



## Banking Trend Radar Webcast

**Episode 6: Climate Transition Planning** - How banks can profit from credible climate and decarbonization strategies

This webcast will be recorded.

You have the option to ask (anonymous) questions during the presentation via the Q&A function.

We will collect the questions and answer them at the end of the webcast.

# Today's speakers

Let's start the conversation!

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# Strategic value of transition planning

Transition planning can be leveraged as a strategic imperative for aligning business with climate and market dynamics

Transition planning is not a reactive exercise to a distant change; it is already a **near-term strategic imperative** in a rapidly changing world. Transition planning can serve a **dual purpose**



## Navigating value creation in the net-zero transition

The transition planning process helps institutions identify and seize new opportunities, and enhance their strategic positioning, brand, and stakeholder engagement, unlocking new value sources.

Transition planning also aims to align a financial institution's **business model and operational set-up** with the **evolving market, policy, and stakeholder landscape** related to the **net-zero transition** and other **climate dynamics**



Providing transition finance to essential, currently carbon-intensive sectors, while explaining how these investments align with broader decarbonization goals, and identifying and capitalizing on emerging opportunities in the green economy

## Safeguarding for climate-related disruption

Transition planning sheds a light on potential financial risks, for example driven by technological, market, policy, litigation and reputational change, and demands setting relevant mitigation measures.



Integrating transition planning into the DNA of the organization, from the top and through the functions and their respective processes



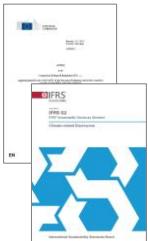
Enhancing the strategic positioning through credible, anchored future-proofing: Anticipating market changes, regulatory shifts, technological advancements, and evolving customer preferences

# Regulatory requirements

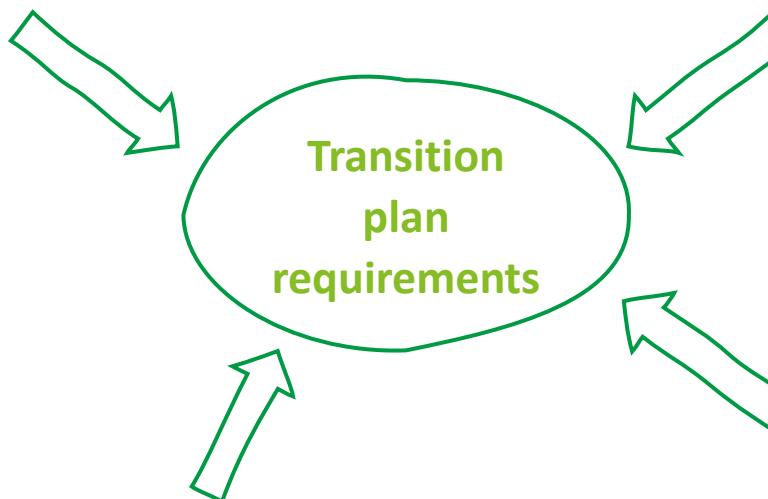
Current regulations and standards define a framework for transition plans, further emphasized by the upcoming CSDDD

illustrative

## Disclosure and regulatory requirements and developments



- EU: CSRD
- IFRS
- Singapore: Consultation Paper on Guidelines on Transition Planning
- US: SEC regulation on climate-related disclosure
- Other countries developing regulations aligned with the ISSB, e.g. South Korea, Japan, Hong Kong & more
- ...



## Indirect disclosure requirements: Corporate Sustainability Due Diligence Directive (CSDDD)

- Focus of regulation on due diligence requirements
- Includes requirement to develop a 1.5 degree aligned TP



Coming: Embedding of TPs and their quality into rating schemes and automated capital market intelligence



## Initiatives / Standards (SBTi, CDP, GFANZ, TPT ...): TP requirements based on voluntary commitments

- Define (detailed) requirements for TP
- Membership / application based on voluntary decisions of companies



...

# Getting started!

## Interactive questionnaire

Live Menti from the Webcast!

- What measures and impact analyses do you perform to assess **the financial impact of a net zero pathway?**
- Which function of your organization is not involved in the process of a **sustainable transformation?**
- Which analyses have **already been done** by your organization to forecast sustainability developments and prepare for a future business model?



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# Differentiation of transition planning and transition plans

A transition plan includes strategic climate risk as well as net zero considerations



## Transition Planning

- **Internal process**, focusing on
- **Strategic planning** and activities to prepare for banks, as well as clients and counterparties transition
- Aligning organizational activities to **net-zero**
- Considering **opportunities and risks** of real economy's transition



## Transition Plan

- **External document on**
- Strategy to align with most ambitious climate science recommendations
- Provide insights about transition extent, rate, and dynamics to stakeholders
- Disclosures are being made in a net-zero environment

Source: IIF & Deloitte 2024

# Key considerations on credibility challenges

To form credible transition plans, banks are currently still facing a set of challenges and relevant questions

## Key considerations affecting banks' transition planning approaches

1. **Scientific Basis and Strategic Positioning**
2. **Consideration of Climate vs. Other Financial Performance Drivers**
3. **Data & Metrics**
4. **Targets, Scope, and Coverage**
5. **Implementation Activities**
6. **Organizational Integration and Governance**
7. **Disclosure**



Source: IIF & Deloitte 2024

# Key safeguards for a transition plan

The analysis illustrated that a few key safeguards are applied

## 1. Scientific Basis and Strategic Positioning

"We aim to engage the whole ecosystem [of] hard-to-abate sectors" (*Large European Bank*)

## 2. Consideration of Climate vs. Other Financial Performance Drivers

"We support a just transition that seeks (...) social inclusion" (*Standard Bank Group Ltd*)

## 3. Data & Metrics

"It is critical for us to understand what our **clients** **transition** planning looks like" (*Large European Bank*)

## 4. Targets, Scope, and Coverage

"It all comes down to three points – Action, Ambition, Accountability" (*Large European Bank*)

## 5. Implementation Activities

"If clients are not making any progress (...), we make careful evaluation of whether to continue our business." (*Mizuho Financial Group*)

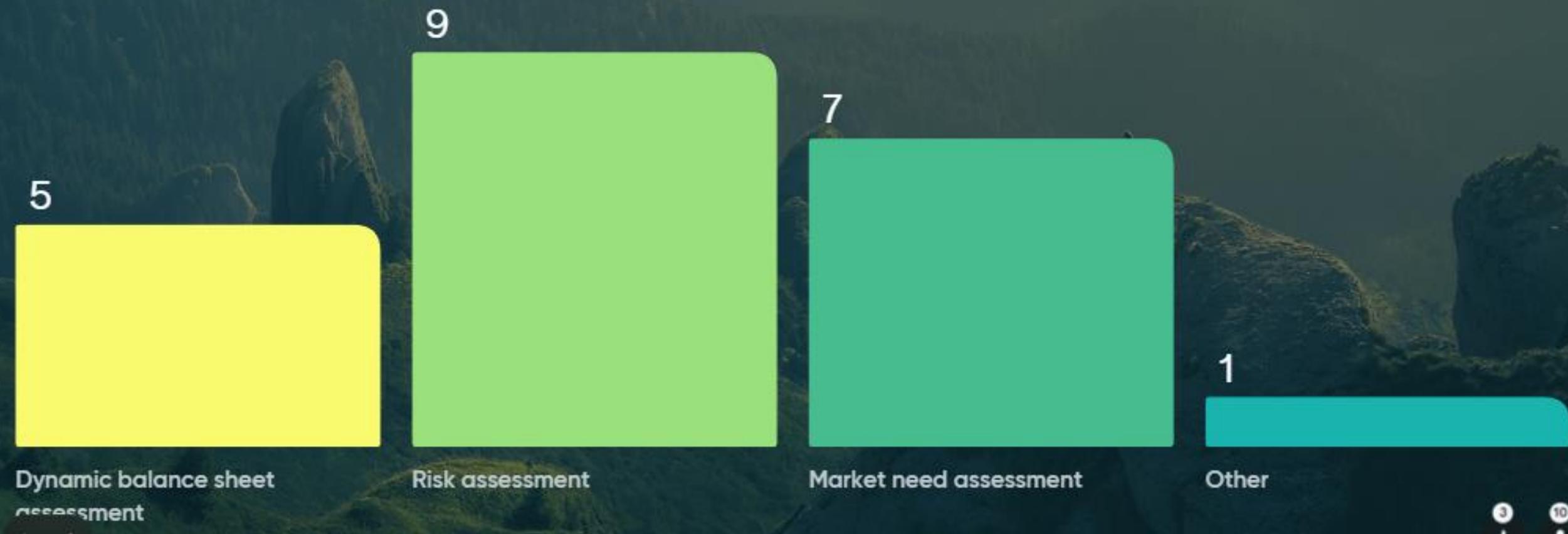
## 6. Organizational Integration and Governance

"Targets at board level have been introduced from 2022 that count into remuneration." (*ING Group N.V.*)

## 7. Disclosure

"Transition planning is not a one-time exercise" (*Deutsche Bank AG*)

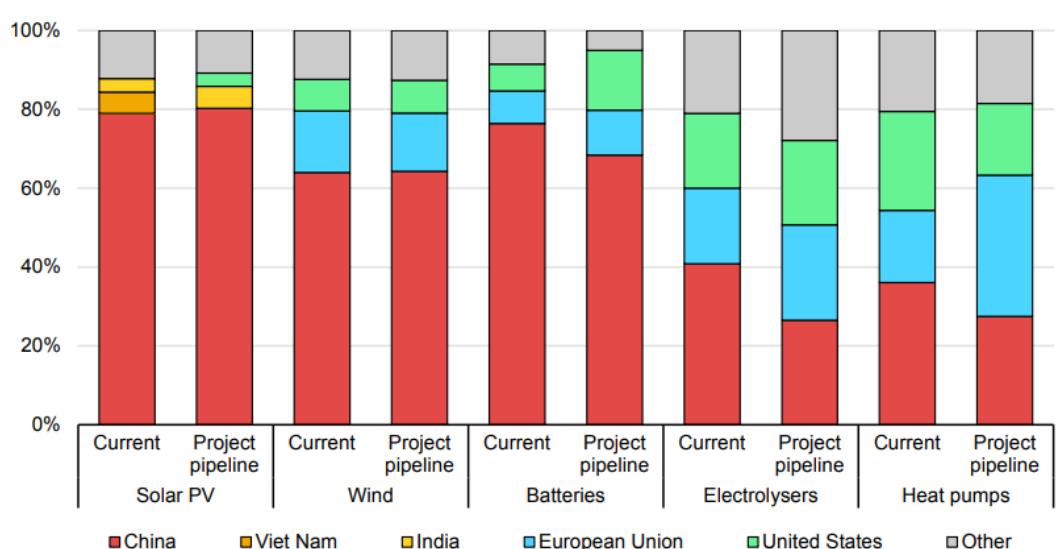
# What measures and impact analyses do you perform to assess the financial impact of a net zero pathway?



# Deep Dive: Take a tight view on the future markets

We can track how 2030 future market potentials are now being distributed

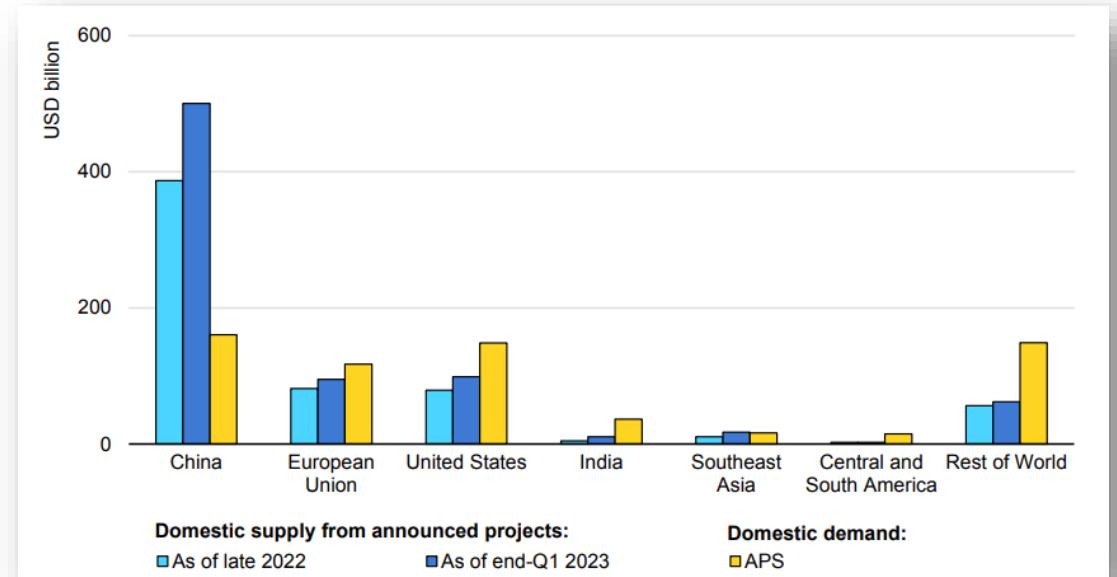
## Current and projected (2030) geographic concentration for manufacturing operations for key clean technologies



Projected for announced capacity additions

Source: IEA 2023

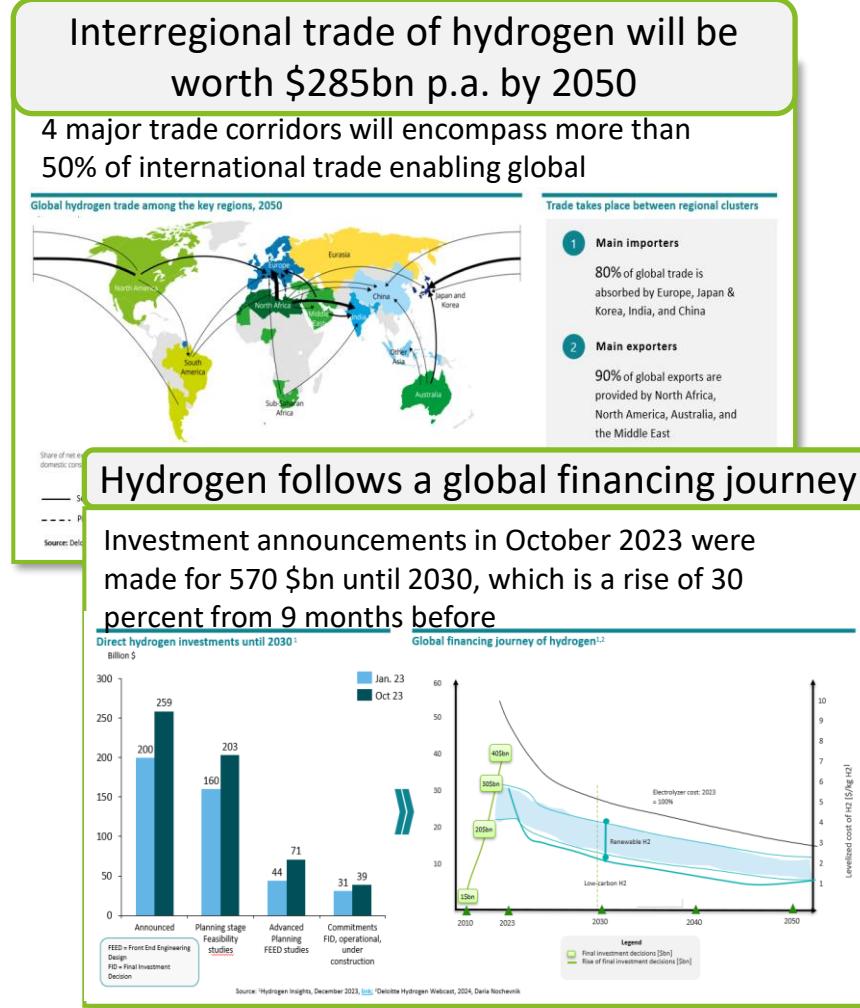
## Market sizes for key clean energy technologies in 2030



APS = Announced Pledges Scenario

# Deep Dive: Translate future markets into specific offerings

Hydrogen is an excellent example on how new sustainable investments can create value for financial institutions



## Key hydrogen market intelligence

Review market size, timing (incl. technology) assumptions and key perquisites

Key entry points for specific services (which actors)

Market fit offering / SWOT

Illustrative

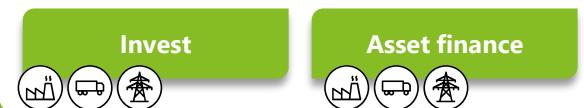
### H2-related financing options



### Corporate Clients



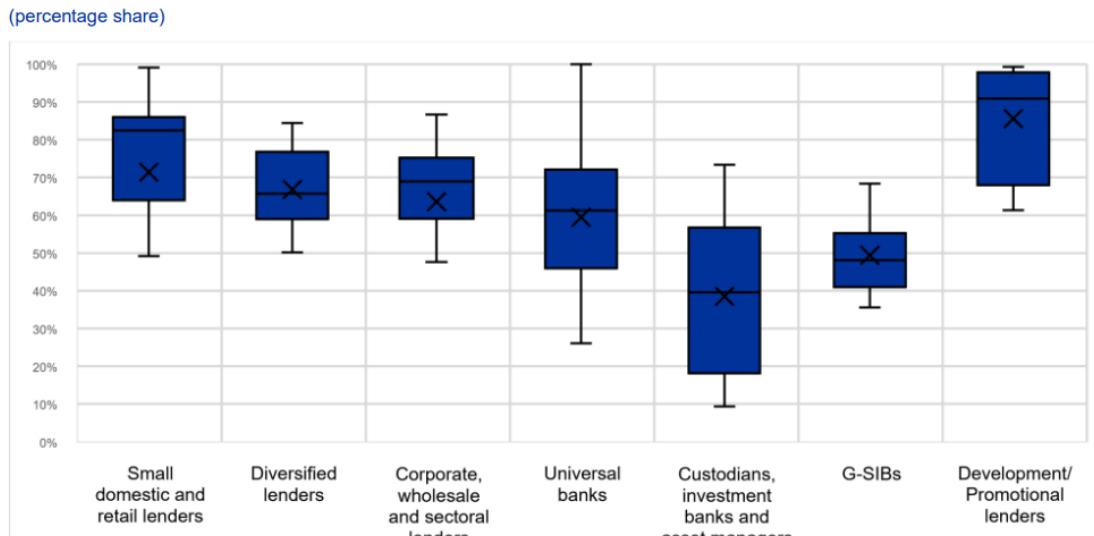
### Asset Management



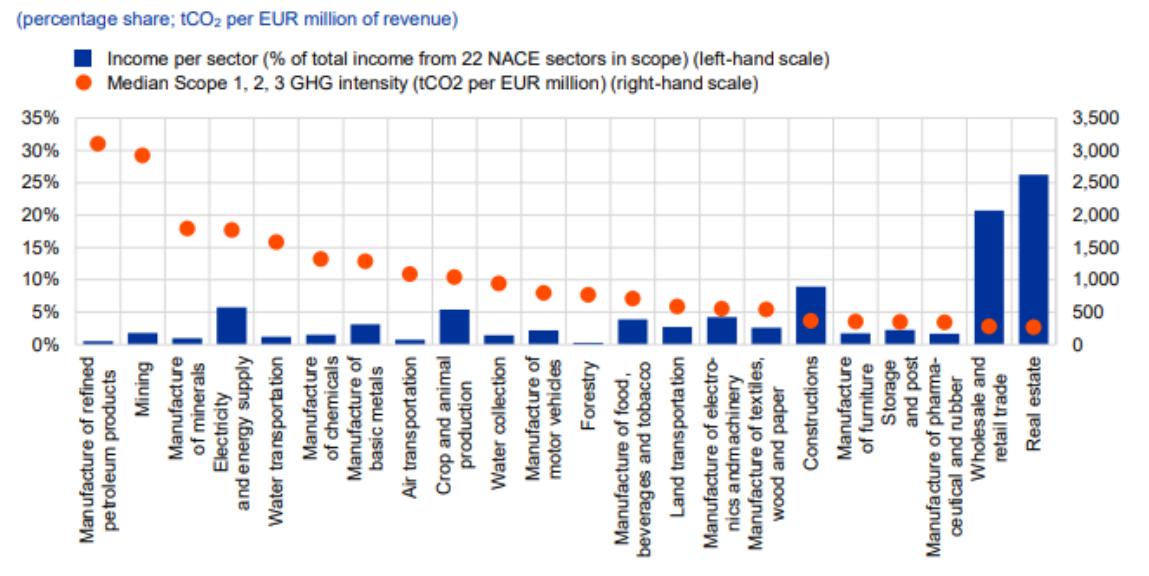
# Deep Dive: Manage the conversion to your financials

In the future, investments in carbon-intensive industries are going to decline

Interest income from 22 carbon-intensive industries as a share of total non-financial corporate interest income

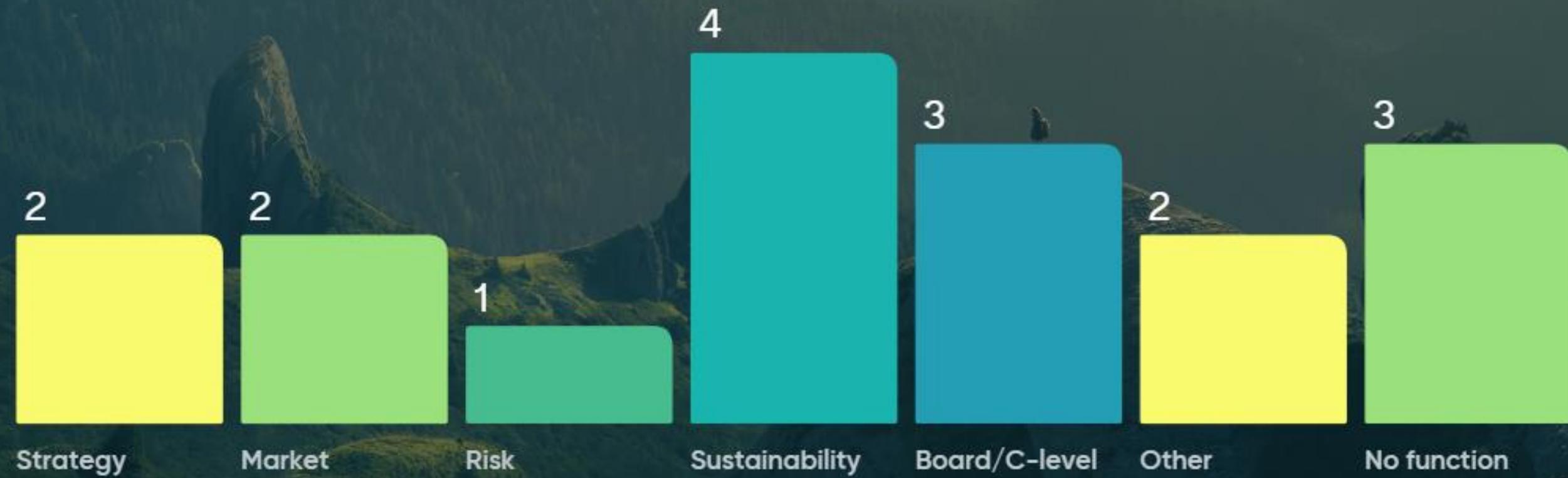


Interest income and fee and commission income per sector from 22 carbon-intensive industries and median of the Scope 1, 2 and 3 GHG intensity



Source: ECB 2022

# Which function of your organization is not involved in the process of a sustainable transformation?



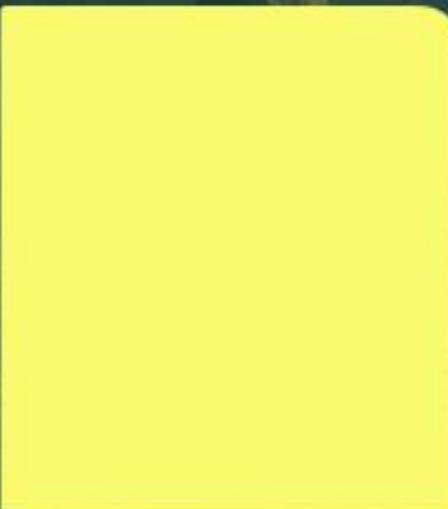
# Deep Dive: Enablement across business functions

Risk analysis can enable the transition planning processes for different business functions



# Which analysis are already done by your organization to forecast sustainability developments and prepare for a future business model?

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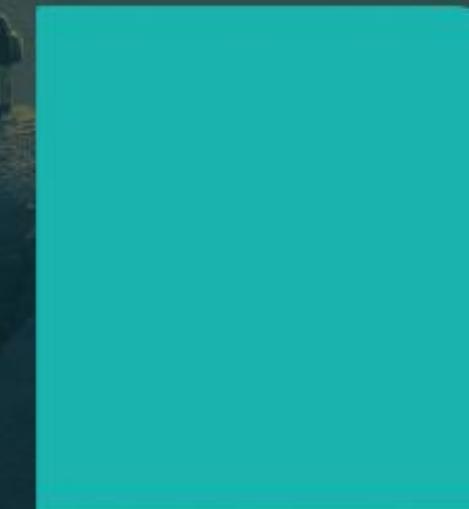
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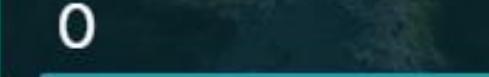
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Sector market analyses

Tech analyses

Sector policy analyses

Overarching policy analyses

Other

# Deep Dive: Navigating the current political ambiguity

## Example policy tracking tools - IPR FPS forecasts

Adjusted baseline

		Forecast change relative to IPR FPS 2023: 			Consistent  Achieved 													
		 Economy wide		 Power			 Buildings		 Transport		 Industry		 Agri		 Land use		 Nature	
		Net Zero CO <sub>2</sub> emissions	Carbon price	New coal phase-out	All coal phase-out	Clean power	Zero-carbon heating	Light duty vehicles	Heavy duty vehicles	Industry decarb.	Low-carbon agriculture	Net deforestation	Deforestation free supply	Protection & Nature restoration	Nature incentives			
Asia Pacific excl. China	Australia	2050	\$70	2023	2038-40	2045	2035	2040	2045	2065	2030	2025-30	2030	2030	2025			
	Indonesia	2060	\$50	2025	2055	2055	N/A	2045	2050	>2070	2035	2030	>2035	>2040	2035			
	India	2065	\$50	2030	2060	2060	N/A	2040	2045	>2070	2035	2025-35	>2035	2040	>2035			
	Japan	2050	\$70	2025	2045	2045	2040	2040	2040	2065	2025	2025	2035	2030	2030			
	South Korea	2050	\$70	2025	2045	2045	2040	2035	2040	2065	2030	2030	>2035	2040	2030			
China	Vietnam	2060	\$50	2025	2045	2050	N/A	2040	2045	>2070	2030	2025	>2035	>2040	2030			
	China	2060	\$50	2030	2045	2050	2045	2045	2050	2065	2030	2025	2035	2035	2030			
Europe	France	2050	\$120	Achieved	2024: European Parliament endorses first-ever carbon removal certification scheme			2035	2040	2060	2025	Achieved	2030	2030	2025			
	Germany	2045	\$120	<2023				2035	2040	2060	2025	2025-30	2030	2025	2030			
	Italy	2050	\$120	<2023				2045	2035	2035	2040	2070	2025	2030	2030			
	UK	2050	\$120	Achieved				2035	2035	2030	2040	2065	2025	2030	2025			
Eurasia	Russia	>2065	\$0	2030	2060	2060	2050	2050	2055	>2070	2035	2025-35	>2035	>2040	>2035			
Middle East and Africa	Nigeria	>2065	\$20	Achieved	Achieved	2050	N/A	2045	2050	>2070	2035	2035	>2035	>2040	>2035			
Middle East and Africa	Saudi Arabia	2060	\$20	N/A	N/A	2060	N/A	2040	2045	>2070	N/A	2030	>2035	2040	>2035			
	South Africa	>2065	\$30	2030	2055	2055	2050	2040	2045	>2070	2035	2035	>2035	2040	2035			
	Turkey	2060	\$30	2030	2045	2050	2050	2040	2045	>2070	2035	2025	>2035	>2040	>2035			
North America	Canada	2050	\$100	<2023	2030	2035	2035	2035	2040	2065	2025	2025	2035	2035	2030			
	Mexico	>2065	\$30	<2023	2038-40	2050	N/A	2040	2045	>2070	2035	2030	>2035	2040	2035			
	US	2050	\$30	<2023	2035	2040	2040	2040	2045	2065	2030	2025	2035	2035	2030			
South America	Argentina	2060	\$30	Achieved	Achieved	2050	2045	2040	2045	>2070	2035	2030	>2035	2040	2035			
	Brazil	2050	\$50	Achieved	Achieved	2030*	N/A	2045	2050	2070	2030	2030	2035	2030	2030			

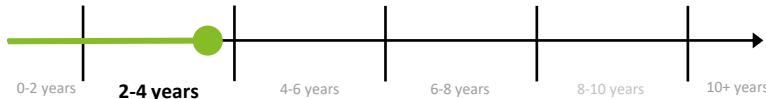
# Trend Assessment

ACT!

Influence



Time of Mainstream Adoption



OUT OF SCOPE

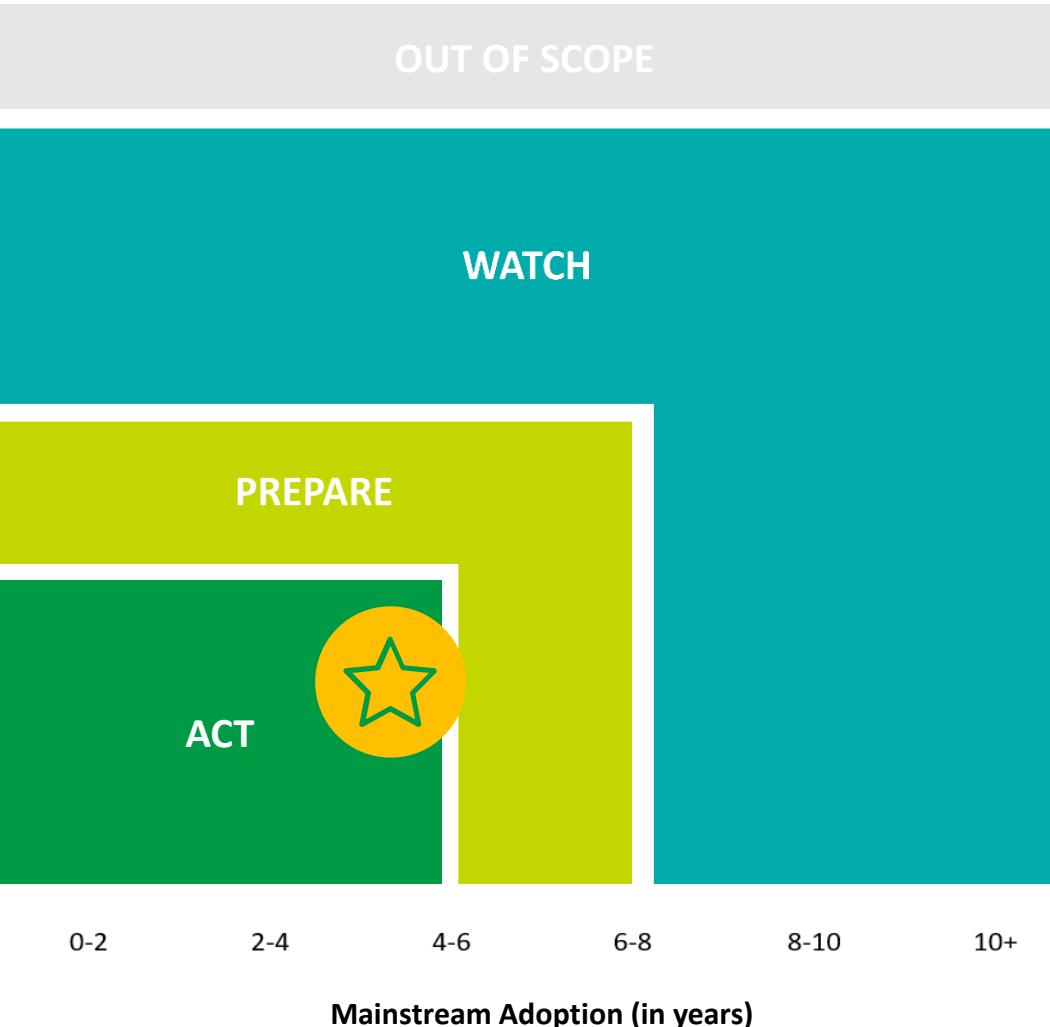
WATCH

PREPARE

ACT

Influence

Very low  
Low  
Rather low  
Rather high  
High  
Very high



# Wrap Up

## Our key takeaways for transition planning



While banks develop and disclose transition plans they need to orient themselves in the **climate landscape, as well as in the newly emerging regulatory** and voluntary domain – leverage existing data and insights

Common approaches from banks were identified in areas concerning data, metrics, and target setting, aimed at bolstering **credibility of transition plans** – follow those

Varied approaches exist in risk integration and organizational responses to the **emerging real economy net zero performance** – continue having an eye on process integration

# Q&A

# Upcoming Webcast

## Episode 7: AI Overlay – Revolutionizing Financial Crime Prevention

Date: 28. November 2024, 2:00–2:45 pm

For further details, please go to our website: ***Deloitte Banking Trend Radar Webcast***



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# Thank you