How Today’s Banks are Adopting ESG-Based Strategies to Become More Sustainable

With sustainable finance gaining momentum around the world, banks are developing strategies to embed ESG factors into their lending and investment decisions. In this infographic, we review several of the key sustainability-focused strategies banks are using, including environmental and social due diligence, integration, thematic investing, ESG engagement, and sustainable finance frameworks.

### Strategy

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<th>How it Works</th>
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<td><strong>Negative Screening</strong></td>
<td>Excludes or avoids transactions not aligned with environmental, social, and ethical standards. Currently the most common ESG issue for ESG asset management.</td>
<td>Negative screening criteria often exclude issues like weapon manufacturing, tobacco sales, or production of fossil fuels.</td>
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<td><strong>Positive Screening</strong></td>
<td>Selects corporate borrowers that score highly on ESG factors relative to their peers.</td>
<td>Positive screening criteria may include benchmarking, comparing to sectors with higher ESG scores compared to their peers, or companies that are actively improving their ESG performance.</td>
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<td><strong>Integration</strong></td>
<td>Integration strategies incorporate ESG issues in financing decisions to better manage risks and improve returns.</td>
<td>Additions to the bank's sustainable finance portfolio are selected using both financial and ESG criteria, such as identifying the ESG performance of an investment or evaluating the revenue impact of increasingly stringent environmental regulations.</td>
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<td><strong>Thematic Investing</strong></td>
<td>Prioritizes companies or projects aimed at positive social or environmental change, e.g., addressing climate change, gender equality, or United Nations Sustainable Development Goals (SDGs).</td>
<td>Banks may develop lending initiatives to accelerate the transition to a low-carbon, sustainable economy, particularly projects targeting the SDGs. Impact investing also falls under the thematic category.</td>
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<td><strong>ESG Engagement</strong></td>
<td>With ESG engagement, banks take a more active role in managing ESG risks by discussing ESG issues with corporate borrowers with the aim of improving their performance.</td>
<td>The Net-Zero Banking Alliance strongly encourages signatory banks to engage with clients on reducing their carbon emissions and to develop innovative solutions to support clients' efforts to reduce emissions.</td>
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| **Sustainable Finance Frameworks** | These frameworks outline banks' ESG lending and investment practices and processes, and often align with well-established international standards. | Here are some important commonalities in banks' sustainable finance frameworks:  
  - Sustainable finance goals, targets, strategies, and material ESG factors  
  - Transparent classification of eligible financing activities  
  - Alignment with international goals  
  - Due diligence processes  
  - Regular third-party review (necessary for the issuance of certain products, such as sustainability-linked loans)  |

### References

1. A financial institution adopting sustainable practices. The impact of sustainability is often linked to a bank's internal culture and external financial incentives to consider sustainability in decision-making processes.
2. The Net-Zero Banking Alliance is a global network of financial institutions committed to aligning their business strategies with the goal of achieving a net-zero emissions economy.
3. Sustainable finance is defined as financing that considers environmental, social, and governance (ESG) factors and contributes to the achievement of the United Nations Sustainable Development Goals (SDGs).

**Learn More** about why banks are embracing sustainable finance by downloading our latest ebook, How Sustainable Finance is Shaping Change in Banking.

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