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How banks can tackle their sustainability targets in three steps

Article

The news: Banks globally have made big commitments to reach net-zero emissions by 2050. That may still seem like a long way off, but that doesn't mean banks have time to procrastinate.

Reducing financed emissions and making sustainable changes are complex tasks that affect both consumer relationships and the bank's bottom line. **Here are three steps that can help banks break up the process into more manageable pieces** and help them stay on track to reach their goals in time.

Analyze your data, and your clients' data

- Setting quantitative targets is necessary, but it's the easiest part of the net-zero journey. Once quantitative targets are set, it's time to conduct a current-state analysis.
- In addition to determining the bank's carbon footprint, it's vital to look at the carbon footprints of the bank's borrowers to get a measure of where they're at on their sustainability journeys.
- It's also important to learn about these clients' own emissions goals. Make sure their timelines are reflected in the bank's plan. This can prevent damage to client relationships because proper expectations weren't set ahead of time.

Run through the scenarios

- The transition to net-zero will call for changes to the bank's lending strategies as its portfolio becomes more diverse. This will inevitably affect the bank's profits. It will likely face a period of time with reduced short-term profits, but it must keep the long-term value in focus.
- Testing various lending scenarios can help banks balance the transition. Forecasting revenues while reducing financed emissions to different levels can help the bank determine if it's moving too quickly or too slowly.
- Banks should also consider other scenarios during testing, like increased geopolitical conflict, a prolonged recession, or politics closer to home.
- Banks can push clients in the oil and gas industries to prioritize their sustainability targets, but also protect the relationship by offering perks like rate discounts and green loans.

Keep the vision after the planning stage

- Once a plan is in place, it's vital for the bank to monitor its progress to ensure it's on track to reach its emission goals.
- Routinely pulling together data and measuring progress will also make it easier for banks to adhere to reporting requirements and disclosures necessary for the transition.

- Staying on top of progress will also make it easier for banks to be nimble in the face of regulatory changes. Consistently gathering and analyzing data can alleviate the need for banks to restart the process from scratch.

The bottom line: Aside from the commitments banks have made to reduce emissions by 2050, those that successfully execute their transition could score points in customer acquisition and retention. Younger consumers will become lifelines for banks' futures. These consumers are highly aware of brand sustainability and select the brands they support accordingly. Laying the groundwork now will set up banks for generations of success.

Macroeconomic Trends that Are High Risk vs. High Growth on Their Business Model According to US CFOs, March 2021

% of respondents

	High Risk	High growth
A more intrusive regulatory environment in the US	34%	13%
US-China tension	27%	14%
Global trade and tax policy	26%	12%
Shifts in consumer behavior	23%	34%
Inflation	23%	11%
Increase in interest rates	20%	10%
Growth of digital economy	19%	46%
Work-from-home shift	14%	21%
Sustainability (net zero economy)	13%	16%
Policies promoting nearshoring or US reshoring	7%	11%

Note: n=182
Source: PwC, "US Pulse Survey," Dec 16, 2021

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