indicators, metrics and current values are aligned with policy goals and targets (e.g. Climate Agreement, EU taxonomy, etc.).

NB - Alignment of values with the EU taxonomy can be checked via the tool's in-built code converter. Other alignments can be built into the tool further down the line (e.g. IEA scenarii, country targets, etc.)

- Where this can be assessed: how these indicators, metrics and current values compare with the performance of the bank's peers.

The bank should prioritise any impact areas where its performance is poor (namely vis a vis international or local policy targets, or vis a vis its peers).

ii. Target-setting

Targets should be set vis a vis the significant impact areas identified via the identification process (AI&II), focusing on those impact areas prioritised as a result of the assessment process (B.I). In order to set targets, a bank must determine the appropriate indicators and metrics relative to the impact area, building up from its current level of performance (the baseline).

Impact profile

Based on the information provided, the tool generates your bank's impact profile. This is a summary which captures: the most significant impact areas of the bank (as determined in A. Impact Identification); its current performance (based on the information submitted in B.I.3 impact performance); and its set targets (where applicable, as per information submitted in B.II target-setting). The profile can be updated over time to show progression towards targets and/or to include new targets.

ACHIEVING TARGETS

The bank will need to have appropriate impact management capabilities to complete the impact analysis, set targets, and most importantly, to meet them. Core considerations for appropriate impact management are listed below:

- The organizational set-up of the bank to manage its positive and negative impacts. I.e. who are people in charge and what are their reporting lines?

  The organizational structure is revealing of the extent to which impact management has become mainstreamed and integrat ed in the company. The more impact considerations are integrated into business and strategy departments, the more mainstreamed it is.

- E&S analysis of clients. This should apply (in adapted ways) across the bank's business activities

Impact analysis of clients. This should consider positive and negative impacts and cover the three dimensions of sustainable development.*

- Impact-related R&D. Do these investments exist and are they significant and/or growing?
- Impact-related commitments. Do they involve individual or collective commitments with clear targets and KPIs?
- Public disclosure on its impacts. Is impact-related reporting disclosed in an integrated manner with financial disclosures (e.g. integrated reports)?
- Integrated reporting is an opportunity to think more closely about the linkages between the bank's business and its impacts.
- External assessments. Are 2nd opinions, and 3rd party verifications often solicited? What for – reporting, products, other?
- Banks may not be able to reveal all impact-related information due to confidentiality requirements. The existence of 2nd opinions and 3rd party assurances can provide an indication of proper impact management in these cases.
- Engagement of relevant stakeholders. Is this done as part of general stakeholder consultations vis-à-vis the bank's sustainability strategy? As targeted consultations (e.g. within specific deals, to set up and or dismantle specific activities, etc.)?
- Existence of fines, law suits, and/or controversies.

*A tool prototype to perform corporate client impact analysis will be available on request as of 1st November.

UN Environment – Finance Initiative is a partnership between UN Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them.

www.unepfi.org

UNEP FI's Positive Impact Initiative explores solutions to the financing gap for sustainable development and the Sustainable Development Goals (SDGs). The Initiative helps move the financial sector towards a more thorough and deeper integration of impact analysis in decision-making. This improved understanding of impacts will ultimately also drive more impactful business models and investments. Based on the Principles for Positive Impact Finance, lenders and investors and a range of stakeholders are building on existing impact frameworks to develop guidance and tools for holistic impact analysis across a range of financing instruments.

We invite all stakeholders to participate in UNEP FI's Positive Impact Initiative to collaborate on best practice and help build the impact ecosystem. For more information:

www.unepfi.org/positive-impact/positive-impact/

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