

# A view on Italy ESG and sustainable finance

ESG evolutions among business opportunities and  
supervisory expectations

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# Is it about business or is it about regulation?

Both...

Plus...

 **Business**

 **Regulation**

✓ **Sustainable finance**

✓ **Regulatory requirements**

✓ **Developing new products and advisory services**

✓ **Supervisory expectations**

✓ **Earning stakeholder trust**



**Action Plans**

+

**Markets**

**European Recovery Plan**



*Focus in the next slide*

# Sustainability is the backbone of the Italian Recovery Plan (PNRR) with over 30% of total allocated resources

## Mission 1

*Digitalization, innovation, competitiveness and culture*

- 🎯 Promote and support the digital transformation of the country and the innovation of the production system as well as the investment in two key sectors for Italy: tourism and culture

€40,32 bn



## Mission 2

*Green Revolution and Ecological Transition*

- 🎯 Improving the sustainability and resilience of the economic system by ensuring an equitable and inclusive transition

€59,47 bn



## Mission 3

*Infrastructure for sustainable mobility*

- 🎯 Make, by 2026, the most modern, digital and sustainable infrastructure system capable of meeting the sustainable development goals identified in the United Nations 2030 Agenda

€25,40 bn



## Mission 4

*Education and Research*

- 🎯 Strengthen the conditions for the development of a knowledge-intensive, competitive, and resilient economy, starting with the recognition of critical issues in the education, training, and research system

€30,88 bn



## Mission 5

*Inclusion and Cohesion*

- 🎯 Pursue the objectives, transversal to the whole PNRR, to support women's empowerment and the fight against gender discrimination, increase the employment prospects of young people, promote the development of the South and inland areas

€19,81 bn



## Mission 6

*Health*

- 🎯 Strengthen the health services provided in the territory, renew the existing technological and digital facilities, enhance the training of health personnel

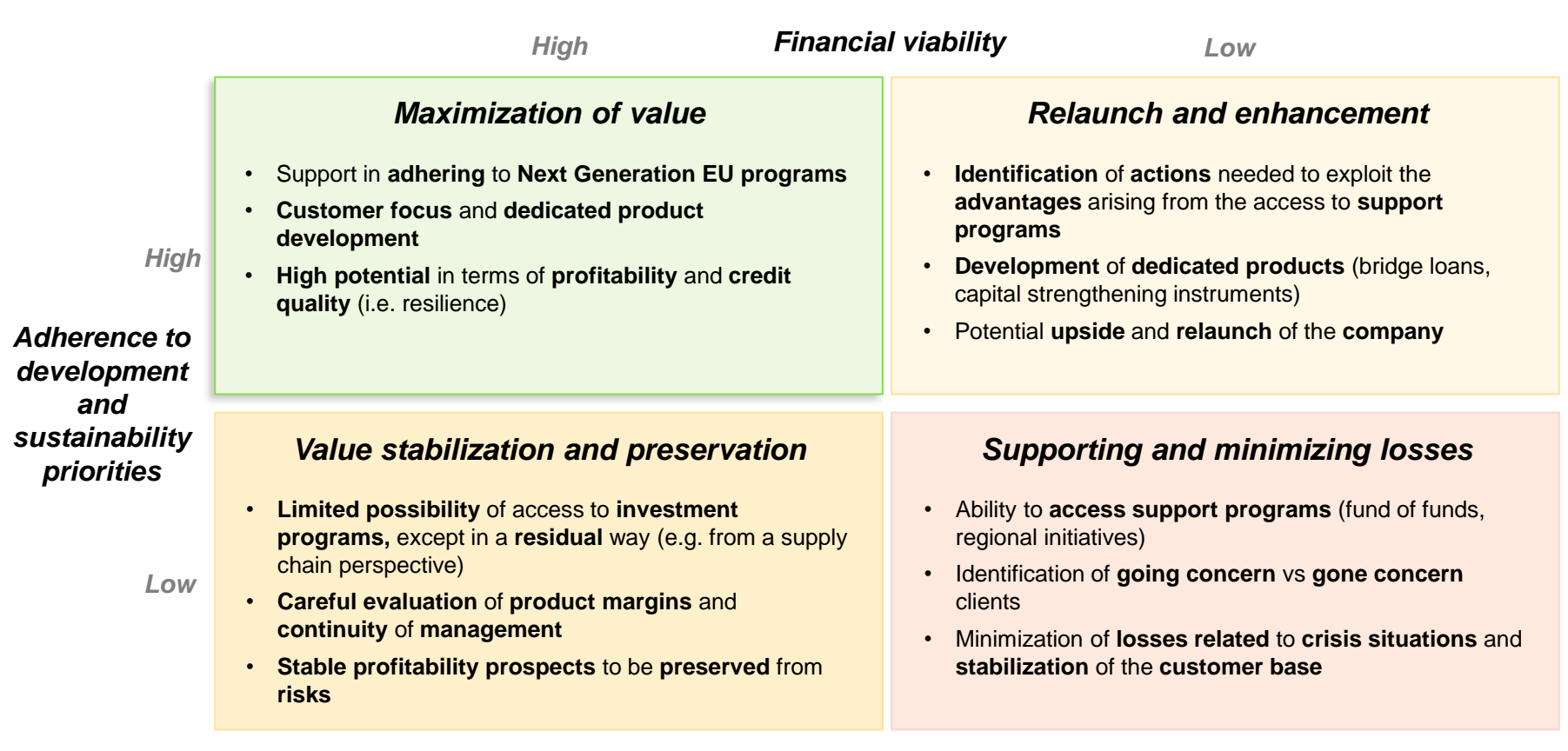
€15,63 bn



# Indeed, there are several areas of synergy between the Next Generation EU and the ESG framework

	Environmental (E)	Social (S)	Governance (G)
1 Digitalization, innovation, competitiveness and culture	Adoption of minimum environmental criteria for cultural events	Streamlining the PA recruitment process	<ul style="list-style-type: none"> <li>One of the transversal objectives of the PNRR is represented by the reduction of the "gender gap".</li> <li>To this end, the Department of Equal Opportunity presented on August 5, 2021 to the Council of Ministers the National Strategy for Gender Equality 2021-2026 having five macro-priorities: <ul style="list-style-type: none"> <li>Work</li> <li>Income</li> <li>Skills</li> <li>Time</li> <li>Power</li> </ul> </li> <li>Through its Missions, the PNRR develops the priorities of this Strategy (e.g., initiatives such as strengthening recruitment mechanisms in PA and reviewing promotion opportunities to senior management positions)</li> </ul>
2 Green Revolution and Ecological Transition	Construction of waste management facilities	Spreading culture and awareness of environmental issues and challenges	
3 Infrastructure for sustainable mobility	Energy efficiency of stations and railway nodes	Strengthening of metropolitan rail nodes and key national connections	
4 Education and Research	School building safety and upgrading plan	University access scholarships for deserving and needy students	
5 Inclusion and Cohesion		Creation of women's enterprises to raise the levels of participation of women in the labor market	
6 Health	Structural improvement in hospital building safety and security	Developing the technical, professional, digital, and managerial skills of the health system workforce	

# In a post crisis environment, this (will) lead to a segmentation of the portfolio that (will) lead financial institutions to identify the most appropriate strategy



**Differentiated strategies to intercept all the opportunities related to the Next Gen EU and the ecological transition**

**HH** = high degree of adherence to PNRR objectives and favorable financial situation

**LH** = limited degree of adherence to PNRR objectives and favorable financial situation

**HL** = high degree of adherence to PNRR objectives and partially favorable financial situation

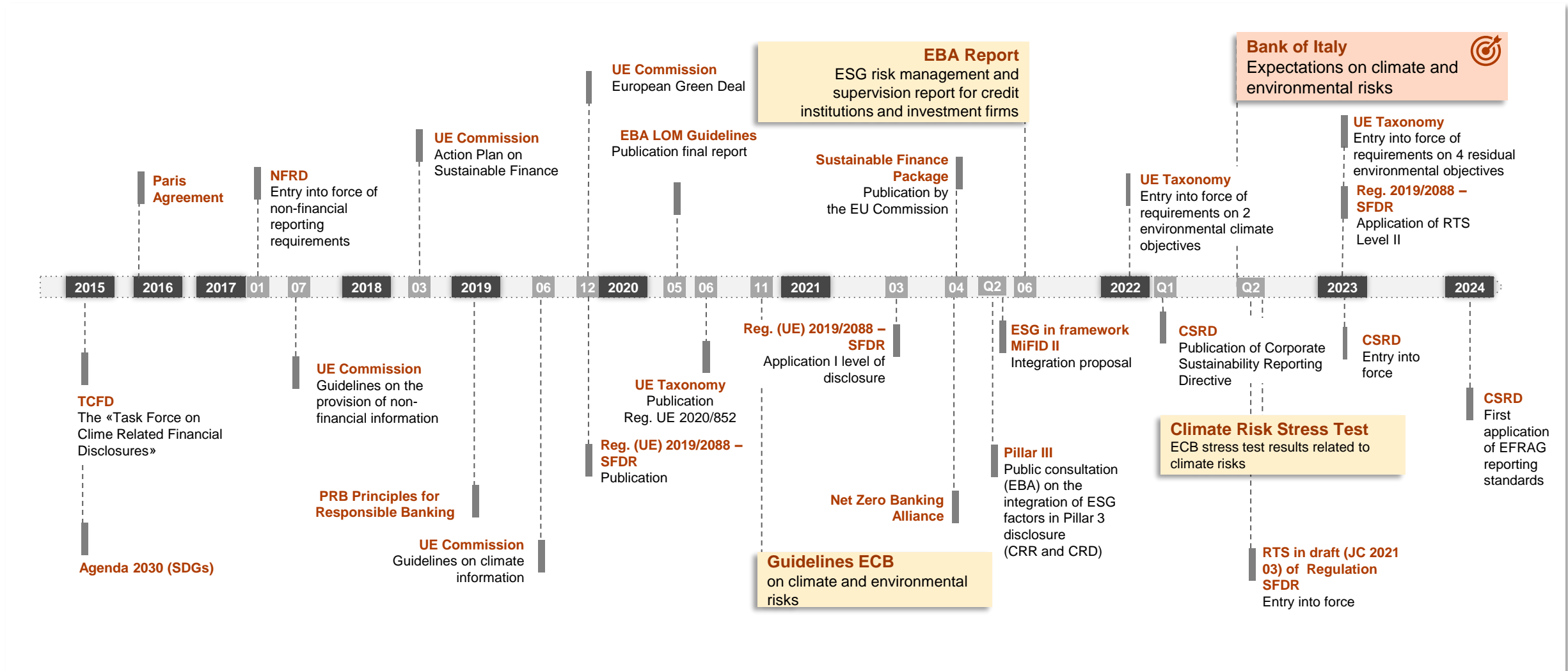
**LL** = limited degree of adherence to PNRR objectives and unfavorable financial situation

# By focusing on the main areas of intervention, banks are starting to adapt their business models

	Target clients	Objectives	
<b>DEVELOP A «CORE ESG PORTFOLIO» PROPOSITION</b> 	High «ESG Quality»	<ul style="list-style-type: none"> <li>▪ <b>Expansion</b> to <b>grow</b> the «<b>green core</b>» of the future portfolio</li> </ul>	» <ul style="list-style-type: none"> <li>▪ <b>Dedicated products</b> for «<b>ESG performing</b>» clients finalized loans</li> <li>+ Precise <b>identification</b> of <b>target clients</b> and <b>pricing methodology</b> to be <b>fine tuned</b></li> </ul>
<b>FINANCING THE TRANSITION</b> 	Potential / Perspective «ESG Quality» improvement	<ul style="list-style-type: none"> <li>▪ <b>Supporting clients</b> in the <b>transition process</b> with dedicated <b>finance</b></li> </ul>	» <ul style="list-style-type: none"> <li>▪ <b>Dedicated products</b> on the market, <b>focus</b> on <b>SMEs</b></li> <li>+ Chances to <b>support clients</b> and generate <b>lending opportunities</b> to be fully pursued</li> </ul>
<b>DEVELOP «ESG DRIVEN» ADVISORY AND INVESTMENT BANKING SERVICES</b> 	All	<ul style="list-style-type: none"> <li>▪ <b>Transform current offering</b> by considering <b>ESG</b> related <b>factors</b> and <b>actions</b></li> </ul>	» <ul style="list-style-type: none"> <li>▪ <b>ESG factors</b> increasingly <b>considered</b> into <b>Advisory</b> and <b>Investment Banking</b> services</li> <li>+ <b>Increase product offering</b> and <b>cross selling</b> through <b>new ESG driven services</b></li> </ul>



# Bank of Italy has deployed its expectations consistent with the fast evolution of the international regulatory framework



# The expectations are substantially aligned with ECB recommendations

	Perimeter	Implementing rules	Main objectives	Date
ECB	<ul style="list-style-type: none"> <li>▪ <b>Significant Institutions</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Integration within their processes depending on the <b>relevance</b> of their <b>exposure</b> to <b>environmental risks</b> and <b>regardless</b> the <b>size</b> of the specific <b>institution</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Strengthening the role of <b>ESG Governance</b></li> <li>▪ <b>Include climate risks</b> within <b>business</b> and <b>strategic models</b></li> <li>▪ <b>Integrate climate risks</b> within organizational and <b>operational processes</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Publication: <b>27.11.2020</b></li> <li>▪ Alignment due date: <b>31.12.2024</b></li> </ul>
Bank of Italy	<ul style="list-style-type: none"> <li>▪ <b>Less significant institutions</b> (LSI) and all other <b>Bank of Italy supervised entities</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ To be implemented according to a <b>principle of proportionality</b>, to be declined according to the operational, dimensional and <b>organizational complexity</b> of the intermediaries and the <b>nature</b> of the <b>activity</b> carried out</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop appropriate <b>methodologies</b> for <b>measuring</b> and <b>monitoring climate</b> and <b>environmental risks</b></li> <li>▪ Integrating <b>ESG information</b> to the market</li> </ul>	<ul style="list-style-type: none"> <li>▪ Publication: <b>08.04.2022</b></li> <li>▪ Alignment due date: <b>31.12.2025</b></li> <li>▪ Action plan to be shared by: <b>31.03.2023</b></li> </ul>

Although focused on environmental aspects, intermediaries may also consider the expectations with regard to the more general category of ESG risks, where relevant for their operation and taking into account the regulatory requirements of the sector



# The twelve Bank of Italy expectations are attributable to five macro areas

## **Governance** [Expectation 1]

- Development of the **role of Governance bodies** in **integrating climate and environmental risks** into **culture and strategy**
- Orientation of the process of **alignment** with supervisory **expectations**, starting from the **preparation and approval** of the **Action Plan**

## **Business model and strategy** [Expectation 2]

- Identification of **climate and environmental risks** with potential **major impacts** on the **business environment**
- Assessment of the main **impacts** in the **short, medium and long term** to guide **strategic choices** and ensure the **resilience** of the **business model**

## **Organisation and processes** [Expectation 3]

- Implementation of the **ESG strategy** defined through **targeted interventions** on **business organization and operational processes**
- **Policy** and **IT and management systems adaptation**

## **Risk management** [Expectation 4-11]

- Identification of **climate and environmental risk drivers** and their **traceability** to **traditional risks**
- Development of **appropriate risk measurement and monitoring** methodologies
- Integration of the **risk monitoring database** and **dashboards** with **climate and environmental risk** information

## **Disclosure to the market** [Expectation 12]

- Preparation of the **External Communication Plan** on how to **integrate ESG risk drivers**, its assessment metrics and sustainability targets
- Adaptation of the **current regulatory disclosure framework** for **ESG**

# Bank of Italy has assessed the degree of alignment with supervisory expectations of 21 LSI

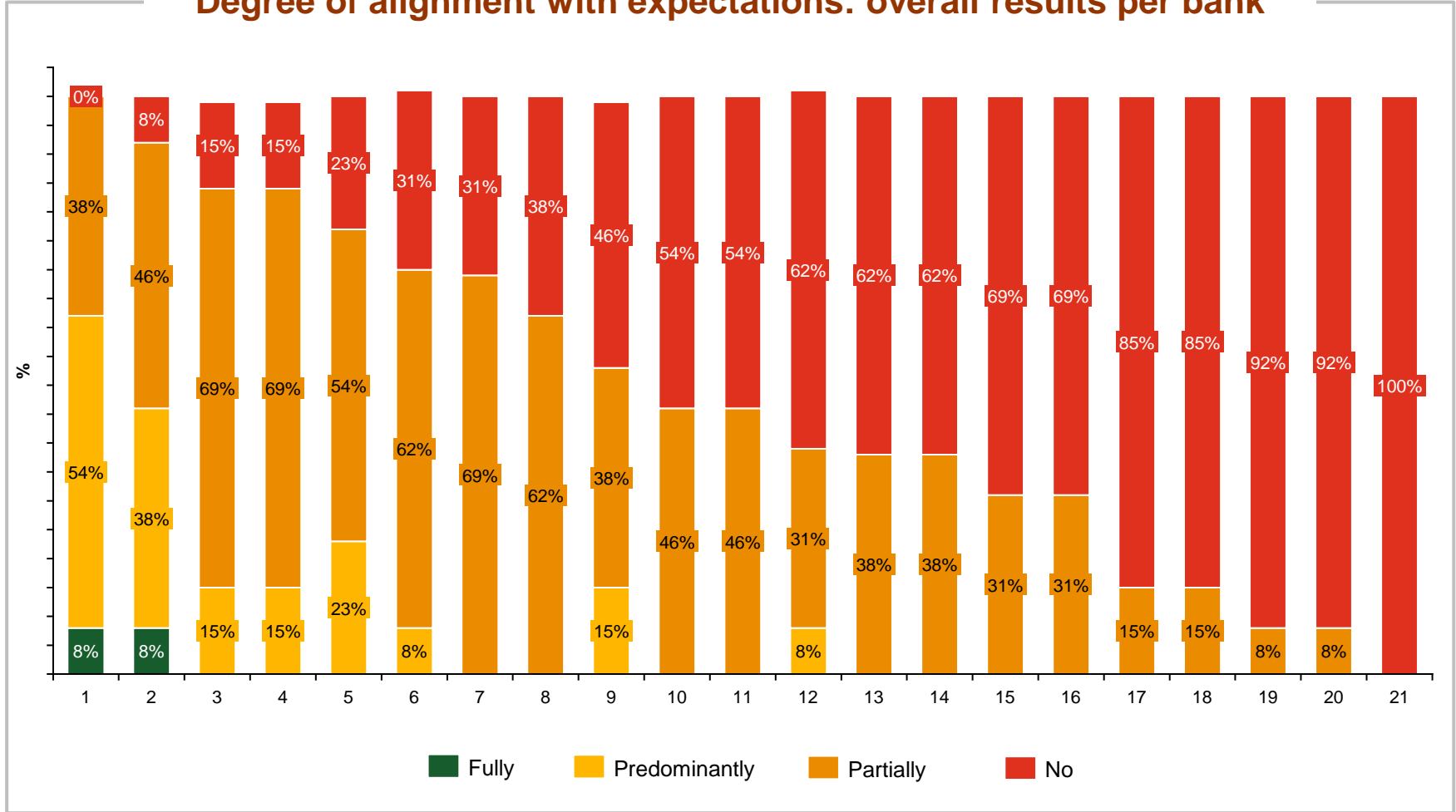
## Survey's features

Approach	Questionnaire divided into <b>four modules</b> applied both to <b>transitional</b> and <b>physical risks</b>
Methodology	<b>Self-assessment</b> of the <b>degree</b> of alignment with <b>expectations</b>
Valuation criteria	Assessment on the basis of the <b>criteria</b> of <b>progressivity</b> and <b>proportionality</b>



# The survey shows that banks need to enhance the alignment process with the expectations

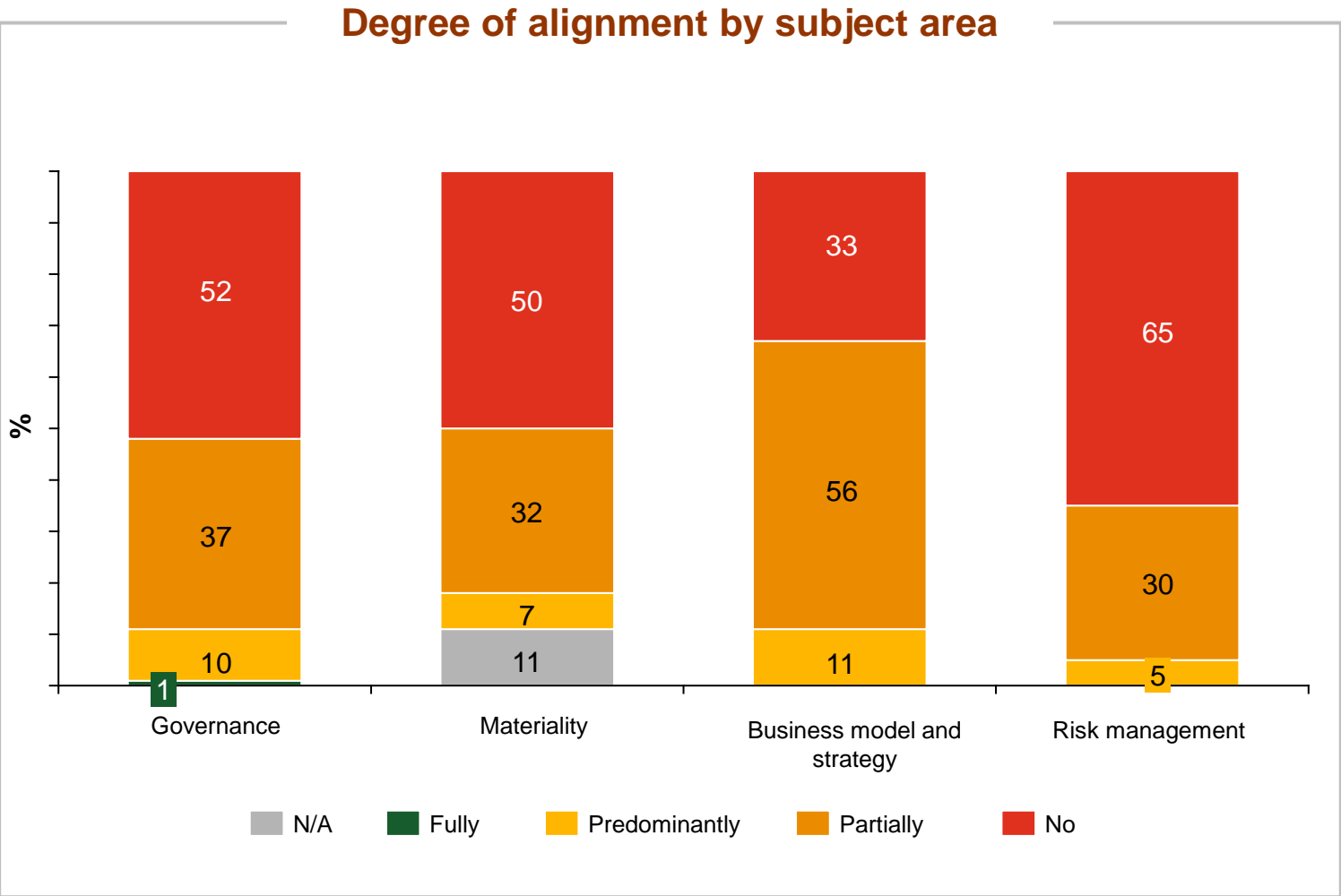
Degree of alignment with expectations: overall results per bank



## Overview

- **Larger LSI** have developed more **organic** and **pervasive** planning
- **Smaller banks** are implementing **individual initiatives** and are largely dependent on consortium projects
- **Traditional commercial banks** started **later** the **considerations** and **planning** activities on **climate** and **environmental** issues

# The difficulty of finding robust and reliable data is the main point of attention that affects the different areas of analysis



**Main findings**

**A Governance and risk appetite**  
Partial inclusion of climate and environmental issues in the agenda of the Board of almost banks in the sample, but with delays in specific areas

**B Materiality assessment**  
Materiality assessment based essentially on qualitative analysis with different levels of implementation

**C Business model and strategy**  
Partial integration of environmental issues into strategic plan and business models through specific projects

**D Risk management**  
Strong delays in the definition of a structured process for the management of climate risks and their inclusion in the overall risk management framework

# Both the expectations and the results of the survey show some points of attention for the next years



## Strategy definition

- Uncertainty about the future, the changing environment in which it operates and the time horizon required within the analysis processes **complicates** the **definition** of the group **strategy** and jeopardizes its **validity** and **sustainability**



## Business

- It is important to **keep up** with **market demand** by **reviewing** the **product** offer to respond to an increasing **attention** by customers and investors to **environmental issues**



## Data collection<sup>1</sup>

- The difficulty of finding **robust** and **reliable data** is the main point of attention that **affects** the different **development areas**

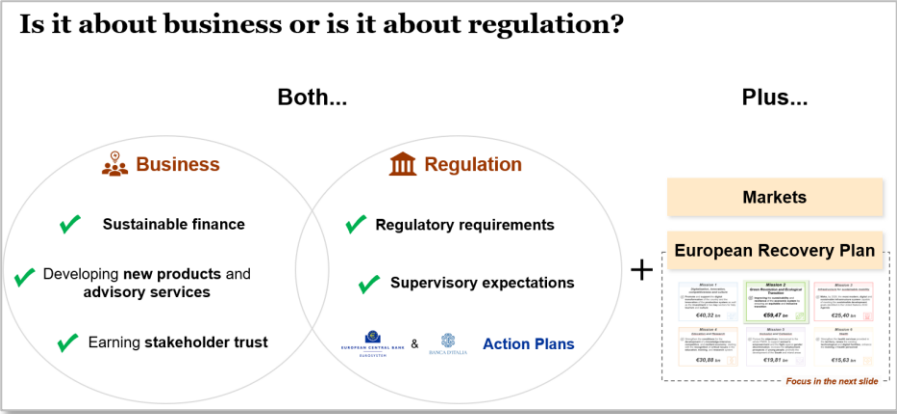


## Regulatory framework

- On the one hand, the **expectations** published by the regulator do **not** yet **provide clear indications** on how to act operationally, on the other hand, there are **no established market practices**



# To summarize all factors are relevant and the awareness shall increase at different levels





# Thanks for your attention

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