

FStech & Sage Research Report

THE ESG JOURNEY:

How are FSIs navigating their ESG strategy?



FStech

In collaboration with

Sage

Introduction

The concept of environmental and social governance (ESG) has gained a lot of coverage in recent years in the financial sector due to growing regulatory scrutiny, investor demands, and societal expectations. However, the exact definition of what it means for an FSI to become fully ESG compliant can often seem unclear.

Chief financial officers, financial directors, heads of finance and other executive financial decision makers – referred to herein as such – play a critical role in addressing ESG concerns and their importance to the broader financial sector's handling of this area should not be understated. These decision makers' responsibility for financial strategy, risk management, and other aspects of governance and guidance are vital in ensuring that an FSI's operations align with their business' wider sustainability and responsible banking goals.

However, those that wish to embark on a journey towards ESG compliance can be left wondering where they should begin.

Fortunately, a range of technologies are becoming increasingly available as a means of demystifying some of the ESG goals that FSIs are looking to achieve.

Carbon accounting software can help FSIs to reach net zero throughout their operations and supply chain and track progress, while real-time data analytics platforms can leverage insights which can help FSIs to meaningfully apply data to meet ESG dictates and benchmark against them.

The application of such technology offerings can help financial decision makers to gain high-level insights around what measures they can take throughout their journey towards ESG compliance.

Simultaneously, consumers are more socially conscious than ever, with research suggesting that an increasing number of consumers are in favour of the FSIs they do business with being socially responsible and managing their operations in a green and sustainable manner.

ESG is becoming more of a priority for financial decision makers, and more sophisticated technological tools along with a better view of their organisation's data are helping them to achieve their aims.

Methodology

FStech and Sage surveyed 100 financial decision makers at financial services institutions (FSIs) to gain insight into where they are on their ESG journey and identify the key challenges and pain point points they face in their pursuit for full ESG compliance.



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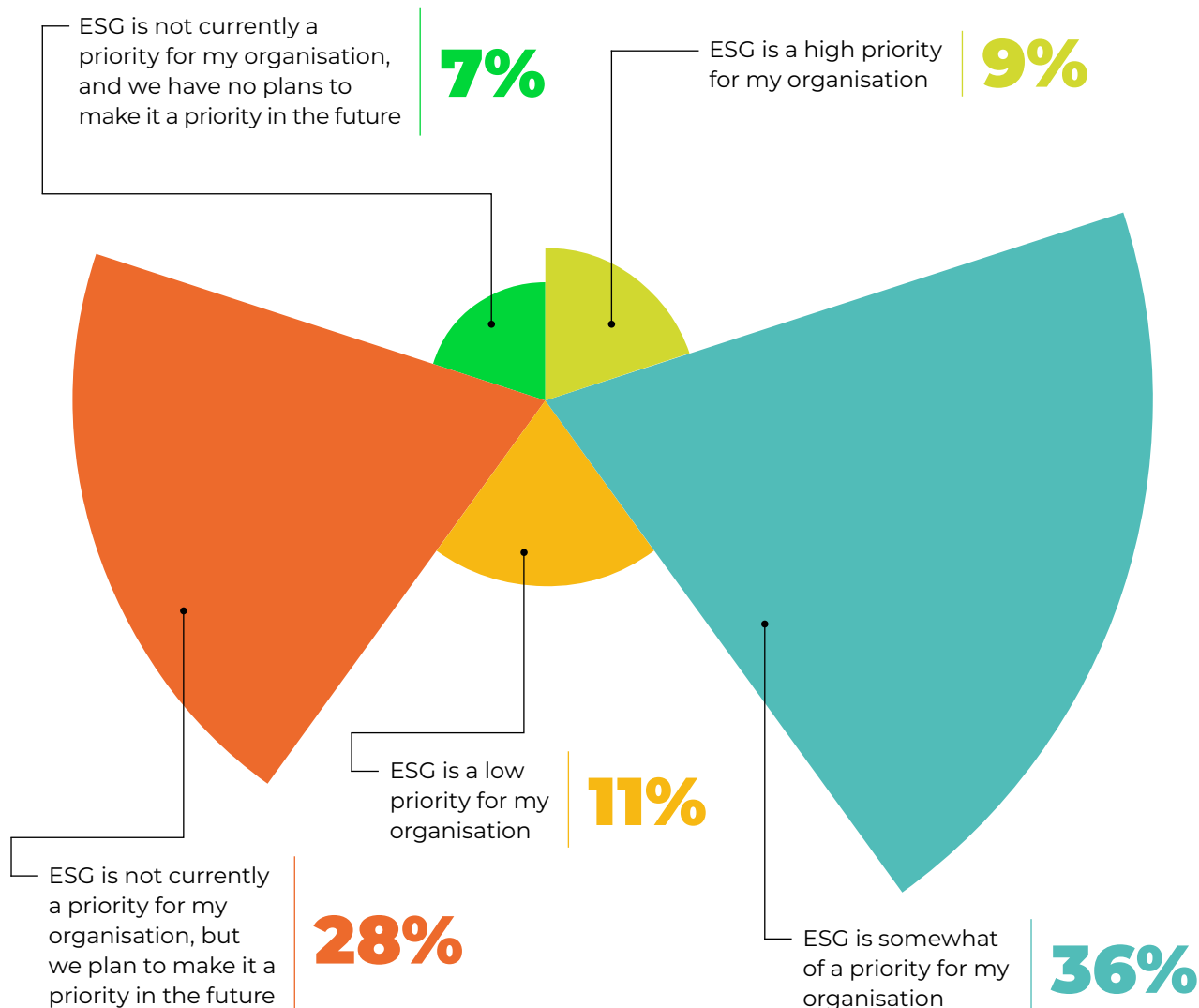
1 | To what extent is ESG a priority for your organisation? (Select one option)

Just over a third of respondents – a combined 35 per cent – said that ESG is not currently a priority for their organisation. Of this figure, however, 28 per cent reported having plans to make ESG a priority in the future.

It is perhaps surprising to see that less than 10 per cent of financial decision makers surveyed identified ESG as a high priority for their organisation, considering its growing importance within the sector and their role specifically.

However, the responses here may indicate that the main ESG concerns for these roles – such as climate risk management, emissions reduction, and responsible lending and investment – may not be shared more broadly within their organisation.

With future ESG regulations on the horizon and consumers increasingly prioritising sustainability and social considerations when choosing where to spend money or bank, those that ignore these changes could risk losing customers and being left behind.



2 | What steps has your organisation taken as part of implementing its ESG strategy? (Select all that apply)

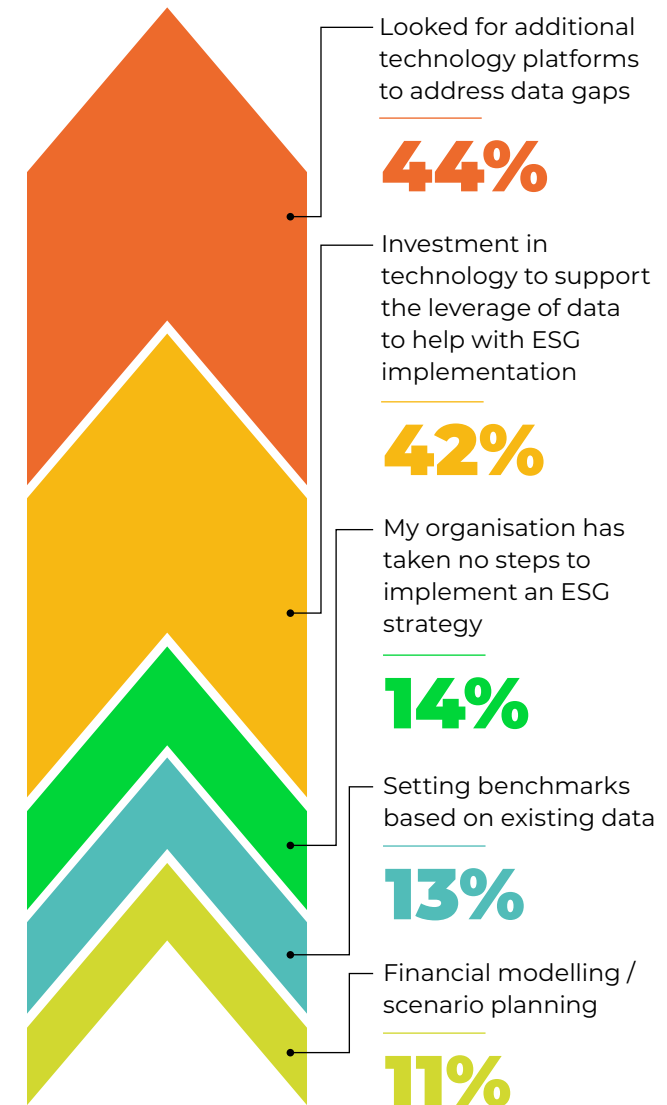
Over two-fifths of respondents said they had invested in technology to support the use of data, while a similar number have looked for additional technology platforms to address data gaps, indicating the growing importance of ESG to heads of finance and similar roles.

The results also suggest that FSIs are prioritising the roll out of technology related to leveraging data or addressing data gaps as part of their ESG strategy. This is critical given that quality standards of data such as its historical length, completeness, and granularity are necessary in determining FSIs' ESG-related risks. For instance, a strong data provision which satisfies these requirements can help financial decision makers determine whether they can sustain their overall operation when issuing ESG or sustainability linked loans.

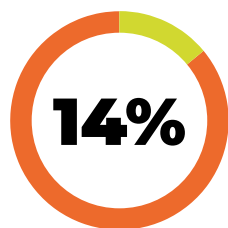
One other insight revealed by this question is that many financial decision makers are yet to fully master their data strategy when it comes to ESG. Despite this, the figures indicate that these decision makers do recognise that data is a critical part of establishing a successful plan for ESG – a promising result given the growing prominence of ESG-informed lending and investment.

With less than a fifth reporting having set ESG-related benchmarks based on existing data, this further highlights the notion that respondents do not feel confident that their current data provision is sufficient to set an ESG strategy in motion.

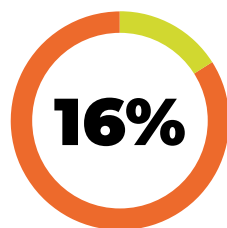
For many FSIs, and of heightened importance to those in real estate or insurance, a strong data technology provision that supports real-time data reporting would also help them gain greater insight into what is happening from an environmental standpoint and to quantify how it may impact their operations.



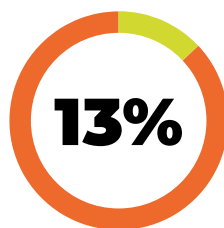
3 | Which of the following statements do you agree with? (Select all that apply)



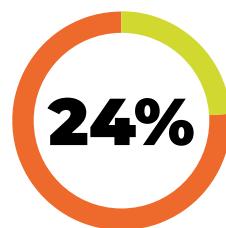
ESG-related policies and programmes are becoming table stakes



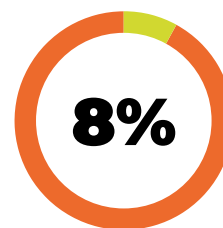
An organisation's ESG commitment (or lack thereof) impacts how they are perceived by customers



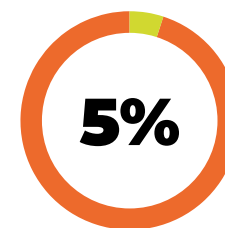
ESG will be an industry standard within the next five years



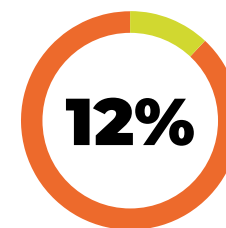
It is a good thing that the number and scope of ESG disclosure requirements are increasing



It is a bad thing that the number and scope of ESG disclosure requirements are increasing



ESG is becoming an increasingly important part of the way an organisation operates



ESG is not an important part of the way an organisation operates

Just under 15 per cent of respondents agreed that ESG-related policies and programmes are becoming table stakes, while 16 per cent agreed that ESG commitment – or lack thereof – had an impact on how an FSI is perceived by customers.

By contrast, over 10 per cent said they agreed with the statement that ESG was not an important part of the way FSIs operate, with only five per cent saying it was becoming an important part of the ways that an organisation operates.

These results resonate with those seen earlier in this report in which over a quarter – 28 per cent – and seven per cent respectively said ESG was not currently a priority for their organisation, but that they plan to make it a priority in the future,

or that ESG is not currently a priority for their organisation, and they have no plans to make it a priority in the future.

There was a clear divide on the question of disclosure. Some eight per cent said it was a bad thing that ESG disclosure requirements are increasing, while almost a quarter agreed that this increase is a good thing.

The results indicate that while there is an acknowledgement of the rising importance of ESG to the financial sector, some view it as negative either due to a reluctance to accept ESG as a relevant factor in their decision making or simply as a desire for fewer social and environmental responsibilities.

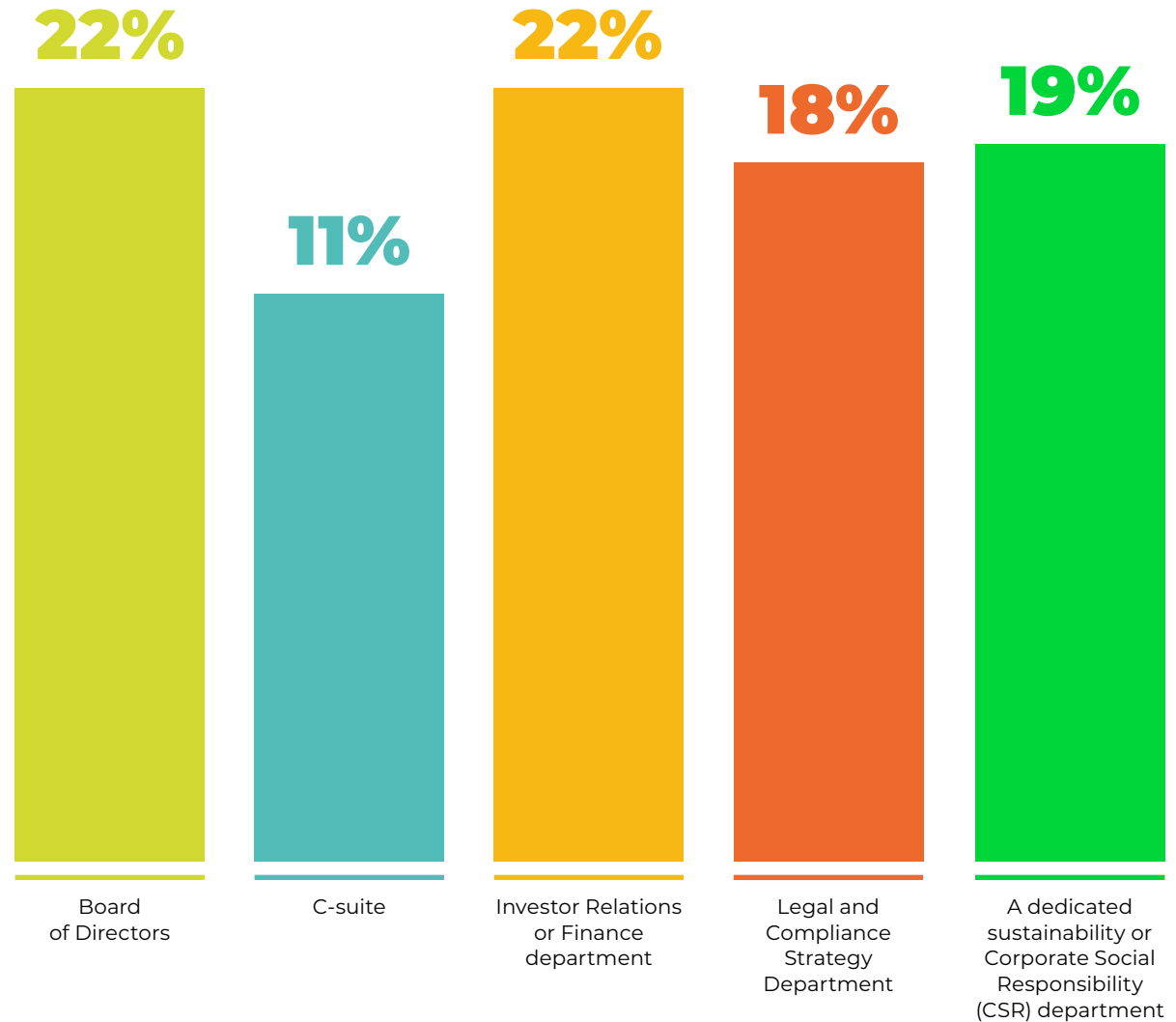
However, the fact that almost a quarter of respondents agreed that increasing disclosure requirements was a good thing may also suggest the responding financial decision makers who agreed with this statement view rising disclosure requirements favourably as they may lead to increased clarity on what disclosures they need to make.

Becoming a fully ESG compliant organisation is no small task, and greater clarity should enable financial decision makers at FSIs who are underway with their progress towards compliance to begin taking steps, such as folding ESG reporting into their existing reporting processes, to meet investor-grade standards.

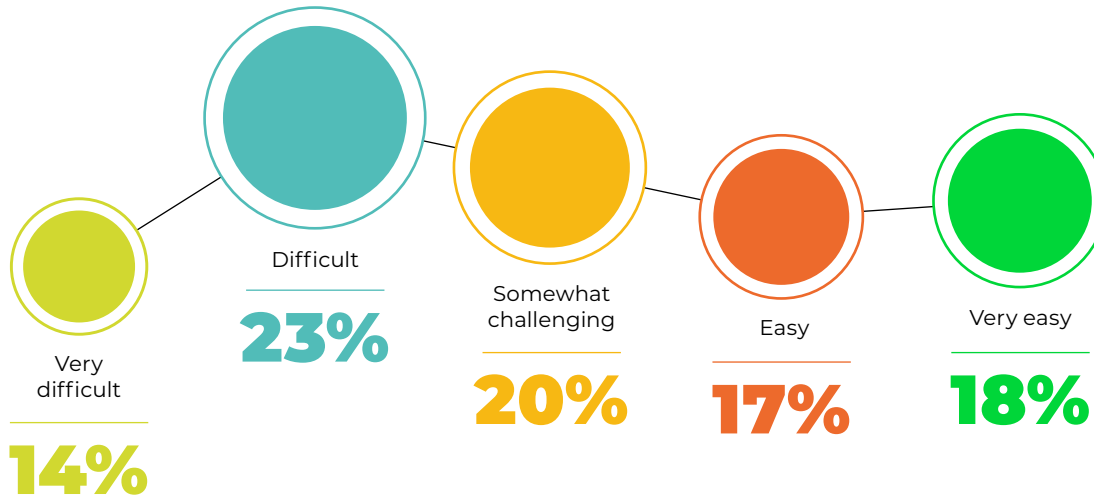
4 | In which department do you think ESG-related functions are best located? (Select one option)

The results demonstrate a range of views on where ESG-related functions are best located. A combined 59 per cent felt that they should be located within a single department rather than overseen by the c-suite.

This should not however be seen as demonstration of those at the top-level of the financial sector shirking their responsibility, but rather it indicates an appetite from financial decision makers for a more centralised approach to ESG.



5 | How difficult is it to develop and roll out an ESG strategy? (Select one option)

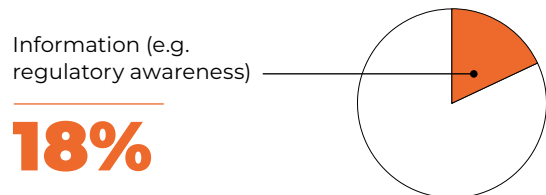
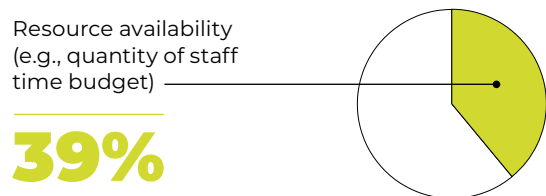
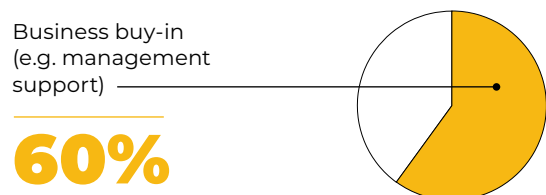
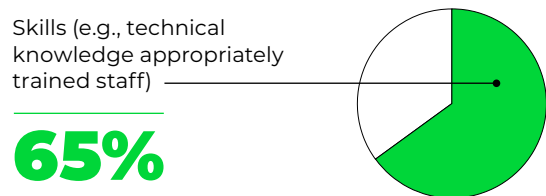
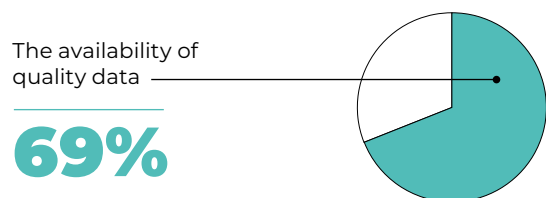


Over a third said developing and rolling out an ESG strategy was difficult or very difficult, reflecting complex ESG requirements for financial decision makers in 2023 and potential lack of clarity around what is required to do in order to execute effective ESG policies.

The figures also align with findings previously published in this report that a large proportion of FSIs are still working on their data provision and investing in technology as a means of kick-starting an ESG strategy. This may go some way to explain why rolling out an ESG strategy is perceived as a considerable challenge by this portion of financial decision makers.

Given that results elsewhere in the report suggest that many financial decision makers are yet to master their data strategy as it pertains to ESG, it is surprising to see that a combined third said rolling out an ESG strategy was 'easy' or 'very easy'. An overlap in those with a lack of clarity over their data and those who do not view ESG strategy execution as challenging could suggest a misalignment between what an ESG strategy should manifest as and what the bare minimum is for FSIs.

6 | What are the key barriers to rolling out a successful ESG strategy? (Select top three)



The importance of data quality – and the pitfalls of dealing with data in ESG strategy – has emerged as a key theme among financial decision makers. Most respondents – 69 per cent – identified the availability of quality data as the main barrier towards rolling out a successful ESG strategy.

Financial decision makers view a lack of real-time data reporting capabilities – or data availability more generally – as hurdles for achieving compliance with ESG strategy.

Rolling out data solutions capable of tracking, interpreting, consolidating data can help FSIs gain valuable insights and increase their ability to set an ESG strategy in motion.

The second and third top barriers to implementing an effective approach to ESG were cited as skills shortages and business buy-in at almost two thirds respectively.

The deployment of cloud financing software also helps FSIs gain more visibility of the data across their organisation. Dashboards and reporting capabilities of such technology could help those within a finance function to understand what targets and benchmarks they need to move towards to meet various ESG compliance measures.

Over a third of respondents also selected resource availability as a barrier, which may further reflect underinvestment due to a low priority for ESG compared to the other responsibilities of financial decision makers such as regulatory compliance, capital management and wider financial strategy.

The high rate of lacking corporate buy-in however suggests that the barriers to ESG compliance facing many FSIs are not technical in their nature but rather cultural. This would indicate an issue of personnel, with either individuals or mentality and approach requiring a change.



7 | How long do you estimate it will take your organisation to achieve full ESG compliance? (Select one option)

While FSIs are increasingly heading in the right direction in terms of ESG compliance, this is not something that will realistically be achieved any time soon, according to the respondents.

Less than 20 per cent of respondents expect to achieve full compliance with their ESG strategies within the next year, with that figure including the nine per cent of financial decision makers who said their organisation is already fully compliant.

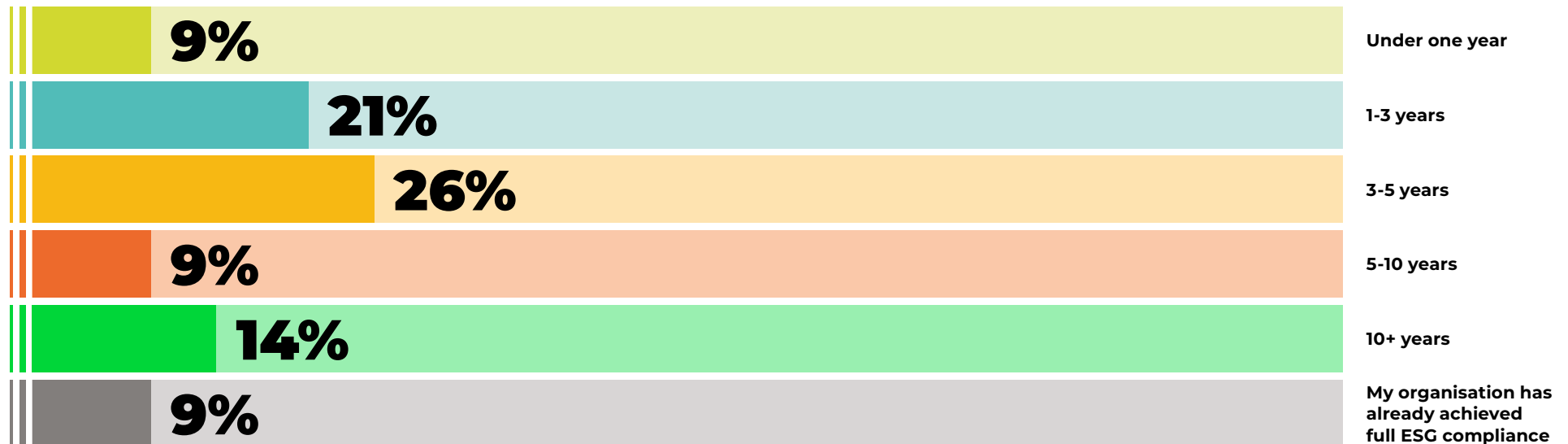
Just under half of respondents said they expect to be compliant in the medium-term, with 21 per

cent stating they expect to achieve compliance in the next one-to-three years and 26 per cent – the largest section of respondents – estimating full ESG compliance in the next three-to-five years.

The figures resonate with results from earlier in the report in which almost half – 42 and 44 per cent respectively – said they had invested in technology to support the leverage of data to help with ESG implementation or sought additional technology platforms to address data gaps, which suggests that many are still in the earlier stages of rolling out an ESG strategy.

Some nine per cent of respondents believe compliance will be achieved in the latter half of the decade or early into the next, while an alarming 14 per cent of surveyed financial decision makers do not expect full ESG compliance until deep into the 2030s or beyond.

These respondents may be those who identified the barriers in the previous questions as those of a more complex nature than talent or information and issues which will not easily be resolved in the short- or medium-term.

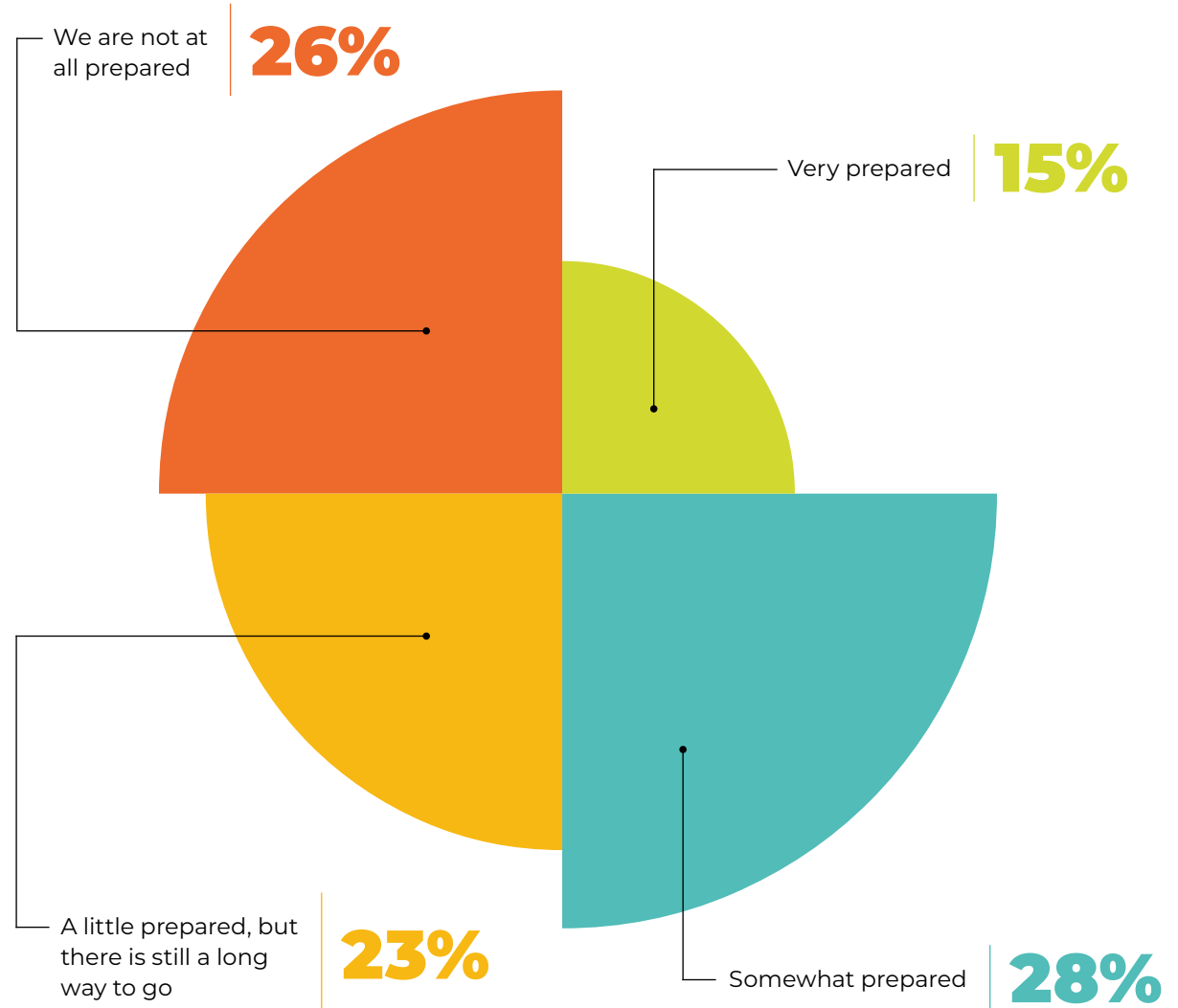


8 | Where would you rank your current level of preparation for upcoming ESG regulations and guidance for Financial Services companies? (Select one option)

This question is very telling of the mentality of financial decision makers, with the results indicating a broad variety of perspectives around the preparation for new regulations.

Almost half of respondents – a combined 49 per cent – said they were a little prepared or not at all prepared for the upcoming ESG regulations and guidance for financial services companies. This may be down to a perceived conflict between the executive responsibilities of financial decision makers to the FSI's underlying profit drive and the requirements for ESG compliance.

This figure, along with almost a third and just a fifth respectively reporting being somewhat prepared or very prepared, could suggest that these decision makers are unclear about what upcoming ESG regulations will entail for their role and organisation more broadly, or that they lack the right tools and knowledge to be effectively prepared.



9 | How would you rate your organisation's current data quality and visibility as it relates to ESG? (Select one option)

The responses to this question are indicative of ongoing issues that financial decision makers face regarding the effective utilisation of data as part of an ESG strategy. The responses reflect those found elsewhere in the report, and could be related to challenges including siloed data, legacy architecture, and a lack of means to meaningfully use available data – all issues which not only stop financial decision makers from helping their organisation achieve ESG compliance, but inhibit optimal overall performance within their role.

Around a quarter of respondents said that they had poor data quality but good visibility, while a further 24 per cent said they had poor data quality and poor visibility.

These results indicate that most respondents need technology solutions that can mitigate the struggles they are facing – either in obtaining the data necessary or having it clear and visible enough within their organisation to meaningfully utilise it for ESG requirements such as risk management, regulatory compliance, strategic decision-making and, ultimately, long-term financial stability.

Data analytics software in particular could help financial decision makers with the provision of a hub to consolidate data to assist with data analysis and modelling and reporting on data from multiple sources while also improving overall data visibility across their organisation.



10 | Aside from data quality, what factors limit your organisation's ability to leverage data for the purposes of gaining ESG insights? (Select all that apply)

Data visibility / siloed data / availability of data across the organisation

21%

Investment in tools/ general underinvestment into data platforms

27%

Outdated legacy systems

14%

Corporate buy-in

22%

Lack of skills / education / expertise to meaningfully interpret data

8%

The most cited factors reported as limiting FSIs' ability to leverage data for the purpose of gaining ESG insights was data visibility, availability of data across the organisation and general underinvestment in data platforms totalling almost half.

Data analytics software could again solve some of the challenges facing financial decision makers around the leveraging of data to gain ESG insights, providing them with the information they need to identify and assess potential ESG-related risks that could impact the bank's financial performance along with achieving sustainable growth in the long-term.

Over a fifth of respondents said that data visibility and availability of data across their organisation limited their ability to leverage it for the purposes of gaining ESG insights – reflecting earlier results which suggest that poor visibility is a challenge for nearly half of surveyed FSIs.

Skill was ranked highly – 65 per cent – as a barrier towards rolling out a successful ESG strategy previously in the report, but only around eight per cent of respondents cited this as a limiting factor towards leveraging data for the purpose of gaining ESG insights. This suggests that

possessing the data skills could help respondents progress in rolling out an ESG strategy even with skill gaps in other areas.

Over a fifth said corporate buy-in was a limiting factor towards leveraging data for ESG insights, which resonates with data earlier in the report in which over a combined third – 35 per cent – said ESG is not currently a priority for their organisation, but they plan to make it a priority in the future, or that ESG is not currently a priority for their organisation, and that they have no plans to make it a priority in the future. Once again, this highlights a potential cultural issue among some FSIs that should be considered by financial decision makers who are keen to achieve ESG compliance.



Conclusion

A clear theme across the research is that data-related challenges are preventing FSIs from embarking on an effective ESG strategy – and these challenges are being noticed by financial decision makers. This is highlighted by the 42 per cent that said they were currently in the process of investing in technology to support the leveraging of data to help with ESG implementation and the 44 per cent that revealed they are looking for additional technology platforms to address data gaps.

These results are further reiterated by the 21 per cent of respondents who said they had poor data quality and visibility and the further 27 per cent for whom lack of investment in data platforms serves as a barrier to gaining ESG insights.

Furthermore, a lack of skills, business buy-in, and general underinvestment also appear to be holding FSIs back on achieving their ESG goals.

The financial decision makers surveyed presented mixed views about the achievability of full ESG compliance, with a wide-ranging spread of responses around the ease or difficulty of rolling out a strategy. A combined total of 37 per cent described it as very difficult or difficult, while a combined 35 per cent said implementing an ESG strategy was easy or very easy.

Similarly, there was a broad range of responses about how long respondents felt achieving full ESG compliance would take, with over a quarter saying three to five years, nine per cent saying less than a year, and 14 per cent saying 10 years or more.

These range of opinions highlight that while the core responsibilities of a financial decision maker at an FSI may be similar – such as capital management, budgeting, fundraising and financial reporting – the interplay between these and ESG compliance can wildly vary depending on the size of the organisation and the nature of its business.

There is no one-size-fits-all approach to achieving ESG compliance within the financial sector and it is clear that many financial decision makers recognise there is more work to be done, and more investment and business buy-in required throughout the preparatory stages.

But while this may be the case, data is universally recognised by financial decision makers as a vital part of achieving ESG compliance. Technological solutions, strategies and practices that help FSIs get data in a good quality and leverageable state will enable them to achieve ESG compliance and this is something that the majority of respondents recognised as something worth prioritising.



Sage supports financial services companies to make data-driven decisions with real-time information and remove silos by integrating data from different systems. To find out more about how we can help you on your ESG journey, visit [our website](#).

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