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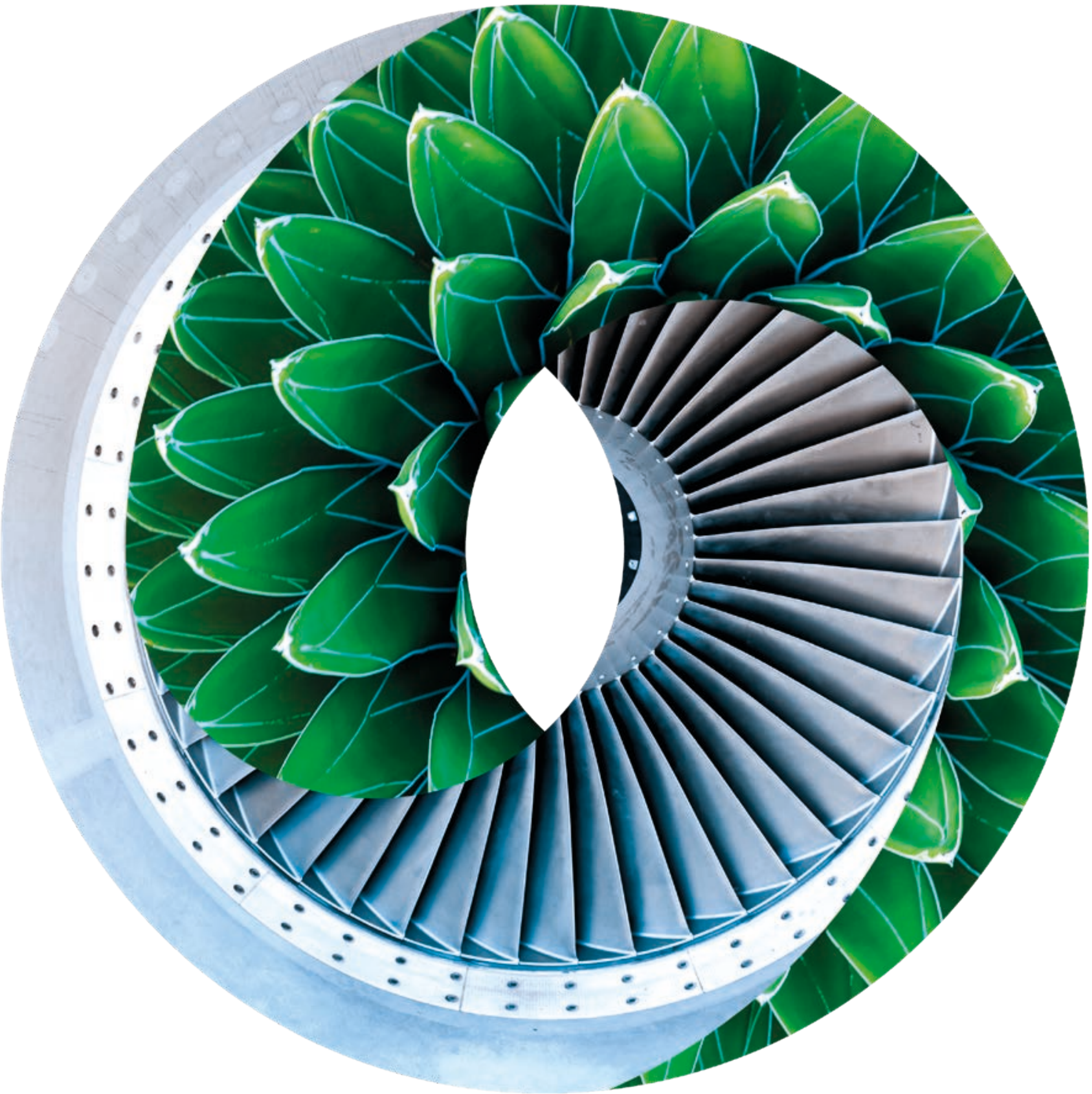


The big picture
How Chief Sustainability Officers can drive the banking sector's sustainability efforts

June 2022

Foreword

Chief Sustainability Officers Leading Change
Expectations are increasing for all businesses - including banks - to take the lead on systemic changes covering major societal issues such as climate change as well as broader sustainability. Banks, which are acutely aware of this important responsibility, seek to use their unique position as financiers of households and companies to contribute to the shift towards a more sustainable economy and society.
For both those who are financing and those who are financed, embracing sustainability means abandoning 'business as usual'. Within a bank, shifting their financing towards sustainable activities requires a clear organizational purpose, a new attitude and holistic approach across all business lines. Banks' own efforts must be complemented by the collective and coordinated efforts of businesses, governments, public organizations, NGOs and citizens. Finally, achieving sustainability also requires pragmatic policy choices at all levels and support from the highest level of management.

Against this background, Chief Sustainability Officers (CSOs) within banks are emerging as a powerful new addition to the C-suite. As findings of our report show, there is something truly new about CSOs, who are quite distinct from the long-standing Corporate Social Responsibility (CSR) area. This is significant. While CSR activities contributing to societal goals have often been complementary to pre-existing bank objectives, sustainability requires the integration of environmental and social objectives into the core business of a bank – and therefore requires aligning of the entire strategy of a bank with its ability to achieve positive impact. This requires strong leaders with solid knowledge of the core business of a bank, combined with multidisciplinary skills and decision-making powers.

There is no one way to define a CSO, other than as a versatile individual who needs to act in different capacities as an agent of change, mediator, coordinator, influencer, business leader and a trusted colleague in a challenging and rapidly evolving business and regulatory environment paired with the growing expectations of stakeholders. As also illustrated in our report, there are different titles attributed to sustainability leaders in organizations. What is clear is that a CSO is not a "super manager". Sustainability cannot be dealt with single-handedly by one position or one team, no matter how well-defined or well-resourced, and success depends on the coordinated efforts of all people within the organization. On the other hand, a clear job description with authority, resources and links to the top leadership of a bank are vital to allow the CSO to steer, accelerate and reinforce their bank's sustainability journey. We hope that readers will find our report useful to understand the evolving role of CSOs, their relevance within their organizations, the challenges they face and, ultimately, their contribution to achieving banks' sustainability strategy and goals.

In this context, I am also happy that the EBF has established a "CSO Roundtable", a platform of around 30 sustainability leaders from banks who meet regularly and generate new insights, share best practices and explore collective action on sustainability and climate issues. We believe that a regular dialogue at European level will complement CSO's efforts within their individual banks and further enhance the banking sector's contribution to the European Union's sustainable transition goals.

Wim Mijs
European Banking Federation,
Chief Executive Officer

Foreword

In the escalating impetus to leave a better planet and society for future generations, institutions are increasingly embracing sustainability across the board—and banks are no different.

While some frontrunners already recognized the importance of sustainability decades ago—due to their geographical exposure or deep belief in a new way of business—in the last few years, banks have seen no choice but to engage on sustainability. Whether sustainability veterans or newbies, institutions of the banking sector must up their game to stay ahead of the pack.

External factors like international commitments and regulations have contributed to this mindset shift. Going forward, the surge of sustainability regulations is not expected to recede—instead, it will continue to challenge banks and require their participation to achieve ambitious sustainability objectives.

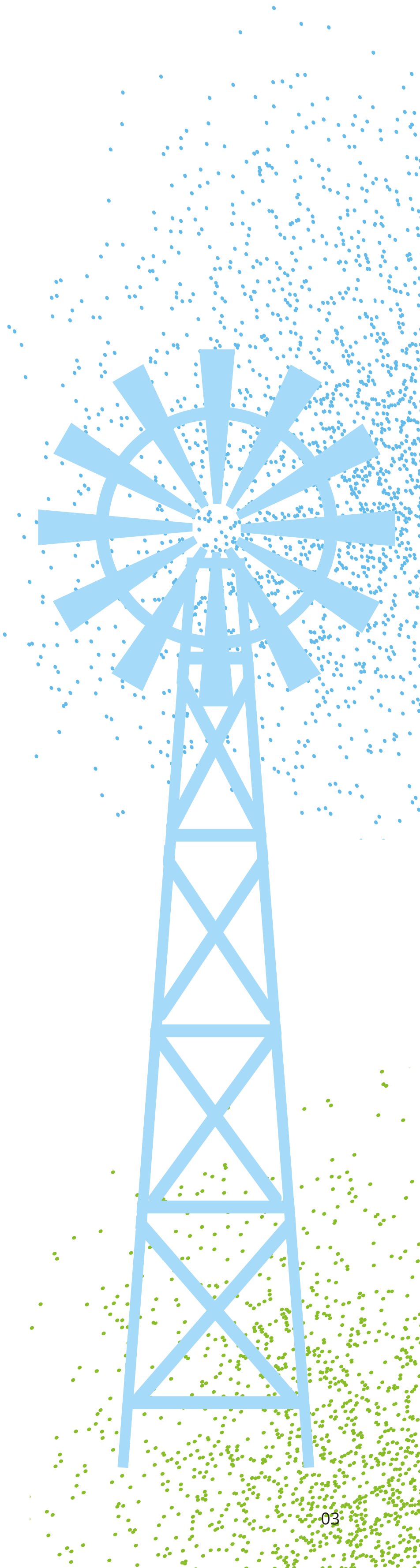
However, our joint study with the European Banking Federation (EBF), which uncovers prevailing sustainability trends and developments, shows that regulations are not the only driver in the industry. From a company like Deloitte's viewpoint—where putting the human at the center is a must—economic actors must integrate sustainability into everything they do to remain relevant and impactful.

Central to achieving a more sustainable planet and society is the role change agents play within their organizations, designing and implementing successful strategies while engaging with key stakeholders with purpose, vision and impact. The Chief Sustainability Officer (CSO) is increasingly expected to take on this change agent role, bearing challenges but also a plethora of opportunities.

Fulfilling the commitments and regulations that underpin the European efforts to achieve sustainability will depend on how purposefully, effectively and consistently CSOs can bring about change, and how their environment can adapt to the needs of this increasingly present new role.

Francesca Messini
Deloitte Luxembourg,
Sustainability Leader

Pascal Martino
Deloitte Luxembourg,
Banking Leader



Executive summary

This **joint report** of the European Banking Federation (EBF) and Deloitte explores the emerging role of the **Chief Sustainability Officer** (CSO) in banks. Based on interviews with 28 CSOs (or equivalent sustainability leaders) from various European banks of different sizes and business models and complemented by an in-depth survey and research, the report demonstrates that this new role contributes to the implementation and acceleration of banks' sustainability objectives.

First, the report defines the **key role of the banking sector in the EU's sustainability journey**, in that banks hold a unique position through their advisory and financial role in supporting companies with robust transition plans. The sustainability agenda provides banks with new business opportunities by connecting financial and societal objectives as well as a competitive advantage if they can stay ahead of the curve.

The report then explores the **external and internal** factors heightening the importance of sustainable finance to banks' business. Alongside the **external** drivers of the sustainability transformation (international non-regulatory frameworks and peer pressure; regulatory and supervisory rules; and demand from investors and external stakeholders), banks are also motivated by **internal** drivers (banks starting to identify and manage sustainability risk in the longer time horizon; the increasing impact of sustainability on business decisions to maintain profitability, performance and competitiveness and reduce transition risks; the integration of sustainability into governance and management; and the incorporation of sustainability objectives into business strategies).

Combining the survey's results, interviews and research, the **report's key findings** can be summarized as follows:

- **Sustainability is becoming a key priority for European banks.** Banks are increasingly focusing on sustainability, and progressively more as a business opportunity than merely a compliance concern. External factors—such as stakeholders' expectations and regulatory pressure—and internal factors—such as in-house decisions for strategic change—combine to drive most European banking sector institutions to implement a sustainability strategy. The main focus is on the sustainability of banks' financing activities rather than their internal operations. Most banks have considered specific SDGs in their strategies, with SDGs 13, 8 and 12 being the most used—due to being considered more material to banks and more aligned with their core business, as well as relating to areas where their financing activities can make the biggest impact. This focus is reinforced by the EU Taxonomy Regulation's current scope of environmental and climate-related topics, such as climate change mitigation, transition to a circular economy, and pollution prevention and control.

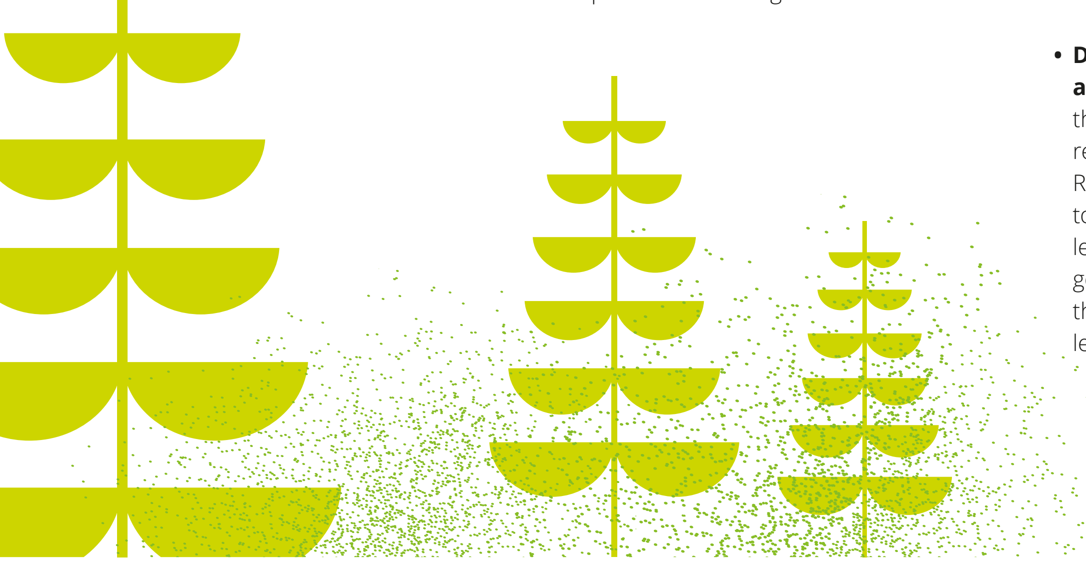
- **The banking sector is moving from G to E and S.** Due to the strict regulatory environment in which the banking sector has been operating since the 2008 global financial crisis, the sector is currently strongest on G (governance). While all three dimensions of ESG are related, and further progress on G continues, the current policy focus prioritizes the E (environment) given the urgency of fighting climate change. These factors, combined with S's (social) other methodological difficulties, have led to less progress in this area. But these difficulties, including its scope and the measurement of its impact, are expected to be surmounted with the preparation and implementation of the EU's Social Taxonomy, as well as the Corporate Sustainability Due Diligence proposed directive.

- **Most banks with a sustainability strategy have installed a stand-alone CSO role with a coherent set of characteristics.** While a range of titles is used, most European banking sector institutions have a role equivalent to a CSO. Where no such position exists, this is mainly because sustainability is considered so ingrained in the organization, strategy and DNA that a separate role is redundant. For most respondents, their sustainability-related role is the only position they hold within their organization. With nearly half the titles containing the terms "Sustainability" or "Sustainable," the CSO's function within banks is becoming more coherent. The CSO is generally expected to **lead the sustainability strategy,** act as a **change agent** to drive a sustainable cultural shift, and orchestrate the actions of different departments on sustainability matters, to integrate them into the CSO's own daily activities and in the overall sustainability strategy. CSOs are also mandated to **communicate and nurture relationships both with external stakeholders such as NGOs, as well as with internal stakeholders** such as employees. The role is typically most involved in boosting the bank's internal capacity to deliver on sustainability; therefore, CSOs set the strategy, prepare the staff to be able to deliver, and increase the bank's own level of sustainability.

- **CSOs are pushing for sustainability to be further incorporated into their bank's internal strategy.** Banks' sustainability approaches can be viewed along a spectrum, going from **"defensive banking" and "preventive banking" to "offensive banking" and "sustainable banking"** (refer to Marcel Jeucken's 2001 study). Currently, most of the European banking sector appears to be between the "preventive" and "offensive" banking phases. "Sustainable banking", characterized by all the bank's activities being sustainable and sustainability being fully incorporated in the bank's core business strategy, has only been achieved by a few industry players. Right from the start, these frontrunners decided to frame their business and operating models around sustainability, rather than integrating sustainability as an additional layer. The CSOs surveyed for this report include some of these frontrunners, which generally represent banks at a more advanced stage, having adopted sustainability strategies. But they too believe that the sector in general, including many of their own banks, must make more progress to achieve optimal value creation through sustainability and embed sustainability as an area of strategic priority. CSOs are striving to attain a mindset shift where banks see sustainability as an opportunity to expand their client offerings through green and sustainable products and to conquer new markets or strengthen their position in existing ones.

- **CSOs have some powers—but may need more.** Despite broad commonalities among CSOs, there are differences in the way CSOs fit within their bank's governance, as well as their tasks and required skills. Some CSOs are expected to achieve ambitious goals with reduced resources and upper management support compared with their peers, and sustainability's place within their organization's priority agenda is not always clear. While most CSO positions are stand-alone, in certain organizations the sustainability department is still embedded in other service lines (such as communications or public relations) and does not hold a separate function within the organization. The surveyed CSOs seem to feel this weakens their ability to act. Importantly, CSOs are often not closely involved in delivering the strategies they have defined. The CSO job description does not include oversight of the operational tasks impacting sustainability—such as developing new sustainable products and services or designing client offerings. CSOs are also not generally in charge of monitoring and managing sustainability-related regulations. This means that extra steps are necessary for CSOs to deliver the strategy they have designed or provide input on the regulatory framework in a coherent and coordinated way. Where the CSO is not actually involved in delivering the strategy, the coordination (and potentially the change management framework) must be effectively set up.

- **Defined link with the CEO role makes a difference.** While most CSOs report to the CEO directly, there are still differences regarding how they work with the CEO. Regular meetings with the CEO seem to positively impact the respondents' level of satisfaction with their current governance layer; however, only half of the surveyed CSOs see their CEOs at least once a month.



- **Relationships with the bank's other departments make a difference.** While CSOs are not directly involved in delivering sustainability strategies, they cooperate with other functions to execute their three roles as a sustainability strategy leader, change agent, and orchestrator of the different departments' actions on sustainability matters. All respondents interact with departments other than theirs to fulfill their mandate, interacting with the lending department the most, followed by the risk management, compliance, HR and finance departments. Most CSOs instruct other departments that support them in implementing activities, with only one-fifth receiving instructions from other departments and supporting them.

- **CSOs have resources—but may need more. Most CSOs have a team and resources to carry out their tasks.** All respondents who work with a team are satisfied with their team's current skill level, although they believe more multi-disciplinary skills are needed to manage and drive the sustainability strategy across the organization and beyond.

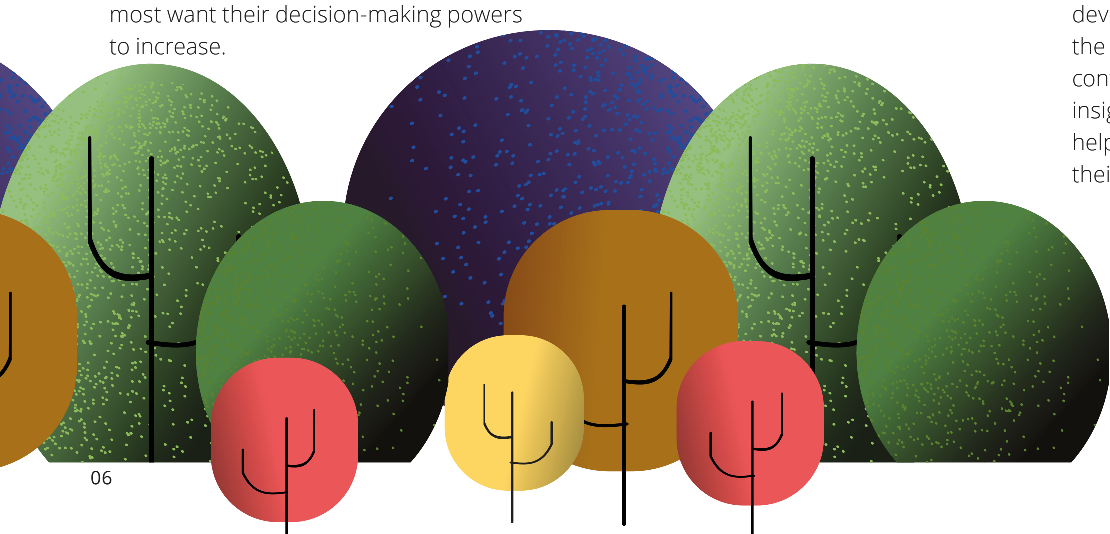
- **The greater the CSO's influence, the easier it is to meet the challenges.** CSOs regard their main challenges as regulatory pressure, technology and data, and client offering. CSOs who can work with the top management more directly and believe sustainability is integrated within their bank's business strategy are seemingly more confident about meeting these challenges. The respondent CSOs concur on the need to improve the way their banks engage with external stakeholders, most notably NGOs, and most want their decision-making powers to increase.

- **CSOs need solutions for the availability and comparability of quality data and ESG reporting frameworks.** CSOs believe data will be their biggest short-to-medium-term challenge, impacting banks' ability to offer sustainable products and services that meet customer needs; comply with regulatory requirements and ESG standards; and perform in-depth analyses of their portfolio and financing activities. In addition to data, CSOs are concerned about the lack of standardization between the multiple mandatory and voluntary sustainability reporting systems, hampering financial institutions' decision-making process. Along with unavailable or voluntarily published (and often unaudited) ESG data, the lack of comparability between the different ESG frameworks is a major challenge of the regulatory landscape; therefore, CSOs would welcome more uniformity in this area.

- **CSOs believe that more public help is needed.** To fully play their role as transition actors, banks need more help and support from governments. While banks perform a crucial function in terms of financing, it is the economy's underlying incentives that have a greater impact on the activities actually undertaken. Some CSOs believe that governments should use more fiscal or other incentives to support sustainable activities, as this would amplify the impact of banks' ESG-aligned financing.

- **The CSO role will continue to evolve and increase in importance.** The CSO's role has evolved over the last few years as the ESG agenda has expanded and the urgency of climate change has gained ground. This evolution will be accelerated in the future, characterized mainly by an increase in projects and changes in how the CSO role fits within the organization's governance. As sustainability moves up the banking agenda, we will likely see a transformation in how the entire industry operates. Banks' governance and organizational structures will continue to adapt to ensure a prominent position for their sustainability leader, who will be a key actor in the coming years within the industry. Ultimately, most CSOs will need more decision-making powers within their organizations' governance to deliver a long-lasting impact.

- **The role of the CSO is closely linked to the bank's ability to create value through sustainability.** The extent and nature of the evolution of the CSO role will ultimately depend on the bank's position on the spectrum of sustainability approaches. For those aiming to be "sustainability banks" (i.e., to pursue the global sustainability challenge to create enduring growth and long-term value for the bank and its stakeholders), the transition will mean adapting the organization itself and embedding sustainability into the very DNA of who they are and what they do. Such a transition would need a strong and efficient sustainable leadership capable of managing changes, defining new paradigms, and developing new ways of thinking, as well as managerial models that allow the acquisition and development of new skills. We hope that the current report makes a valuable contribution to this process by providing insights into this important role and helping banks and their stakeholders on their sustainability journey.



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Introduction

Sustainable development is a core principle of the Treaty on European Union and a fundamental goal of the EU's internal and external policies. The banking sector's essential role in distributing financial flows makes it a cornerstone of the EU sustainability journey. The decisions that banks and their clients make today will steer the economy for years to come, defining the health of societies and the environment for future generations. While a successful sustainability journey relies on the sector's ability to transition and the public sector's backing and incentives, banks are uniquely positioned to support companies with robust transition plans through their advisory and financial role.

Banks understand that the sustainability agenda affords new business opportunities, allowing them to connect financial and societal objectives and enjoy a competitive advantage if they stay ahead of the curve—and this curve is changing fast. Sustainable finance is one of the fastest developing regulatory and market areas in Europe, and sustainability is rapidly becoming a defining topic in the financial sector. The emergence of banks' role as key actors in the sustainability journey is driven by several external and internal factors.

External drivers of sustainability transformation

International non-regulatory frameworks and peer pressure

Collective actions at the international level, such as the UN Principles for Responsible Banking and the Net Zero Banking Alliance (NZBA), provide comprehensive global frameworks for sustainable banking and accelerate banks' contribution to achieving sustainable development goals (SDGs) and Paris Agreement targets. For example, the NZBA signatories commit, in a publicly accountable way, to adapting their lending and investment portfolios to meet the net-zero goal by 2050 or sooner through robust, science-based guidelines. Signed by more than 100 banks across 40 countries and representing over 40% of global banking assets, the NZBA provides a benchmark for banks to compare their transition efforts. These international non-regulatory initiatives complement existing national frameworks, as well as the EU Action Plan for Sustainable Finance.

Regulatory and supervisory pressure

The EU Action Plan for Sustainable Finance, which is aimed at funding the EU's European Green Deal ambitions, is a significant step in developing a regulatory system where banks can play a concrete role in both financing the global transition to a low carbon economy and reducing the emissions of their own activities. The European Commission's leadership and firm commitment to deliver on the Action Plan has substantially accelerated the sustainability agenda across Europe.

The European Commission's Action Plan embraces three core pillars and underlines the financial sector's strategic importance:

01. Reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;

02. Manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and

03. Foster transparency and long-termism in financial and economic activity.

To support the achievement of each pillar, the European Commission is progressively defining a robust and extensive financial regulatory framework.

The first pillar is underpinned by the EU Taxonomy, a classification system that determines which economic activities can be considered sustainable. It implies further regulatory changes, such as incorporating clients' environmental, social and corporate governance (ESG) preferences into the suitability assessment of financial firms providing investment advice (MiFID II and IDD).

The second pillar aims to incorporate environmental and social risks into financial decision-making. The European Central Bank (ECB) is performing a climate stress-testing and thematic review to identify banks' vulnerability to climate-related and environmental (C&E) risks. This pillar is also supported by regulations and standards that include the revised Capital Requirements Regulation (CRR 2) and the Capital Requirements Directive (CRD 5).

The third pillar implies regulatory initiatives, such as replacing the Non-Financial Reporting Directive (NFRD) with the more ambitious Corporate Sustainability Reporting Directive (CSRD); the Sustainable Finance Disclosure Regulation (SFDR), which increases transparency for financial investment products; and further transparency requirements like the Green Asset Ratio that obliges banks to disclose their financing activities' EU Taxonomy alignment, as well as the pillar's risk-related disclosure requirements.

In July 2021, the European Commission further complemented the Action Plan through its new sustainable finance strategy, aiming to support the financing of the sustainable economy transition by proposing further action in four areas: transition finance, inclusiveness, resilience and contribution of the financial system and global ambition.

Pressure from investors and external stakeholders

The influence of various stakeholders has further intensified banks' sustainability efforts. Sustainability is an increasingly important part of the decision-making process of banks' clients and investors. To ensure their investments have a positive impact, investors are favoring financial institutions that contribute to societal or environmental objectives. Businesses are transitioning to sustainable practices, and retail clients are adapting their consumption patterns, heightening the demand for banking products and services that meet these new expectations. External stakeholders like nongovernmental organizations (NGOs) are also actively pressuring banks to play a central role in the transition, asking them to adapt their resource allocation criteria to comply with ESG standards and divest from certain activities.

Internal drivers for sustainability transformation

Banks starting to identify and manage sustainability risk in the longer time horizon

C&E risks, characterized mainly by physical and transition risks, compel banks' management to implement processes that identify, assess, monitor and control the risks escalated by the climate emergency. Banks are developing long-term risk management tools, such as portfolio alignment approaches, that complement their existing risk management frameworks. Financial institutions are aware that C&E risks can have a material impact on their risk profile, especially regarding existing risk categories, and are starting to act accordingly.[1]

Increasing impact of sustainability on business decisions to maintain profitability, performance and competitiveness and reduce transition risks

The flip side of these new risk management approaches offers financial opportunities that banks can capitalize on. Banks are realizing that sustainability is now crucial to competitive advantage and differentiation in increasingly cutthroat financial markets. These factors are driving the banking sector to adjust its decision-making and lending processes to focus on higher long-term returns by financing sustainable projects and businesses.[2] Sustainability also offers financial institutions vast potential to diversify their value proposition through innovative financial products and services with environmental and social benefits.

Integration of sustainability into governance and management

The mitigation of risks and the opportunities to be seized have incentivized banks to integrate sustainability into their organizational structures, governance and management, and exercise the effective oversight of C&E risks. Increasingly, banks are assigning responsibility for managing C&E risks within their organizational structures along the three lines of defense model.

Incorporation of sustainability objectives into business strategies

Banks are also progressively considering C&E risks and opportunities when developing their overall business strategy and business objectives to create long-term value through sustainable banking. To achieve their sustainability goals, banks adapt their financing activity portfolios, adopt an organization-wide approach to increase general awareness among employees, and link sustainability to their mission. This involves standard-setting measurements and evaluations to track progress, and effective reporting to ensure the results are communicated to the various stakeholders.

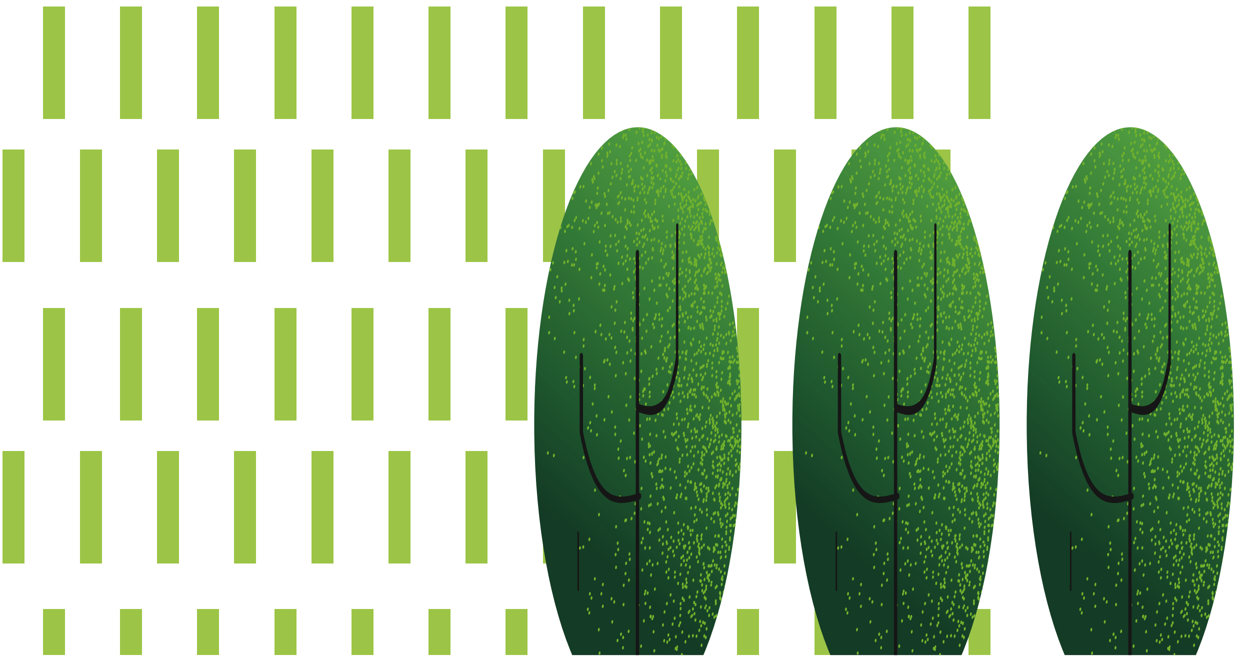
1. How well are European banks managing their climate-related and environmental risks? European Central Bank - Banking Supervision. (2021, November 22). European Central Bank.
2. Banking on Sustainability – Financing Environmental and Social Opportunities in Emerging Markets. (2007). IFC - International Finance Corporation.

Objective of the report

These internal and external drivers have not only shaped the financial sector but, more importantly, also spurred banks to develop their own sustainable finance vein, such as establishing new roles like the Chief Sustainability Officer.

The number of CSOs within institutions in the banking sector and beyond is on the rise, begging the question of how this role contributes to companies' sustainability implementation and acceleration. Since the CSO role is relatively new in most companies, including banks, understanding of their importance remains lacking. In this context, this joint report of the European Banking Federation and Deloitte aims to grasp the role, tasks, opportunities, and challenges faced by CSOs of EU banks, and ultimately uncover whether having a CSO determines or accelerates the success of banks in achieving their sustainability objectives.

"We are in the most advanced times for CSOs, and this role will evolve over time." — Javier Rodríguez Soler, Global Head of Sustainability, BBVA



The methodology

The data collection methodology for this report is based on three pillars: a survey, interviews, and desk research. The first two pillars allowed us to gather first-hand evidence, while the third enabled us to contextualize the results within the larger picture of the environment that CSOs navigate.

The first step of the research was to understand—via a survey directly targeting the CSOs themselves or equivalent functions[3]—the profiles they have, the global environment in which they operate, their place within the organization, and the challenges they face in performing their function. As a general note: titles often vary between organizations, so the report always refers to a "CSO" even if the bank lacks one *per se* but has an equivalent function.

Twenty-eight sustainability leaders from European banks of varying sizes and business models were selected to contribute their perspectives to this survey. Respondents' institutions are based in 18 different European countries, providing a good representation of the European region's geographical distribution.

The banks selected to participate in this survey are EBF members and include both head offices and branches spread across Europe.

The survey included a total of 41 questions separated into five sections:

01. The bank's strategy
02. The respondent's profile
03. The role and its place within the organization
04. The CSO's team
05. The challenges

During the second phase of the study, based on an in-depth analysis of the responses and further desk research, we conducted interviews with a sample of the survey's participants. These interviews aimed to better understand the respondents' motivations behind their responses, allowing a comprehensive discussion of the different topics covered. The questions guiding the interviews mainly dealt with the bank's strategy, the role of the CSO in the organization, the challenges faced by the bank, as well as more overarching questions about sustainability in the banking sector.

In addition to the survey and the interviews conducted, we carried out in-depth analyses of the respondents' backgrounds to better understand their profiles and how they perform their roles.

Finally, this report also relies on publicly available information obtained from various institutions' and bodies' websites and reports. This desk research helped provide an overarching framework for the study.

3. Equivalent functions correspond to the highest function identified as in charge of the sustainability agenda within the given bank.

100%
of surveyed banks have a sustainability strategy in place

82%
of surveyed banks have a CSO or "equivalent" role in their corporate structure

82%
of surveyed banks consider SDGs within their sustainability strategy

88%
of respondents have been internally appointed as CSO

72%
of respondents have a business-related background

71%
of respondents have followed specific academic or professional training related to sustainability

93%
of respondents have a team and resources they can rely on to fulfill their mandate

82%
of respondents report directly to the highest management level of their organization

100%
of respondents collaborate with other departments to fulfill their mandate

50%
of respondents meet with their CEO on a monthly basis

57%
of respondents expect their role to continue to evolve in the long term with an increase of projects

64%
of respondents see technology and data as the main challenge they will have to face in the short term

THE main thing that respondents would change about their role is:
Empower the function with adjusted decision-making powers

Top priorities that respondents are expected to work on are:
- Set the sustainability strategy
- Provide learning opportunities to internal staff
- Engage with external stakeholders

The SDGs most considered in sustainability strategies are:
SDG 13: Climate action
SDG 8: Decent work and economic growth
SDG 12: Responsible production and consumption

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1. Framing the story: who is the CSO, and what is the playing field?

1.1 Having a sustainability strategy

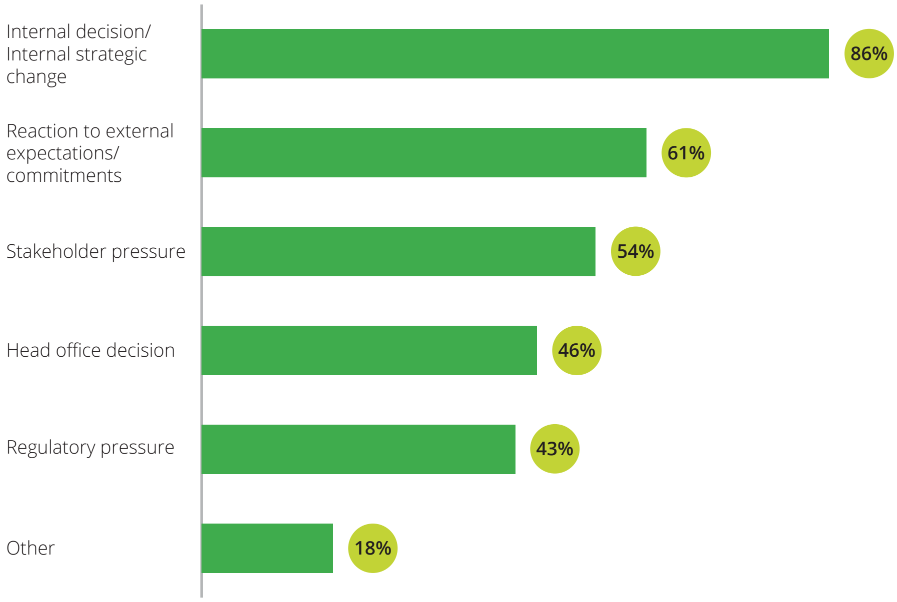
Sustainability strategies are now commonplace in the sector, as reflected in the survey participants' responses—all indicated that their institution has one in place. This clearly shows that sustainability is becoming less and less secondary, with the banking industry increasingly considering it a must-have rather than a nice-to-have.

Several factors can drive a bank to implement a sustainability strategy, whether internal, external or a mix of both. The results collected show that external factors are seemingly the most common drivers for having a sustainability strategy, with 61% of respondents selecting "Reaction to external expectations/ commitments", 54% "Stakeholder pressure", and 43% "Regulatory pressure". However, most respondents also identified internal factors driving sustainability strategy creation, with 86% choosing "Internal decision/internal strategic change".

Of the 18% that selected "Other", their follow-up responses elaborated that the sustainability strategy is embedded in the bank's DNA and that external pressures did not lead to the strategy's establishment.

When these internal and external factors are in synergy, the result can be unique, allowing the bank to actively own this new topic and reap its benefits. Two trends emerged from the interviews exemplifying this case, which are examined in the report.

Figure 1 - Why does your bank have a sustainability strategy?



"The reason we exist is to create a positive impact besides a reasonable financial return." — Jacco Minnaar, Chief Commercial Officer and Member of the Executive Board, Triodos Bank. For some interview participants, sustainability is embedded in the institution's vision and mission since the institution's inception. In these organizations, sustainability is part of their DNA and is integrated into their overall strategy. Most of the organization's members are aware of the challenges of sustainability and understand its impacts. On top of this, the whole company's vision is geared towards sustainability.

"Sustainability is a business opportunity and a super strategic matter."— Hacina Py, Chief Sustainability Officer, Société Générale. For others, sustainability is a considerable opportunity to be capitalized on. It is an area of activity no longer solely linked to risk or compliance but is progressively becoming a strategic priority. In these cases, the integration of sustainability in the organization is somewhat fragmented, and collective awareness has yet to occur.

Regarding how sustainability strategies are structured, SDGs can provide a helpful framework. The data collected indicates that banks are generally likely to include the SDGs within their sustainability strategies.

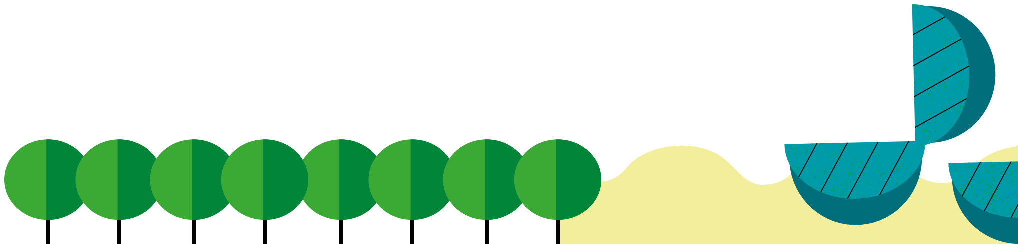
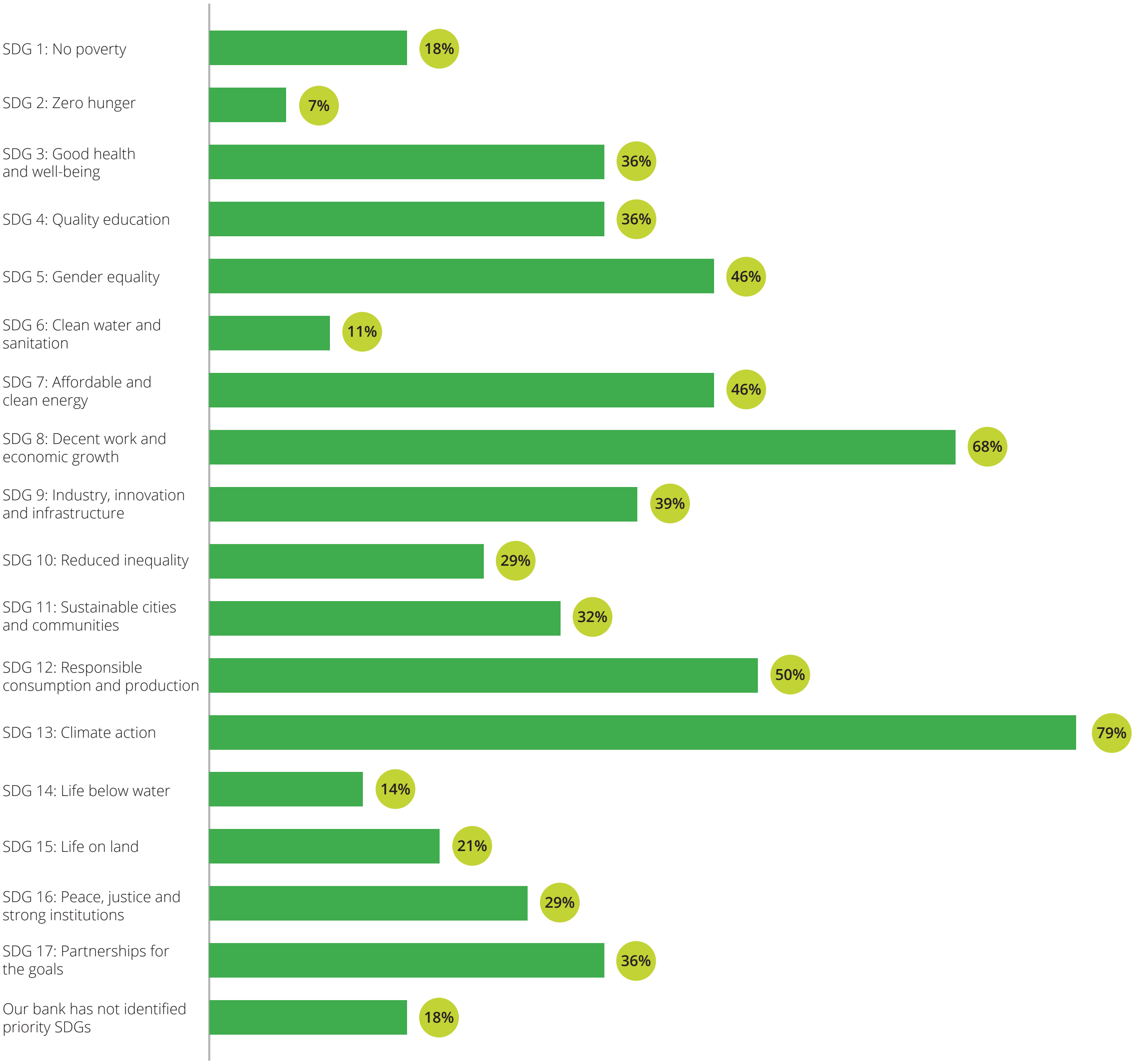
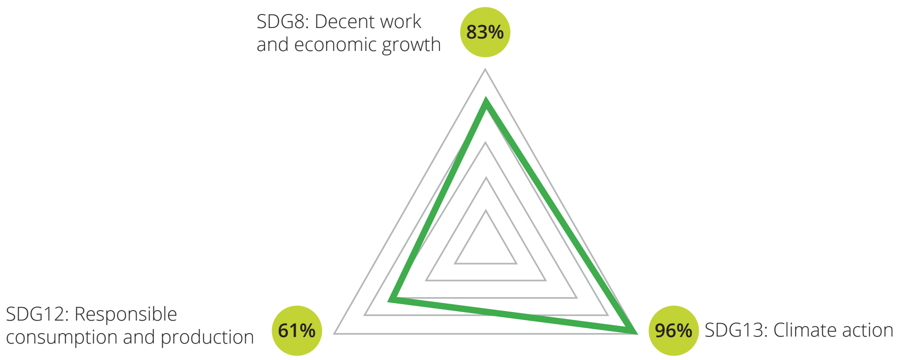


Figure 2 - Within your sustainability strategy, has your bank decided to focus on specific SDGs?



Excluding the responses of the banks that do not focus on SDGs, the following are the surveyed banks' most considered SDGs:

Figure 3 - Sustainability strategies of respondents' banks focus especially on:



Most surveyed banks take "Climate action", SGD 13, into consideration (96%). An interviewee explained the importance of prioritizing climate action due to its influence and impact on all other SDGs. In fact, given its multi-dimensional nature, this SDG has a direct effect on achieving other goals such as SDGs 1 ("No poverty"), 2 ("Zero hunger"), 10 ("Reduced inequalities"), 14 ("Life below water") and 15 ("Life on land").[4] Another reason for SDG 13's popularity could be that nearly 50% of Euro-area banks' exposure to risk is directly or indirectly linked to climate change.[5]

"Climate change is an overarching topic; without tackling it, all other efforts become void." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

SDG 8, "Decent work and economic growth", is the respondents' second most-considered SDG at 83%. Because of banks' central role in the global economy, they are essential for fostering financial inclusion and providing access to finance for small and medium-sized enterprises (SMEs).

The third most-considered SDG is "Responsible consumption and production", SDG 12, voted by 61% of the respondents. While this SDG may seem more relevant to non-financial sector companies, banks can steer this SDG in their own right; for example, through socially responsible investing (SRI) and integrating ESG considerations in lending decisions. Banks can contribute to this SDG through their portfolios, for example, by incorporating businesses active in material recycling and sustainable sourcing.

This top-three ranking could be explained by these three SDGs being more material to banks.[6] This is consistent with organizations tending to prioritize SDGs aligned with their core business[7] and where their financing activities can have the biggest impact. The EU Taxonomy Regulation[8] may also be a reason why SDG 12 and SDG 13 are the top priorities of surveyed banks. Currently, this regulation only addresses C&E topics, including climate change mitigation, circular economy transition, or pollution and prevention control.

The SDGs with the least focus are SDG 2, "Zero Hunger" (7%), SDG 6, "Clean water and sanitation" (11%), and SDG 14, "Life below water" (14%). Respondents who focused on all of these three least-represented SDGs indicated that all 17 SDGs were integrated into their sustainability strategy. In response to the potential criticism of being considered "generalists" in their approach to SDGs and falling into the "do everything and nothing" category, one interview participant explained that this is due to the multiplicity of their bank's activities and the breadth of the geographical area and business horizons they cover.

The lower representation of SDG 2, SDG 6 and SDG 14 could also be explained by the surveyed banks' location. As part of the European banking landscape, respondent banks are possibly less concerned by these SDGs and, therefore, are less likely to directly impact these SDGs compared to SDG 13, SDG 12 and SDG 8.

Other institutions have not considered SDGs when developing their sustainability strategy, with 18% indicating that their banks do not focus on specific SDGs. Some banks do not believe SDGs are the most appropriate framework because they are designed for governments. When the United Nations set up the SDGs in 2015, the aim was a universal call for action to end poverty and protect the planet, ensuring a prosperous world for all by 2030. The 17 SDGs and their 169 targets were designed according to countries' capacities to implement the appropriate actions.[9] The large number, variety and specificity of the targets make it unlikely for banking players to effectively deliver on all of the listed targets.

4. Implementing the UN Sustainable Development Goals. (2019). RICS.
5. Financing Sustainable Growth – COM/2018/097. (2018). European Commission.
6. The Financial Sector and the SDGs - Interconnections and Future Directions. Weber, O. (2018, November). Centre for International Governance Innovation (CIGI).
7. How corporations are approaching sustainability and the Global Goals. Ingram, G. M. N. (2022, March 9). Brookings.
8. EU taxonomy for sustainable activities - Regulation (EU) 2020/852. (2020, September 12). European Commission.
9. Sustainable Development Goals | United Nations Development Programme. (2022). UNDP.

Nevertheless, most of the interview participants agreed that these global goals form a valuable common ground as well as language to exchange on sustainability matters.

"SDGs are a great framework, but we need to acknowledge that there are significant implementation gaps and ambition gaps."— Simon Connell, Global Head, Sustainability Strategy, Standard Chartered Bank

"SDGs do create awareness and create a common language on the basic needs we have to serve."— Hacina Py, Chief Sustainability Officer, Société Générale

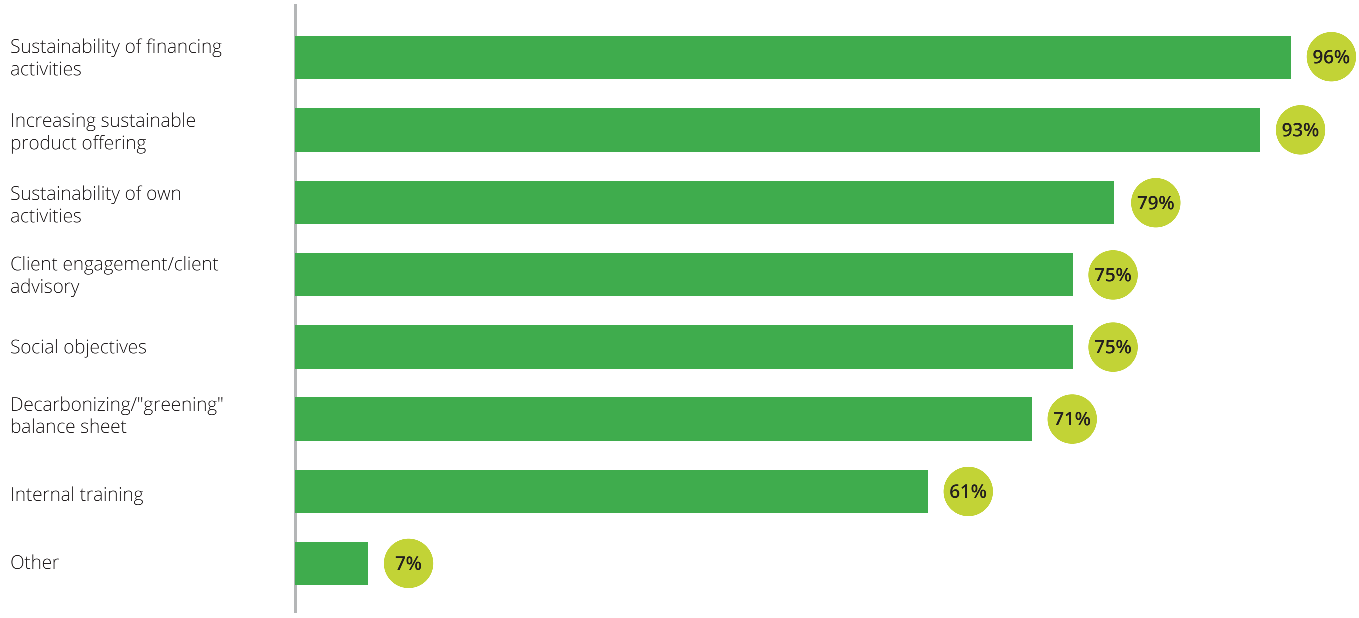
Beyond the use of SDGs, respondents were asked about the focal points of their bank's sustainability strategies. Ensuring the "Sustainability of financing activities" was voted by most of our participants (96%), closely followed by "Increasing sustainable product offering" (93%).

Overall, while most respondents selected all or most of the survey's options regarding their strategy's focus, the most popular were outward services. For example, 75% of our respondents identified "Client engagement/client advisory" and 71% "Decarbonizing/'greening' balance sheet" as a strategic focus, further reinforcing the 93% of respondents selecting "Increasing sustainable product offering". This demonstrates the growing trend of emphasizing sustainability's commercial importance and looking at the topic holistically from a business opportunity perspective.

Looking inwards, 79% of respondents indicated the "Sustainability of own activities" as a focus, followed by 61% selecting "Internal training".

In the "Other" section (7%), respondents indicated "Building data capabilities to manage environmental and social risks" and "Following the climate risk agenda" as the focus of their sustainability strategy. This mirrors one of the key challenges banks are facing (technology and data, see section 2.2.1) and one of the key sustainability motivators (C&E risk, see Introduction section).

Figure 4 - What is your sustainability strategy focusing on?



1.2 How to define a "CSO"?

The growing buzz around the term "CSO" is likely due to the role's relative novelty, with neither role nor title standardized across the board. While the CSO's role is generally that of navigating, influencing and cutting through organizational complexities to allow the organization to deliver its ESG strategy and commitments, in practice, different terms and titles are used to identify this role, emphasizing a particular sustainability element of the organization's vision.

Only 20% of respondents hold the title of Chief Sustainability Officer (CSO). Of the individuals surveyed, the term "Sustainability" or "Sustainable" is included in 46% of their professional titles. Examples of these labels include Sustainability Coordinator, Head of (Group) Sustainability, General Manager Group Corporate Sustainability, and Head of Sustainable Development. Only 14% of the respondents' titles mention "ESG", and only 4% (one respondent) contain "CSR", or Corporate Social Responsibility. Examples include ESG Coordinator, Head of ESG Strategy, and Global Head of CSR.

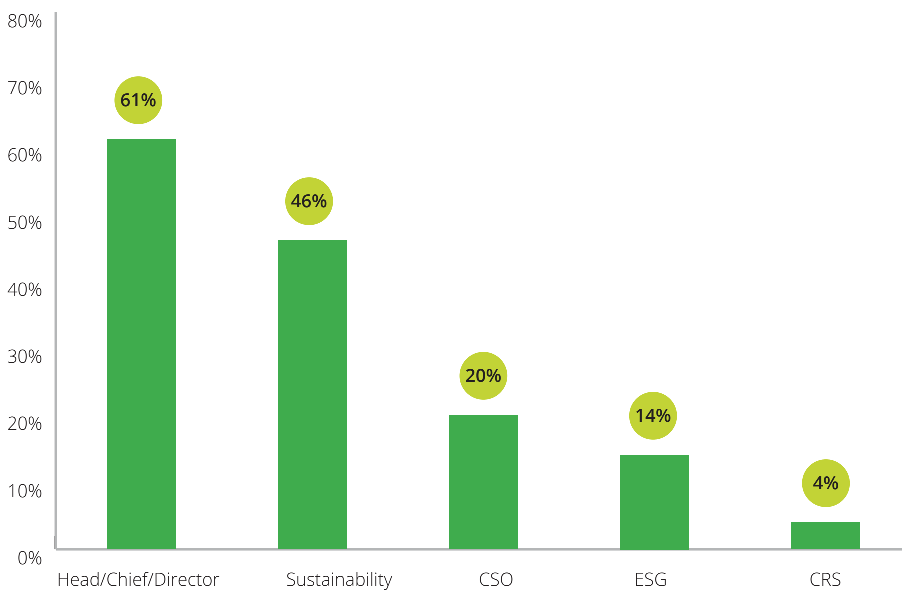
Regarding their position within the corporate structure, 61% of respondents qualify as "Head of", "Chief of" or "Director", implying they hold a leading/senior position. A few responses refer to a "coordination" role instead, implying that sustainability is considered a transversal/integral topic to the bank's activities.

As words are conducive to meaning, these varying labels are chosen purposely and in alignment with the bank's interpretation of sustainability on the one hand, and banks' expectations of the role and the objectives of the person holding the position on the other. Indeed:

- "Chief-" implies a position on par with the rest of the c-suite and the decision-making powers that come with it, while "Coordinator" suggests fewer decision-making powers and increased focus on organizing activities. However, the report later explores how non-c-suite actors responsible for sustainability may be effectively integrated through direct reporting lines to and sponsorship by c-suite members.
- "CSR" implies a "pre-Paris Agreement" inward-oriented approach to sustainability, e.g., the organization supports its staff's charitable and philanthropic activities and financial contribution to good causes. While "Sustainability" and "ESG" suggest embracing the holistic approach to sustainability as intended today, i.e., including both internal and external factors.
- "Development" could ingrain an increased sense of dynamics and, therefore, growth, while "ESG" could easily be linked to "ESG risk" and, ultimately, fear.

In conclusion, while there is an overall shift towards structuring sustainability approaches within organizations, the very labels used by banks indicate a different interpretation and ambition regarding sustainability. It is worthwhile to track if these titles will align in the future.

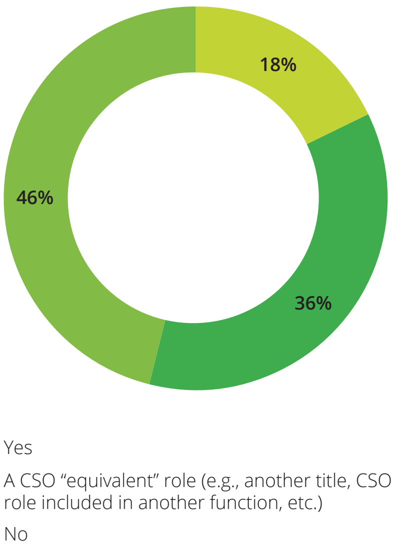
Figure 5 - Qualifications included in respondent's job title



1.3 How common is the CSO function?

More than 80% of the surveyed banks report having a CSO in their corporate structure.

Figure 6 - Does your bank have a CSO role?



Respondents without a CSO were asked if they intended to appoint one; 75% did not believe their bank would provide for such a role even in the future.

For the respondents that lack a CSO role, one argument put forward was that the sustainability function is not yet important enough in their organization to justify its presence. However, this implies that once the bank reaches a higher level of maturity on the topic, the CSO role will become relevant.

In other cases, as sustainability is embedded in the organization's DNA, a CSO role is extraneous, since every organization member is considered a sustainability ambassador. This is common in institutions in the specific sector of "value-based banking", which use their financial resources to foster economic, social and environmental development. ESG matters are at the heart of their business model and the driver of their business strategy. Their focus is on improving society and the planet and being profitable to achieve a sustainable outcome.[10] These value-based banks reflect their identity within their internal structure by making each employee a standard-bearer of sustainability.

1.4 What are the key characteristics of a CSO?

Of the surveyed banks that have a CSO or equivalent (approximately 80% of respondents), given the different expectations for and interpretations of sustainability, it raises the question of whether CSOs share key characteristics.

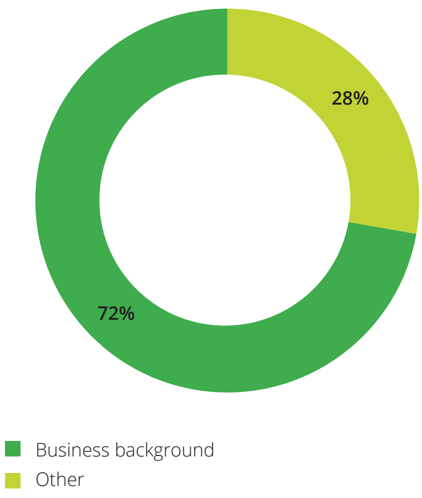
Previous similar position: The results reveal that fewer than 20% of respondents held a similar position in the past. This result is unsurprising given the novelty of sustainability in the banking sector per se.

Business background: Further analysis of the survey and interviews uncovered that 72% of sustainability leaders who responded come from their organization's business department or have professional expertise in business.

Specifically, the positions that respondents held before taking up their current position included, "Head of Business Development", "Chief Executive Officer and Chairman" or "Head of Export Finance".[11]

This suggests that banks are tackling sustainability from a business perspective, both as a business opportunity and in acknowledgement that the integration of sustainability entails an overall adjustment of banks' business models. To this end, these banks need individuals in the sustainability function with business acumen that can drive value creation throughout the organization. CSOs' commercial mindset and financial expertise enable them to add value to all of an organization's functions, by anticipating sustainability risks and opportunities that may impact the organization's financial and strategic position.[12,13] Their managerial skills also mean they can navigate complex and interdependent contexts and have an aptitude for innovating and redefining business models.[14]

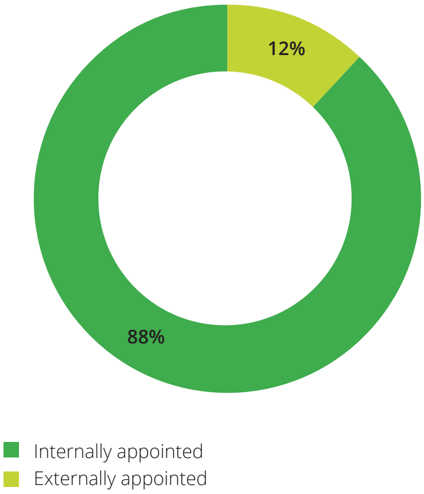
Figure 7 - CSOs' background



10. Values Based Banking - Bringing the voice of the citizen into finance. (2015). Inquiry.
11. Publicly available information on Talent sites.
12. The Chief Sustainability Officer: Organizational Strategist and Futurist. Adigue, A. (2021, April 13). Business Times.
13. Does a sustainability leader add value at board level? Talman, K. (2020, December 7). Financial Times.
14. Sustainable Leadership in Europe. (2020, July). CEC European Managers.

Already within the company in a different position: Another trend that emerged from additional analyses and interviews was that many of the sustainability leaders surveyed were appointed internally, with 88% already a part of their organization before being appointed CSO.

Figure 8 - Internally/externally appointed



In some cases, sustainability is integrated into existing departments, for example, due to the evolution of an existing CSR strategy. In these circumstances, the people in charge of sustainability know the organization and understand its culture and, as a result, may be more apt to initiate change.

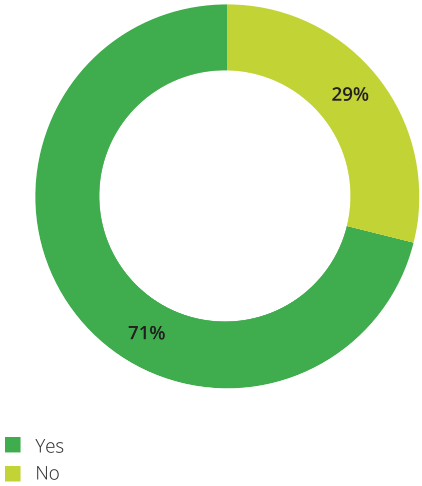
When analyzing the correlation between business experience and the internally appointed CSOs, 86% of individuals without a business background were hired from inside the company. This implies that, while business expertise is relevant and valuable, having insider knowledge of the organization can be essential to the CSO's role and mandate if a business background is lacking.

This trend underlines banks' willingness to not only leverage the external opportunities of sustainability by appointing individuals with business expertise, but also to initiate a change in their internal dynamics thanks to an individual with insider awareness and understanding of the bank.

These results regarding banks' readiness to internally appoint people for sustainability are consistent with the findings of the Deloitte & IFF report[15], the Harvard Business School[16] and the Weinreb Group[17] on the topic.[18]

Sustainability trainings: The survey also uncovers information on CSOs' sustainability education, with most respondents having expertise in this area—71% have taken a specific academic or professional training program related to the sustainability field. This result is consistent with the literature stating that, as organizations begin to take on more complex issues and integrate sustainability into the core of their business, a CSO with related education and experience is a better fit for the position.[19] Nevertheless, these findings also show that sustainability-related education is not a prerequisite for holding the position of CSO in the banking sector.

Figure 9 - Have you followed specific training/education opportunities in the realm of sustainability?



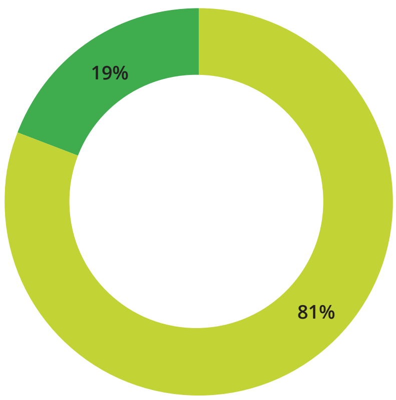
Sustainability expert, company newbie: A few banks have recruited externally to appoint people with a distinct and substantial (scientific) sustainability background. With market and regulatory requirements becoming more and more pressing, some surveyed banks have chosen to recruit sustainability experts to reinforce their team and respond quickly to the challenges and expectations.

15. The Future of the Chief Sustainability Officer. (2021). Deloitte & IFF: *"One of the key findings was that over 80% of people in CSO-type roles came from within the firm they're working in."*
16. Chief Sustainability Officers: Who Are They and What Do They Do? Miller, K., and Serafeim, G. (August 2014). Harvard Business School Working Paper, No. 15-011. *"In terms of professional background, surveys suggest that more than half of those filling the CSO position moved from other positions inside of their companies."*
17. CSO BACK STORY II: The Evolution of the Chief Sustainability Officer. (2014). Weinreb Group. *"The vast majority of CSO positions are still filled internally."*
18. The Emergence of the Chief Sustainability Officer. (March 2011). Acre: *"To date, the majority of CSO appointments have been internal."*
19. Chief Sustainability Officers: Who Are They and What Do They Do? Miller K., and George Serafeim. (August 2014). Harvard Business School Working Paper, No. 15-011.

Multiple hats: For most respondents (81%), their sustainability-related role is the only position they hold in their organization. The remaining few also cover additional roles:

- Commercial/executive board member
- Corporate secretary (Corporate governance)
- Credit risk-related function
- Investor relations-related function

Figure 10 - Do you cover another function besides sustainability?



From our discussions with various interviewees, it is understood that the CSO role is growing in importance within organizations and becoming more demanding. Therefore, many respondents are fully dedicated to their role, as it holds many responsibilities and requires the management of several activities.

At the same time, allocating sustainability leadership to someone who already holds another organizational position can benefit the sustainability strategy, as their holistic view of the organization could make them a more effective change agent.

1.5 What is the role of the CSO?

Given banks' different interpretations of sustainability and its impact, as well as the different governance setups and degrees of decision-making powers assigned to the CSO (a topic further explored in section 2.2.3), the expectations for the CSO's mandate can vary.

Definition of the organization's sustainability strategy and vision: The CSO can be in charge of defining the bank's sustainability strategy, which generates long-term competitive financial returns while having a positive social and environmental impact. This strategy will then be the cornerstone of all further actions undertaken.

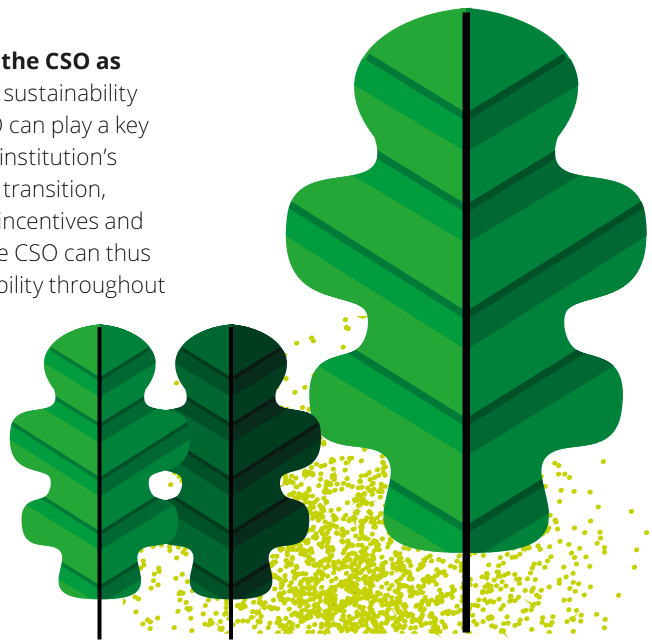
In the ever-changing sustainability landscape, aligning a company's purpose and strategy with underlying trends and expectations is a prerequisite for continued success. Therefore, the CSO is in charge of this mission and for driving a culture of value-based business decisions.[20]

Based on the interviews conducted, the general observation is that the CSO is less involved in the implementation and operational aspects of the strategy. Instead, the CSO is mainly responsible for outlining and steering the strategy, and overseeing its application within the organization.

Drive the cultural shift—the CSO as a change agent: Once the sustainability strategy is defined, the CSO can play a key role in ensuring that all the institution's employees understand the transition, allowing them to grasp the incentives and actively work towards it. The CSO can thus drive and manage sustainability throughout the organization.

Establishing a successful cultural shift has become of paramount importance, and the CSO can act as the metronome. One of the challenges of initiating and driving a cultural shift is ensuring the strategy is aligned with the workforce. The CSO must be able to develop an internal change strategy that is compatible with employees' expectations, skills and aspirations. This sustainability change strategy must be optimally aligned and compatible with the bank's overall business strategy, while being supported by the top management, whose buy-in is crucial for concrete implementation.

This requires a coherent framework that allows each department and member of the organization to understand the mission and the long-term vision in terms of sustainability. This framework can be designed in a structured way based on a change management or transformation project approach. Banks can create a change transformation office or initiative to manage this cultural shift and ensure the sustainability strategy trickles down to all staff and processes. By way of example, as part of this change management initiative, the CSO can organize sustainability training sessions to allow employees to integrate sustainability into their day-to-day business and operations.



20. Leading with a sustainable purpose: Leaders' insights for the development, alignment and integration of a sustainable corporate purpose. (2020, November). University of Cambridge Institute for Sustainability Leadership (CISL).

"My challenge is to make sure that everyone understands the [sustainability] strategy. [...] To create a framework of coherence, I am developing tools to increase coherence within the organization." - Hacina Py, Chief Sustainability Officer, Société Générale

"To embed sustainability holistically within the organization, you need a central global function to coordinate [the implementation of] the sustainability strategy across the different divisions." — Viktoriya Brand, Head of Group Sustainability, Deutsche Bank

Engaging with external stakeholders: Another key part of the CSO's mandate is nurturing relationships and communicating with external stakeholders, such as NGOs. The engagement and quality of an organization's relationships with its stakeholders are critical;[21] therefore, the CSO crafts an approach to legitimize the sustainability strategy with these players.[22]

By appointing a CSO, the bank sends a signal to external stakeholders of its commitment to sustainability issues. The CSO acts as the link between the organization and its external environment, communicating what the organization does and how they do business using a sustainable approach.

One of the ways that CSOs and their organizations can engage with stakeholders is by issuing sustainability reports, which include information about how the organization considers sustainability issues when running its operations and its ESG framework. A sustainability report also sets out the organization's values and governance model, helping to demonstrate the link between its strategy and the commitment to a sustainable global economy.[23]

In addition to the reports for various stakeholders, some of the interviewed sustainability leaders organize roundtables, surveys, bilateral discussions or collaborative initiatives to exchange views with external stakeholders on their banks' activities. Other respondents stated they make sure to address the stakeholders' different needs and create communication platforms to make sure all voices are heard.

However, engaging with stakeholders is not always an easy task for the interviewed participants. Stakeholders' expectations can sometimes be unrealistic, with CSOs finding it difficult to satisfy all their needs and allow the bank to achieve its objectives (this topic is further explored in section 3.3.).

21. United Nations Global Impact.
22. Chief Sustainability Officers: Who Are They and What Do They Do? Miller, K., and Serafeim, G. (August 2014). Harvard Business School Working Paper, No. 15-011.
23. European Court of Auditors. (2019). European Union.

> "The biggest challenge is how to synthesize all the information and expectations you hear from external stakeholders into something concise enough to take action upon." — Simon Connell, Global Head, Sustainability Strategy, Standard Chartered Bank

Out of scope:
It is also essential to understand what the CSO role does not entail. Based on the survey and interviews, a CSO's mandate does not seem to include monitoring and managing sustainability-related regulations, developing new sustainable products and services, and defining the client offering. The sustainability leaders surveyed usually have a more high-level, strategy-setting and coordinating role instead of directly focusing on operations. In these cases, there must be coherence between strategy and implementation; CSOs and their team must receive the necessary feedback from the organization to ensure the strategy is implemented correctly. If the CSO is not actually involved in delivering the strategy, it is essential that the coordination (and, if applicable, the change management framework) is set up effectively.

Conclusion: The tasks are varied, and so are the skills required [24]
CSOs' various tasks as part of their mandate show that this role requires multidisciplinary skills. They are versatile individuals who harness a range of competencies to achieve their objectives.

These include a business acumen to meet the challenges of implementing an effective sustainability strategy, and high-level managerial skills to drive the cultural shift to raise awareness of the challenges of sustainability across the entire organization. The CSO must possess excellent communication skills to raise sustainability within executives' priorities, whose buy-in is essential for the success of the process. Finally, sustainability leaders must be able to effectively navigate the high expectations of external stakeholders and act as an influencer, coordinating initiatives such as roundtables, surveys or collaborative events to engage various external actors.

The CSO role is constantly evolving, having profoundly changed over the past few years. The prospects for growth in an increasingly demanding, fast-paced environment suggest that the coming years will be challenging for sustainability leaders.

24. CSO BACK STORY II: The Evolution of the Chief Sustainability Officer. (2014). Weinreb Group.

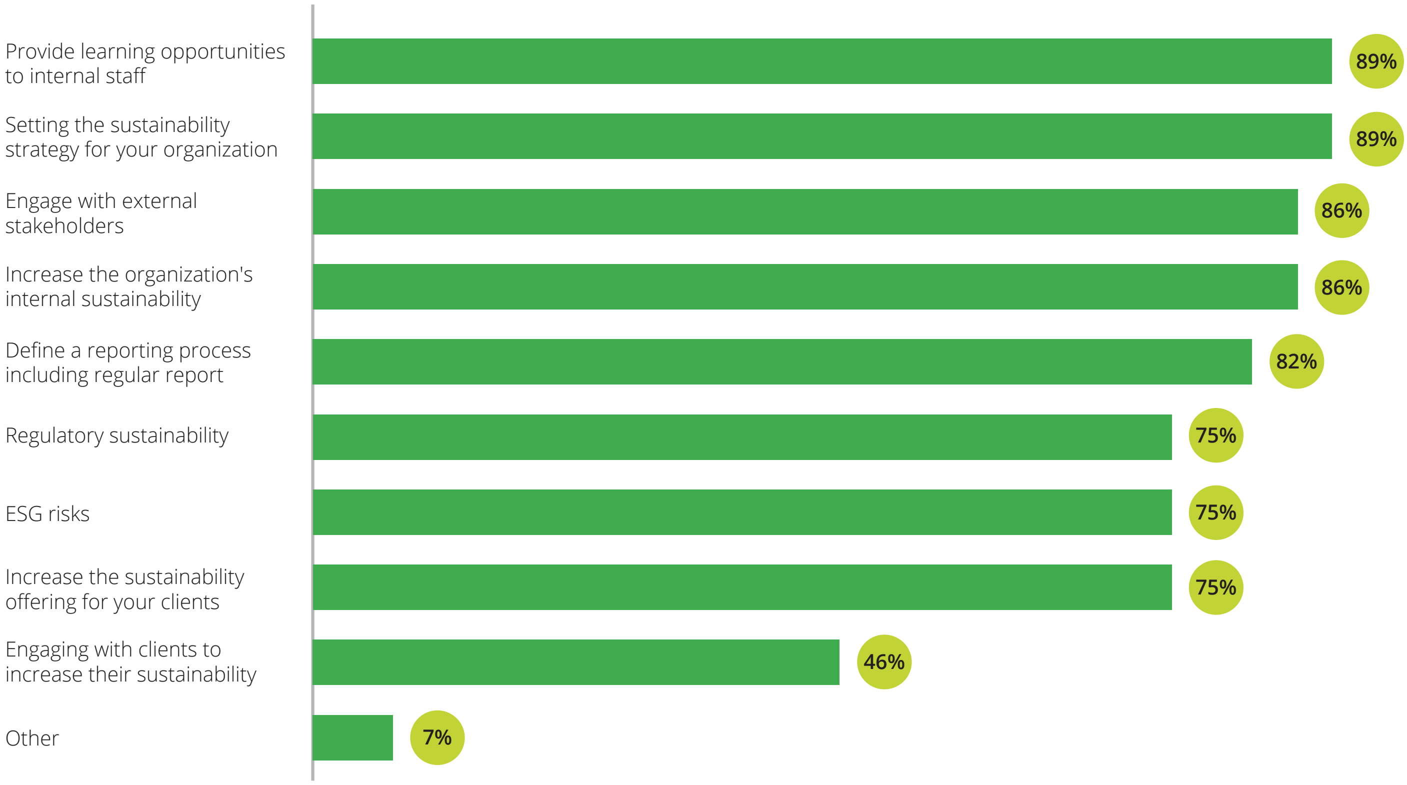
1.6 What priorities are CSOs currently working on?

While the mandates of the CSO can vary, their current priorities seem to be aligned. The survey showed that the priorities that respondents are expected to be most involved in revolve around boosting the bank's internal capacity to deliver on sustainability, hence setting the strategy (89%), preparing the staff to be able to deliver (thanks to trainings) (89%), and increasing the bank's own sustainability (86%). These results are consistent with the CSO's role as a change agent to make everyone in the organization aware and educated on the sustainability matters.

Secondly, engaging with external stakeholders seems to be widespread (86%), while regulatory priorities are picking up as well with defining a reporting process including regular report voted by 82% of respondents, which is further reinforced by the more overarching "Regulatory sustainability" voted by 75% of respondents. This is at odds with the finding in the previous section that identified monitoring and implementation of the regulation as "out of scope". To explain this discrepancy, while CSOs do not seem to be directly involved in regulatory activities per se, as experts and leaders on the topic (especially when they have a specific scientific background) they may have to lend support to understanding of these regulations within their organization and the coordination of their implementation.

The "other" section (7%) provides additional activities being delivered such as the management of all Heads of Business Development at country level and Corporate and Investment Banking (CIB) level, as reported by one respondent. Another respondent pointed out that business units prioritize their own initiatives within the overall strategy, while their department coordinates the efforts via a cross-organizational group of business representatives. Overall, the ranking of these priorities supports the primarily managerial role that the CSO seems to play within their organization.

Figure 11 - What priorities are you expected to work on?

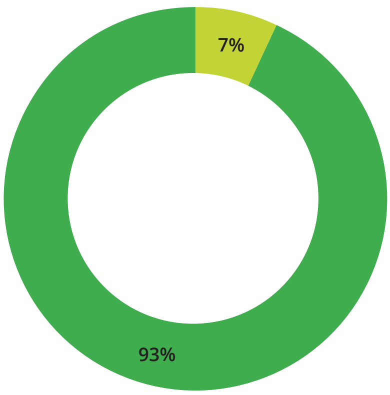


1.7 Where does the CSO typically sit in the organization? To whom do they report? And with whom do they work?

After analysing the role of the CSOs within the organization, analysing their nearer environment can provide additional insights, observing the team they are working with and the resources they have at their disposal to achieve the different objectives of the sustainability strategy.

First of all, the data collected suggests that respondents generally have a team or other resources at their disposal to carry out their mandate related to the sustainability strategy. Indeed, 93% of the respondents answered that they have a team/resources they can rely on to fulfil their mandate.

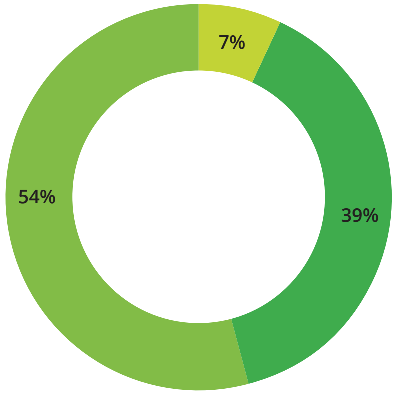
Figure 12 - Do you have a team/resources you can rely on to fulfil your mandate?



Yes
No

Among the respondents who indicated having a team to fulfil their mandate, 39% stated that they have a dedicated team reporting directly to them. 54% indicated that on top of their own team they also work with colleagues who have other reporting lines.

Figure 13 - Does your team/resources you work with report directly to you?



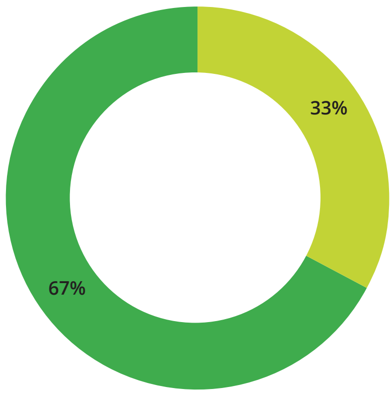
Yes
Both-I have a team but also work with other colleagues who have other reporting lines
Not applicable, I do not have a team

Provided that 89% of respondents declared sitting at Group level,[25] with the remaining 11% sitting at Branch level,[26] an analysis was carried out in order to understand how the teams that work with the respondents are distributed between the Group and the Branch. It should be highlighted that this analysis does not consider the respondents who reported not to have a team/resources supporting them in fulfilling their mandate.

The results show that respondents sitting at Branch level (11%) are more likely to work with teams/resources who sit at the same level (67%). The figure is more balanced for respondents based at Group level, whose teams are almost equally distributed between Group-only (54%) and Branch (46%) level.

It is therefore plausible to infer that individuals sitting at Group level may have a coordination and/or oversight role requiring them to engage with the different local branches of the organization they work for. It is not unlikely, indeed, that Sustainability corporate policies, standards, guidelines etc. are defined at Group level and then implemented with different degrees of deviance at Branch level to allow for specific local contingencies. It is also likely that, in order to manage resources in an efficient and valuable way, Branches are not expected to recruit locally but can rely on a function-based organization which allows them to dip into a pool of resources and experts sitting at Group level.

Figure 14 - Distribution of respondents sitting at Branch level and their team/resources



I sit at Branch level and my team/resources are both at Group and at Branch level
I sit at Branch level and my team/resources are only at Branch level

25. For the purpose of this survey, "Group level" was defined as the bank's Head Office.
26. For the purpose of this survey, "Branch level" was defined as the bank's local office beyond the Head Office's country.

Figure 15 - Distribution of respondents sitting at Group level and their teams/resources

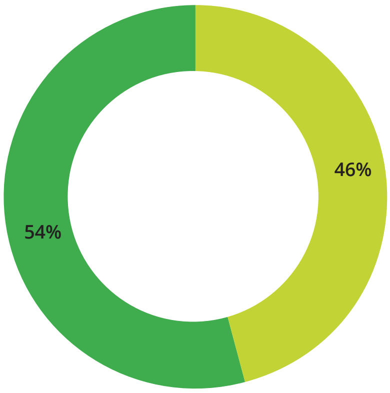


Figure 16 - Do you have appropriate skills within your team?

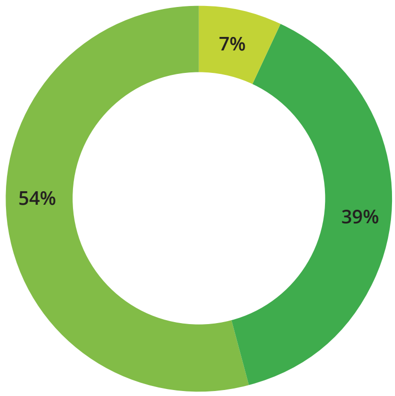
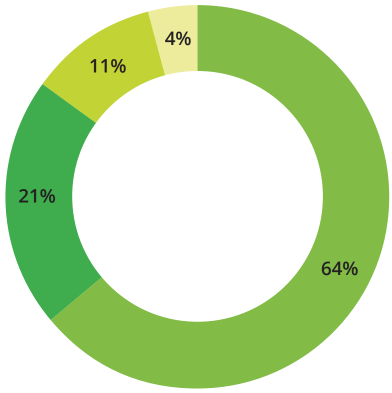


Figure 17 - Do you think you have the right team set up/resources to help you fulfil your mandate?

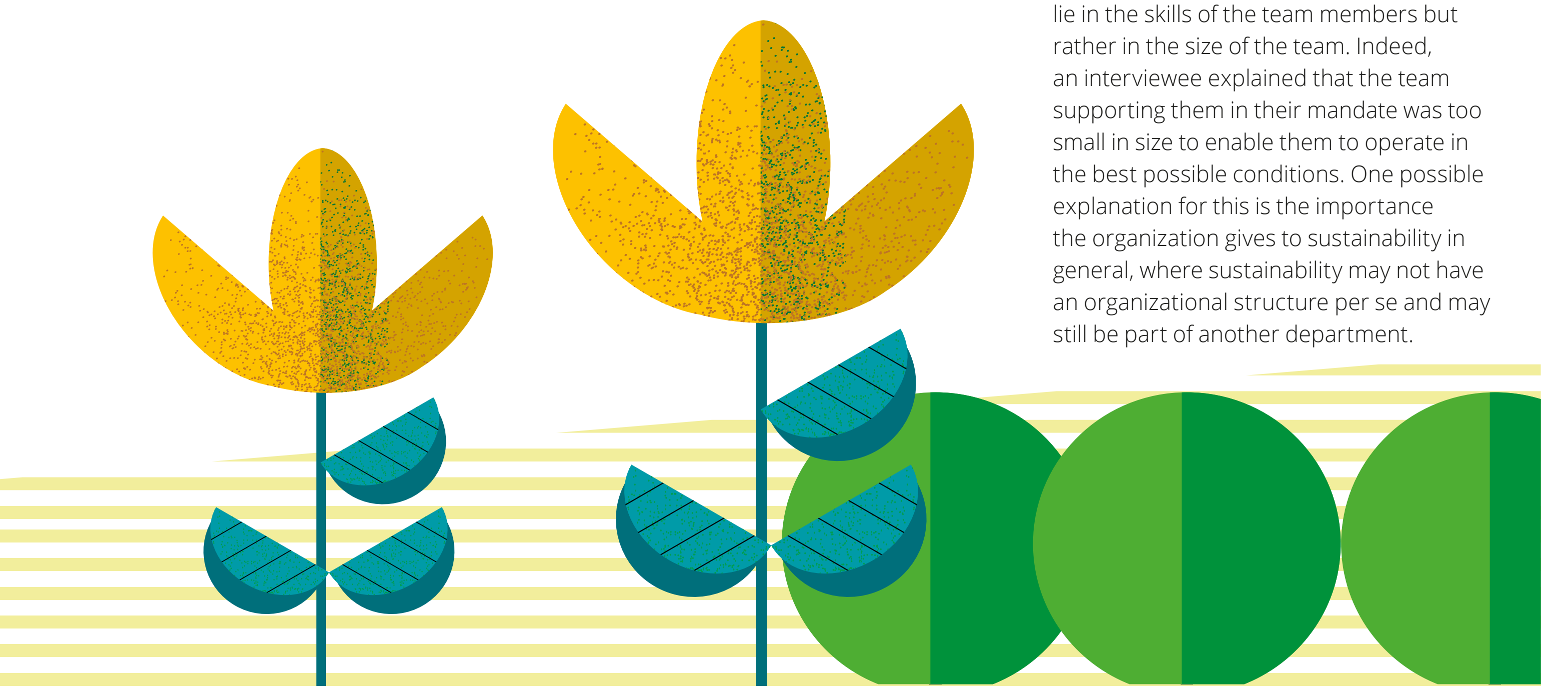


Regarding the skills of the team needed to carry out their sustainability mandate, all respondents who actually do work with a team are satisfied with the current level of skills possessed by their team (93% respondents, of which Strongly agree: 39% and Agree: 54%). Overall, the results concerning the skills of the team supporting the CSO are positive.

Survey participants were then asked, *"Do you think you have the right team set up/ resources to help you fulfil your mandate?"*

Overall, the current team set up/ resources to help respondents fulfil their Sustainability mandate is perceived as fit for purpose for the majority of survey participants (85%, Strongly agree: 21% and Agree: 64%).

The respondents who declared being absolutely not satisfied with the current team set-up are mainly those who reported not to have a team. Secondly, the share of CSOs who think that the current set-up is not optimal declares at the same time to be satisfied with their team's skills. This subject was discussed further in the interviews and allowed to draw the potential reasons behind this inadequate team set-up. In particular, an interviewee pointed out that the difficulty does not lie in the skills of the team members but rather in the size of the team. Indeed, an interviewee explained that the team supporting them in their mandate was too small in size to enable them to operate in the best possible conditions. One possible explanation for this is the importance the organization gives to sustainability in general, where sustainability may not have an organizational structure per se and may still be part of another department.



It suggests that the less importance the organization gives to sustainability in strategic terms, the less adequate the resources and team available to the sustainability leader.

Regarding interactions with other departments, all respondents interact with departments other than theirs to fulfil their mandate. The survey showed that the practice of liaising with other departments to fulfil the sustainability mandate is extremely widespread within respondents' organizations.

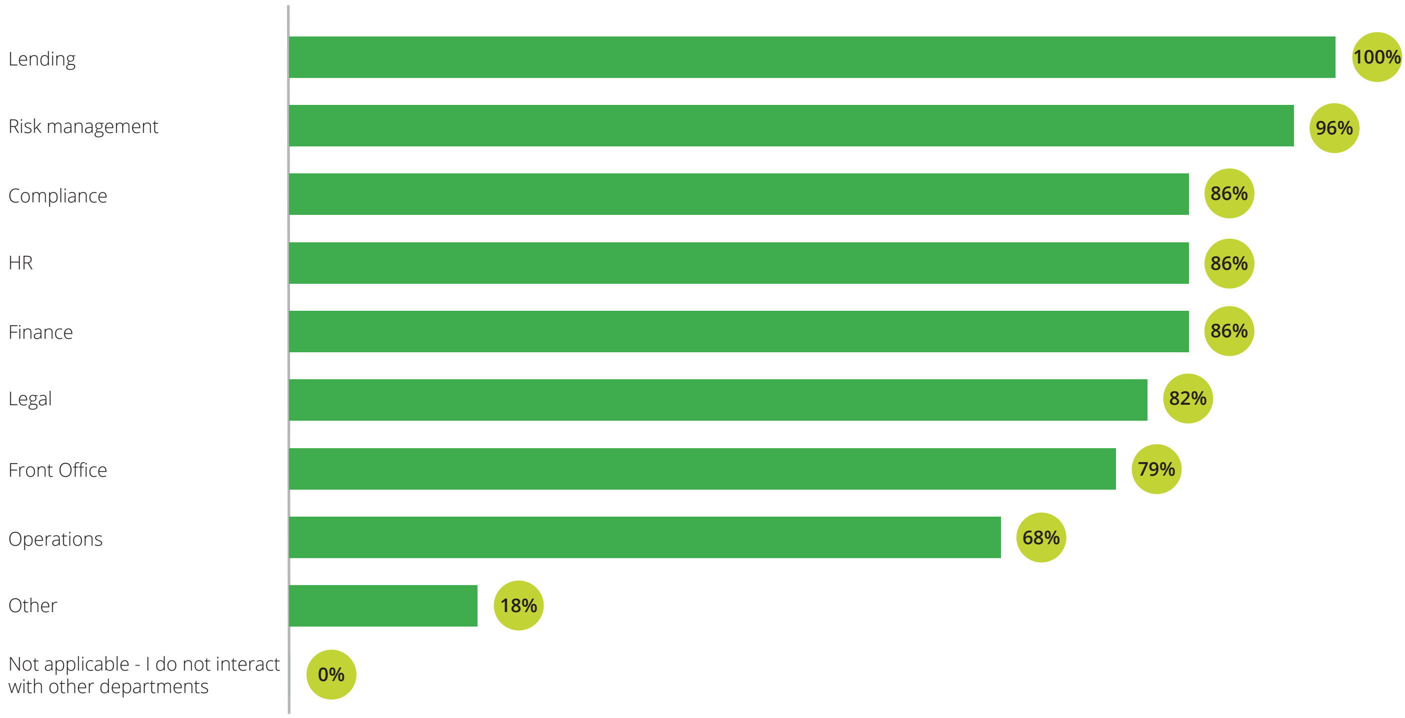
The department with which all survey participants interact is the lending department (100%). This is followed by the risk management department with 96% of respondents. The compliance, HR and finance departments come in third place with 86% of respondents interacting with these departments.

Interactions with the lending department can be explained by the development of banks sustainable products and services, including new approaches to lending. The expansion of client offering through sustainable products such as green bonds, green mortgages, sustainability linked loans or advisory services to clients on environmental-savvy investments, entails a strong interaction between the lending and sustainability departments.

The strong collaboration with the risk, compliance and finance departments can be attributed to the fact that sustainability, although an opportunity to be seized by the banks, still has important risk and regulatory compliance aspects to be covered, including the increasing regulations about disclosures and reporting as well as about the management of climate & environmental risks.

Finally, HR's relevance as an internal stakeholder for the CSO can be linked not only to the "S" side of the ESG acronym and the related necessity to manage internal stakeholders with key topics such as diversity, equity and inclusion, but can be also linked to the inheritance of traditional approaches to internal CSR activities, potentially still managed by or shared with the HR department. Finally, with the increasing sustainable finance regulations requiring a number of different teams to be aware and active on the topic, specific sustainability-related trainings need to be organized, and may require a collaboration between HR and the CSO to prepare the appropriate training approach and content.

Figure 18 - If you do interact with other departments, which ones are they?



Regarding the types of relationship with the other departments mentioned above, 93% of respondents stated that they provide instructions to other departments who support them in implementing activities. Receiving instructions from other departments and supporting them is not a particularly widespread practice, with less than 21% of respondents claiming to do so.

Such practice is identical for all departments the CSO interacts with.

A respondent added that they work with other departments to ensure that sustainability is fully embedded in their plans and processes. Another answer is that the sustainability department is responsible for driving and coordinating the overall agenda - ensuring correlation between strategic initiatives.

These results support the role of the sustainability leader as an orchestrator and supervisor, providing guidelines to other departments. A respondent stated that the role of their sustainability team was to advise other departments, help them develop their plan and strategy, advise them on how to interact with stakeholders and help them pilot sustainability-related initiatives. The CSO's orchestrator role is further elaborated in section 2.2.4.

Figure 19 - If you do interact with other departments, what kind of interaction is it?

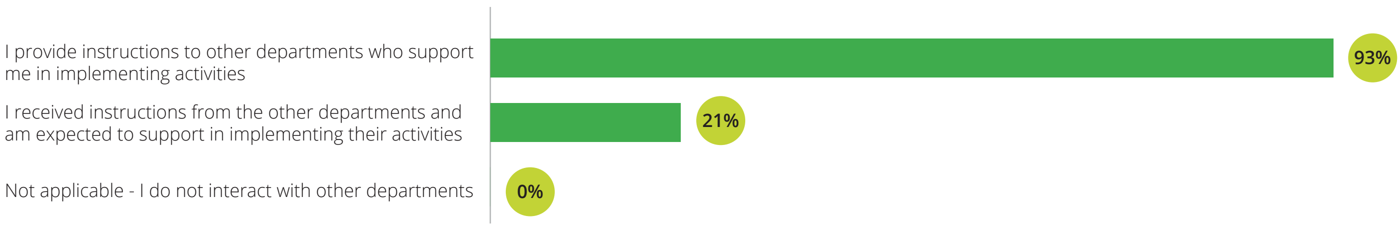
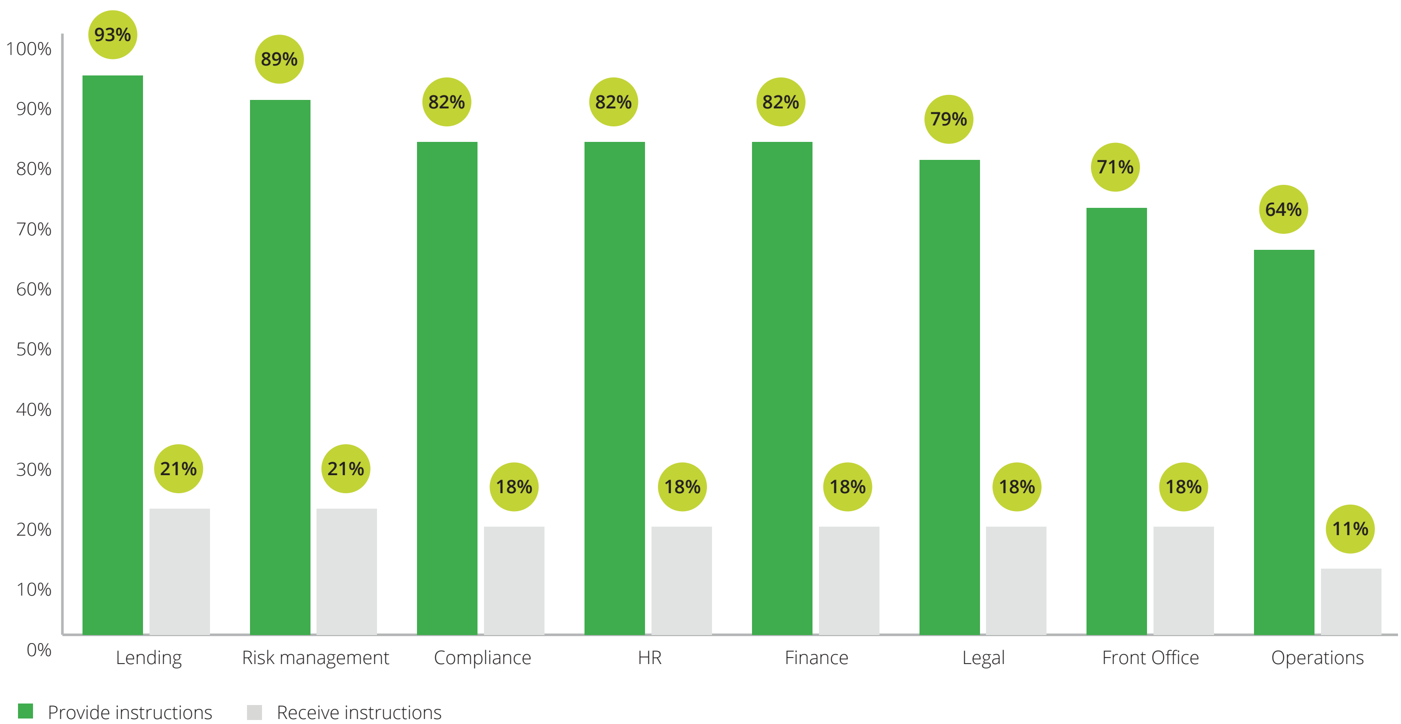
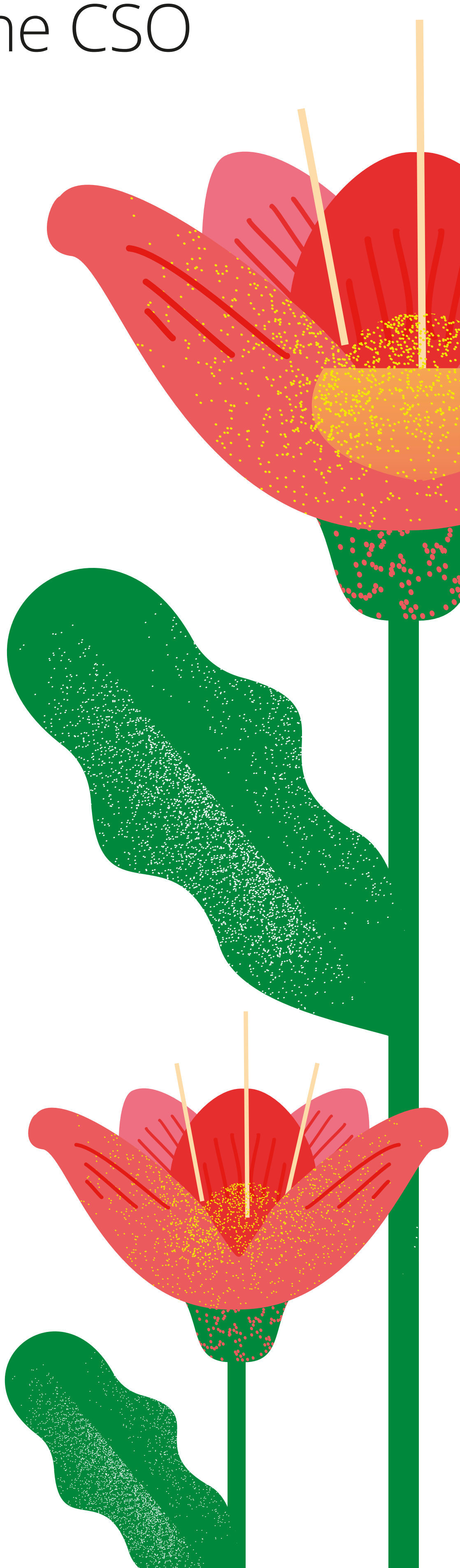


Figure 20 - CSO's interactions with other departments



2. Where do we stand? Is the CSO successful today?



2.1 Difficulty in shifting the mindset from risk to opportunity

"Sustainability is a business, but for the time being, not everyone has understood this yet." — Javier Rodríguez Soler, Global Head of Sustainability, BBVA

Environmental emergencies, new market requirements, and pressure from regulators and stakeholders are some of the factors that are pushing the banking sector to adapt its practices. Many banks continue to approach these new challenges as distruptive obligations and tackle them with familiar approaches (risk and compliance). Others recognize these aspects as opportunities while continuing to adhere to longer-standing risk practices. Only some of the players in the banking sector have chosen to integrate sustainability into their core business activities and play the game to the fullest by combining the mitigation of risks while actively capitalizing on opportunities.

This transition can be achieved when business organizations fully accept the challenges of sustainability as a business development opportunity and adapt their business models accordingly.[27] Indeed, leading organizations are recognizing sustainability as the current business 'mega-trend' (just as digitalization and globalization preceded) playing a key role in their long-term viability as a business.[28]

In order for sustainability to receive the attention it requires and to have an importance comparable to that of other business lines, a change of mentality might be necessary. For a long time, on top of being a marketing and reporting topic, sustainability was considered a risk to be covered as well as an area of activity that could generate additional costs. This has resulted in heavy investments in risk coverage or measures to comply with the requirements of the regulatory landscape.

The business part and the open opportunities must be added to the risk lens in order to take advantage of sustainability in all aspects. The majority of the survey respondents pointed out that sustainability is an area of strategic priority but that the banking sector has not yet assimilated this information. ESG is more than just another item in the long list of concerns organizations must manage. It's an important business driver that has strong potential to drive performance.[29]

27. Sustainable Leadership: Towards a Workable Definition. Tideman, S.G., Zandee, D.P., & Arts, M.C. (2013, March). Journal of Corporate Citizenship.
28. idem.
29. Seek and you may find How CFOs can manage sustainability risks and find long-term value in unexpected place. (2017). Deloitte.

The importance of shifting from a risk-centric mindset to a more general perspective that accounts for both sides of the spectrum — risk management and revenue generation —was reiterated during interviews.

An interviewee, who indicated that sustainability was still a nice-to-have in their organization, seems to be less optimistic that a change will occur in the near future. Other functions such as operations, risk, or investment are currently higher on their organization's executive agenda.

> "There is a clear signal that sustainability is a nice to have, but is not as important as other divisions. Operations is still more important, risk is still more important, investment is still more important. It becomes very difficult to convince people higher up in the management otherwise."

Marcel Jeucken's 2001 model aptly summarizes the evolution of the importance of sustainability in bank strategy. The author divided the adoption of sustainability into four distinct phases: defensive banking, preventive banking, offensive banking, and, the ultimate phase, sustainable banking.

Defensive banking[30]

In this phase, banks are not active and resist environmental legislation. Environmental issues appear as avoidable costs.

Preventive banking

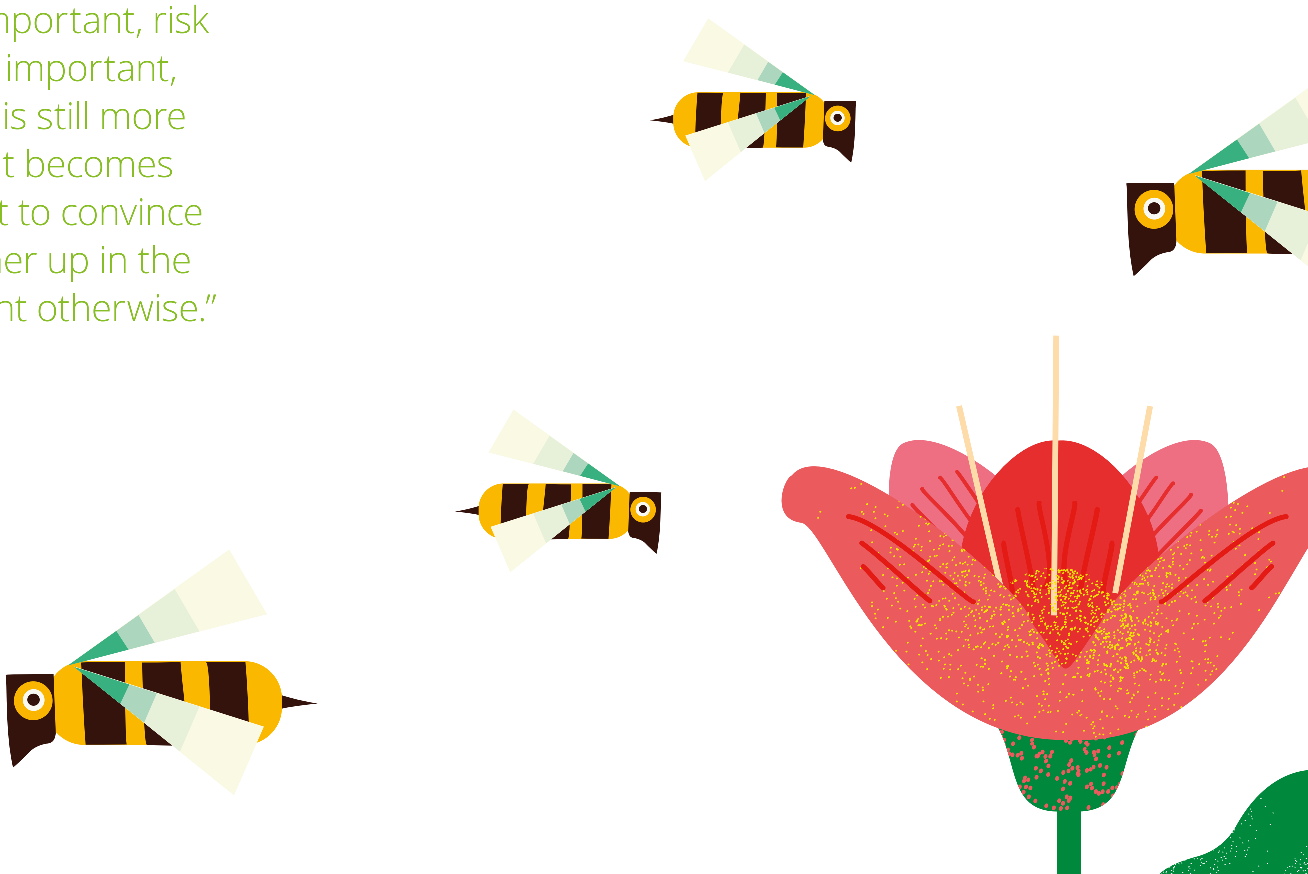
In this second phase, external forces such as government, stakeholders, and society put pressure on banks to integrate environmental issues and risk management into their activities.

Offensive banking

In the third phase, after addressing risk coverage in sustainability, banks start to adapt their external activities and develop sustainable and environmentally savvy products and services. Banks also start to disclose the results of sustainability to the public via release of various reports.

Sustainable banking

At this final stage, all bank activities are sustainable, and sustainability is fully incorporated in the bank's core business strategy.



30. Green Banking for Environmental Management: A Paradigm Shift. (2015, December 31). Current World Environment (CWE).

"Sustainability can be a great opportunity for business, but the opportunity depends on the right elements, and the regulator is one of those elements." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

The various interviews conducted for this report give the general impression that a large part of the European banking sector is between the preventive and offensive banking phases. Currently, sustainable banking has been achieved by only a few industry players who, from the start, framed their business and operating models towards sustainability, rather than integrating it as an additional layer.

Consequences of neglecting sustainability

The consequences of side-lining sustainability in banks' strategic priorities have many impacts both internally and externally, pushing CSOs to operate in troubled waters.

From an external point of view, failing to make sustainability a forefront matter of corporate strategy can mean not capitalizing on business opportunities. Banks that have started to act will be the frontrunners in an environment where client expectations are increasingly high – and where the early adopter advantage could be decisive.

Sustainability offers banks the opportunity to expand their client offerings through the launch of green and sustainable products. Likewise, sustainable banking enables the development of innovative products such as green bonds, sustainable mortgages, or sustainability-linked loans. Banks also have an opportunity at the crossroads between sustainability and digital technologies to build a strong business edge while transitioning to a more sustainable and inclusive society. The two major drivers of change in the financial sector – sustainability and digital technologies – can be blended into sustainable digital finance products, services, and operations. Banks can use technologies like blockchain to promote supply chain tracing of companies in their portfolios to offer more transparency to customers. Digitization of capital market instruments such as bonds offerings can reduce the cost of obtaining and reporting, allowing many SMEs to meet green-bond issuance requirements, thus fostering financial inclusion. In addition, in an era where the personalization of the customer journey has become a prerequisite, digital technologies can help tailor investment instruments to fit the cause that clients and investors care about.[31]

These possibilities are a way for banks to create long-term value through sustainable banking. The development of this range of sustainable products and services will allow banks to expand their portfolio, differentiate themselves from the competition, and improve their reputation with clients and other stakeholders.[32]

Sustainability is also an opportunity to conquer new markets or strengthen their position in existing ones. Millennials are a market for banks to capitalize through sustainability. Millennials have placed their values at the center of their decision-making, and 87% of millennials appreciate seeing ethical, social and environmental practices in financial institutions.[33] In the Deloitte Global 2021 Millennial and Gen Z survey, this population group fears business leaders that are not focused on protecting the environment.[34] Sustainability is important to millennials and can be a priority in their purchasing or investment decision. It is essential to speak the same language as this market and offer them products and services adapted to their needs and expectations, while adopting more sustainable organizational practices.

Internally, if sustainability is not a priority, lack of awareness of sustainability issues among organization members will be greater. As one of the roles of the CSO is to act as a change agent, the task is made difficult when top management does not consider sustainability as a priority and when staff is not provided with the tools (including awareness and knowledge) to contribute to the sustainability mission. These items are further explored in the next sections.

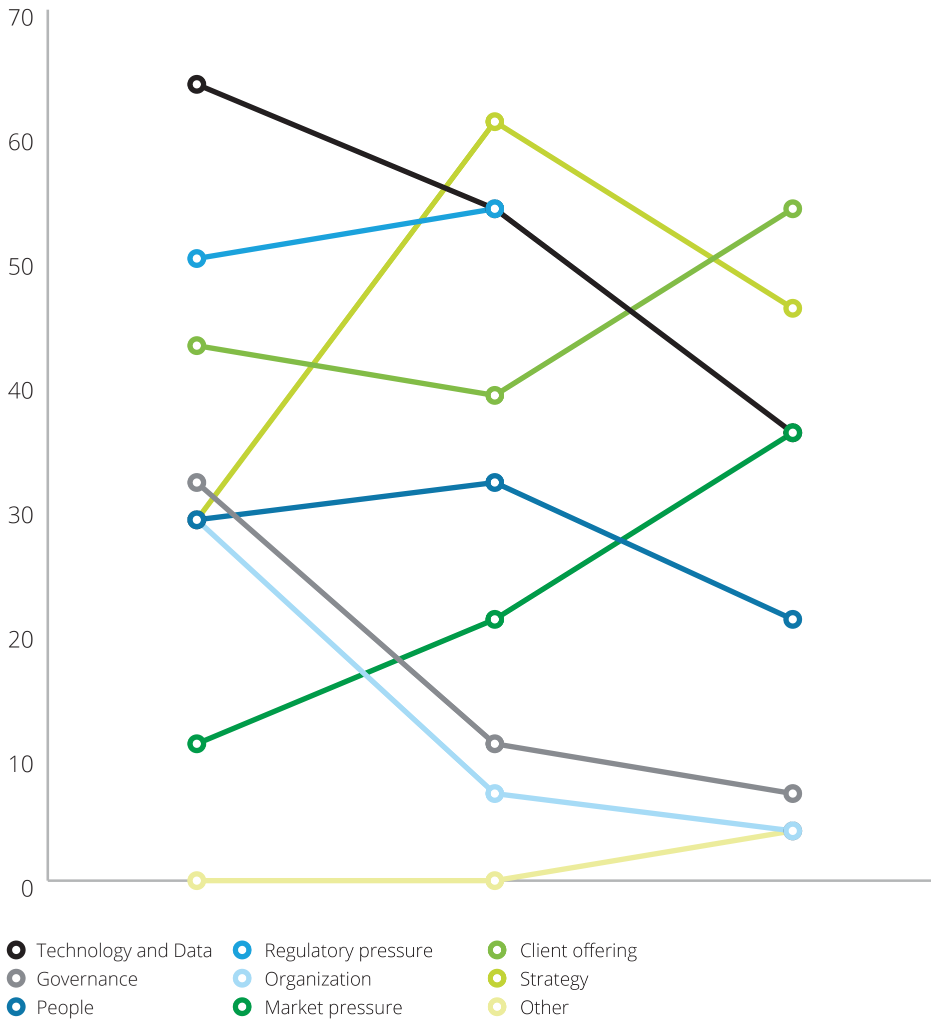
31. Sustainable Digital Finance In Asia: Creating Environmental Impact through Bank Transformation. (2019). DBS and Sustainable Digital Finance Alliance.
32. Banking on Sustainability – Financing Environmental and Social Opportunities in Emerging Markets. (2007). IFC - International Finance Corporation.
33. Banking for Millennials - What do they want from banks? (2019, November). Deloitte.
34. The Deloitte Global 2021 Millennial and Gen Z Survey - A call for accountability and action. (2021). Deloitte.

2.2. Expected evolution over time

The survey allowed to identify the main challenges that respondents are facing and how they will evolve in the short (one to three years), medium (three to five years), and long-term (five years and beyond). As it is easy to detect from the survey results in the next chart, it is not possible to draw any generalized conclusions about the trend, but it is possible to observe some common patterns to particular challenges.

First, for "Technology and data," "Governance," and "Organization," the progression across the three-time horizons is degressive, showing that these challenges are more pressing for respondents in the short-term but become relatively less critical as time passes. The opposite trajectory and reasoning apply to "Market pressure." Regarding the challenges relating to "Regulatory pressure," "Client offering," "Strategy," and "People," it is not possible to draw a consistent upwards or downwards curve, as their evolution over time is not linear. All listed challenges seem to trouble survey respondents to a certain extent. The next subsections explore some of the specific identified challenges.

Figure 21 - Evolution of respondents' challenges



	Short-term	Medium-term	Long-term
Technology and Data	64%	54%	36%
Regulatory pressure	50%	54%	36%
Client offering	43%	39%	54%
Governance	32%	11%	7%
Organization	29%	7%	4%
Strategy	29%	61%	46%
People	29%	32%	21%
Market pressure	11%	21%	36%
Other	0%	0%	4%

2.2.1 The lack of data and its impact on client offering

In both the survey results and in the interviews conducted, data was often discussed and is a topic of concern for many respondents. Two-thirds (64%) of respondents find that data will be the biggest challenge to manage in the short term, while 54% believe that it will be a major issue to overcome in the medium term.

The current ESG landscape suffers from a lack of data available to organizations. Data will play a critical role in the development of a future net-zero, as it is the necessary building block to achieving global financial stability. The unavailability and inaccuracy of data hinders the allocation of funds for more sustainable projects, preventing regulators from accurately identifying areas where public action might be needed to cope with environmental and social issues. In a survey conducted by Deloitte on SFDR disclosure requirements,[35] the lack of data was a notable area of improvement for respondents from the banking sector with 75% of respondents recognizing a potential gap in the industry between ask and data. Furthermore, the limited availability of this data is a major constraint for banks that use SDGs to guide their strategy, as the quantification and monitoring of these SDGs is a data-intensive field. As data on environmental and social indicators is currently incomplete and of poor quality, organizations find themselves operating in an uncertain and unclear environment[36]. As noted by one interviewed bank, limited data availability and the lack of a go-to or reference dataset lead banks to adopt different practices, reducing the comparability between banks and increasing uncertainty as a result. This uncertainty could negatively impact clients and consumers, who are missing the necessary transparency they need—and that the EU Action Plan wants to provide—to support more sustainable consumer choices and redirect their financial assets sustainably.

Data also has a role to play in offering sustainable products and services that meet customer needs, comply with regulatory requirements, and meet ESG standards. Quality data is imperative for banks to perform in-depth analysis of portfolio and financing activities. Banks sometimes lack reliable, quality data on the energy performance of real-estate loans, which limits their client offering in the real estate sector. The ability to accurately identify and classify ESG-compliant and non-compliant companies is key to structuring sustainable financial products. This can be realized through the availability of actionable data across companies and industries, as fostered by governments and regulators.

"At the moment, it is very difficult to have really impactful products. The challenge of not having enough data that can help structure the products is one of the reasons why." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

Technology has a critical role to play in generating more accurate ESG data. Challenges associated with ESG data include inconsistent methodologies and data sources, the low granularity of the data, or the high time and pecuniary cost of data gathering. Technology can play a key role in addressing these issues through artificial intelligence (AI) and distributed ledger technology (DLT) that allow larger amounts of data to be processed, which decreases data processing time, provides better quality data, and allows banks to analyze ESG track record.[37] This data will also allow investors to have access to near real-time information, complementary to information available in bank annual reports and pilot documentation, thus fostering transparency in the banking sector.

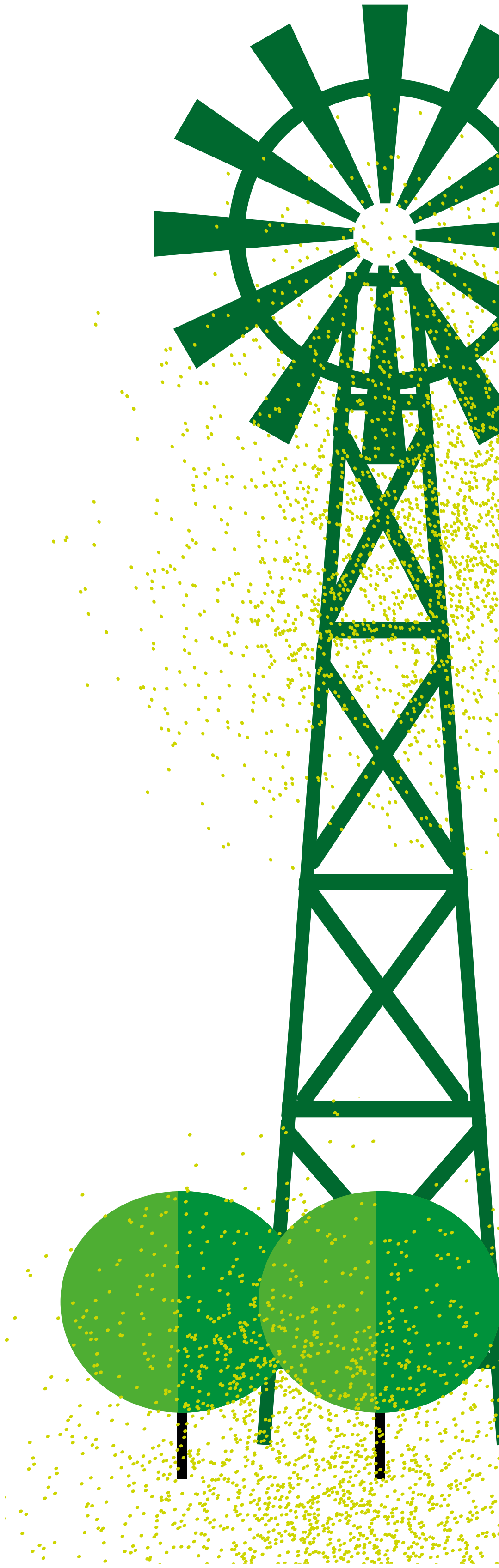
Quality data will be essential to drive sustainability strategy, communicate results to stakeholders, deliver a competitive client offering, manage risk, and monitor impact to know where efforts should be focused. In turn, to make data available and usable, technology and regulations will be key in making this a reality.

35. Sustainable Finance Disclosure Regulation - Is the financial industry ready for the Big One ? An international overview. (2020) Deloitte.
36. A Critical Analysis of the Sustainable Development Goals. Swain, R.B. (2018). In: Leal Filho, W. (eds) Handbook of Sustainability Science and Research. World Sustainability Series. Springer, Cham.
37. Fintech and ESG: a desirable crossover. (2021, November 17). International Bar Association.

"Sustainability awareness has evolved, and it is becoming more and more a data-driven topic. Key to future success in this area [internally and externally] will be technology." — Viktoriya Brand, Head of Group Sustainability, Deutsche Bank

"Banks have to invest heavily and smartly in technology and data to be able to embrace change in the future. [...] A lot of data will be needed in the future to manage sustainability-related projects." - Javier Rodríguez Soler, Global Head of Sustainability, BBVA

"More homogeneous data would help, and only the regulator can help with that." — Jürgen Zeitlberger, Head of Group Sustainability, LLB



2.2.2 Increasing regulatory pressure and the need for a common European methodology

Among the challenges facing survey respondents in the future, regulatory pressure is ranked in the top three with 50% of respondents indicating that regulatory pressure is a challenge they will have to face in the short term, 54% in the medium term, and 36% in the long term. Provided that respondents cannot guess which regulations will arise in the future beyond those already announced or in development by different authorities, it is reasonable to conclude that regulatory pressure will remain a constant challenge faced by banks. It is also important to highlight that regulatory pressure was already a key driver behind why banks implement a sustainability strategy (43%).

In an environment with growing pressure from regulators, various interviewees articulated the need for a common framework. The volume of regulatory frameworks seems to be a pain point for sustainability leaders who welcome more standardization in the European regulatory landscape.

The lack of standardization between the multiple mandatory and voluntary sustainability reporting systems in particular creates confusion in the decision-making process of financial institutions.[38] In addition, the fact that a significant portion of published ESG data is reported on a voluntary basis implies that this information is not necessarily audited.[39] The lack of comparison among the different ESG frameworks is also one of the challenges in the sustainability regulatory landscape. In the context of ESG risk disclosure, for example, there are several voluntary standards, but not all are universally accepted and their comparability is limited. The voluntary disclosure standards that exist are, those defined by the Task Force on Climate-Related Financial Disclosures (TCFD), the Climate Disclosure Standards Boards (CDSB), the Global Reporting Initiative (GRI), or even the United Nations Principles for Responsible Investment (UN PRI).[40] This level of uncertainty is likely to evolve to more positive outcomes in the next years as new regulations (CSRD) and standards are implemented.

38. Sustainability Regulatory Horizon: regulation's role in the race for sustainable change. Gigov, T. (2021, February 5). Freshfields Bruckhaus Deringer.
39. ESG and Bank Regulation: Moving With The Times. Gyura G. (2020). Economy and Finance, Vol 7 ISS.4, 366–384.
40. Integrating climate-related and environmental risks into management frameworks – Practices and challenges for the Luxembourg banking industry. (January 2022). ABBL & Deloitte Luxembourg.

"It would be easier if we had one [data] standard and package that covers everything." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

Beyond the murkiness in European regulations on sustainability, the difficulty of implementing different standards or regulations also came up regularly throughout the interviews. The SDGs agenda and the EU Taxonomy help to show the governing objectives, but unifying implementation guidelines are the missing pieces of the puzzle, according to interviewees.

"The hope is that, if [regulators] want to focus on ensuring banks do things 'right', that they actually know how to describe what is 'right'." — Javier Rodríguez Soler, Global Head of Sustainability, BBVA

Another interviewee shared that regulators' requirements are sometimes so high and complex that they might discourage some organizations from taking a step forward in terms of sustainability, including both those organizations who are subject to the regulations and those who are not but could align themselves (such as SMEs). With governments and regulators helping to clarify the regulatory landscape, organizations may eventually be able to foster and advance their commitment to sustainability.

"The EU Taxonomy puts the bar so high that it could potentially be discouraging for certain companies to actually get started, and that's a missed opportunity." — Filip Ferrante, General Manager Group Corporate Sustainability, KBC

In order to be able to fully play their role as transition actors, more support is needed from governments. An interviewee stated that financial sector actors play a crucial role but cannot do it alone. With government support through subsidies or other measures, companies would have more incentive to undertake sustainable activities; by ripple effect, banks would have increased capacity to identify and invest in ESG compliant companies.

"Transition is super important. The magic button to incorporate sustainability in corporates does not exist. Yes, the financial sector can play an important role, but we cannot play it alone—we also need corporates, the general public and governments to play their part. Governments need to organize their policies to ensure subsidies, for instance, are there for the corporates and retail clients that are serviced by the banks." — Filip Ferrante, General Manager Group Corporate Sustainability, KBC

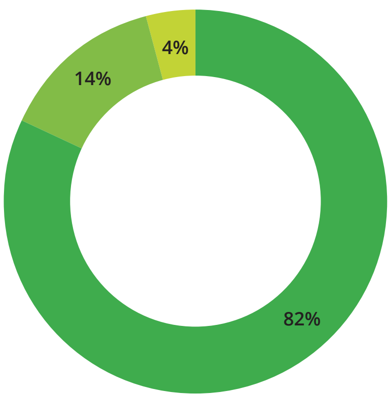
"To achieve the different sustainable objectives, we need governments to work with us. If governments and the EU work in tandem with businesses and banks, that could greatly speed up the transition." — Jacco Minnaar, Chief Commercial Officer and Member of the Executive Board, Triodos Bank

2.2.3 The appropriate governance set-up

Among survey respondents, 32% indicated that governance was a short-term challenge, 11% in the medium term, and 7% for the long term.

Subsequently, to the question: *"To which governance layer do you report?"*, 82% answered that they report directly to their organization's highest management level, namely the Executive Committee, Board member(s), and c-suite. Another 14% of respondents report to stakeholders within their department, who may report to the c-suite in turn. The rest of respondents report to the Supervisory Board as they are a Board member.

Figure 22 - To which governance layer do you report?

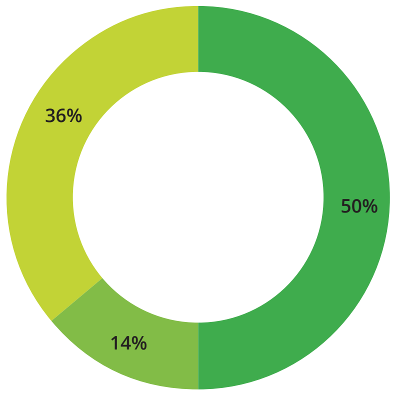


Interactions with the governance layer mainly consist of regular committees supported by relevant documentation, but some respondents also had informal meetings not foreseeing any specific documentation. A single survey respondent shared that their reporting mechanism were bilateral monthly meetings with the CEO and bimonthly meetings with the chairman of the board of directors.

The perceived effectiveness of the current governance layer showed promising results with 36% of respondents being very satisfied with the effectiveness of the current governance set-up, 50% being satisfied, and 14% being somewhat satisfied. Although the survey allowed the option of choosing *"not effective at all"* as an answer, no surveyed individuals selected this response.

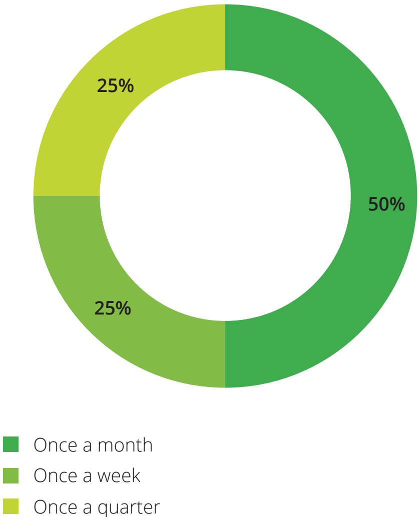
40% of respondents who described their current governance layer as very effective report to the Executive Committee/Board member. Another 40% who stated having a very effective current governance layer report directly to the CEO.

FIgure 23 - How effective do you think the current governance layer is?



Respondents were also asked about their relationship with their organization's CEO. In terms of frequency, the interaction that respondents have with their CEO is generally appreciable. In fact, half of the respondents reported meeting with their CEO monthly, while a quarter met with the CEO weekly. Among the CSOs who stated meeting their CEO weekly, 29% find their current governance layer very effective, and the rest find it effective. In addition, 75% of respondents who described their current governance as somewhat effective met with their CEO once a quarter. These responses show that regular meetings with the CEO have a positive impact on the respondents' satisfaction with their current governance layer.

Figure 24 - How often does the CSO or equivalent function meet with the CEO?



An interviewee who meets the CEO once quarterly and finds its current governance layer somewhat effective said that the lack of communication with the upper level management was a barrier to achieving their goals. This may be due to the fact that, in this organization, sustainability is still a middle-management matter and not deemed as important as the other organizational divisions.[41]

Communication with upper management could possibly be more regular and effective if sustainability became a strategic priority. In banks where sustainability is still considered a nice-to-have, the interviewees tended to feel a lack of support from top management, negatively impacting the relationship with the top governance level.

On the other hand, respondents from organizations where sustainability is a top priority are very satisfied with the relationship with the top management level and interactions with the CEO. Eventually, it can be concluded that the more important sustainability is considered to be embedded within the organization, the more the sustainability leader is in regular, direct contact with top management, leading to the CSO's satisfaction with the governance set-up.

One interviewee highlighted the importance of having regular meetings with different levels of governance in the organization to ensure that the sustainability strategy is implemented throughout the organization and with a documented track record of tangible results. Such consistent coverage of different governance layers is particularly relevant in a cross-border group where the sustainability strategy is set at head-office level and then needs to be trickled down onto a varied geography.

A further question asked in the survey identified that the current reporting layer was not the most optimal according to the respondents. Indeed, when asked, *"What is THE thing you would change about your role in order to meet your objectives more efficiently?"* 50% of respondents indicated, *"Empower the function with adjusted decision-making powers."* The need to have a stronger voice in governance is one of the ways that the CSO can achieve their goals more effectively. In addition, among respondents who described their current governance layer as somewhat effective (14%), 50% of those indicated that the one thing they would change to improve their performance is the governance layer they should report to.

2.2.4 The appropriate organizational structure and team

The role of CSO within the organization is also a challenge raised by survey participants. With the sustainability stakes constantly rising, the CSO is more solicited than ever within the organization. Collaborating with all business units to play the role of orchestrator is a challenging aspect emphasised by respondents.

This orchestrator role is mainly linked to the way sustainability leaders communicate and interact with other departments such as risk, compliance, and lending. Some CSOs pointed out that, on the one side, interacting with different departments is positive evidence that a bank's sustainability is mature and no longer the matter of only one team, but is instead owned by different teams for their relevant, specific sustainability topics. In this context, orchestrating becomes essential to ensure proper coordination among departments. However, on the other side, dealing with all organizational departments may prevent CSOs from focusing fully on achieving their global strategic objectives for sustainability. Being the only contact point for sustainability within the organization causes everyone in the organization to refer back to the CSO.

Educating all organizational members about sustainability is a possible way to counterbalance this "one-person show" dynamic. General awareness could lead to more independence for different departments, which would reduce the solicitation of the sustainability leader. An interviewee pointed out that having a larger sustainability team to support them could also reduce their workload.

41. It could be interesting to understand whether there is a correlation between the perception of the governance's effectiveness and some specific characteristics of the bank (e.g. size, geographical outreach, etc.). However, the respondents who answered somewhat effective are varied in terms of size (AUM) and geography, such trend cannot be identified.

Sustainability department in organizational structure: For some interviewees, the position of the sustainability department within the organizational structure may also be an obstacle to achieving their objectives. In certain respondents' organizations, the sustainability department is still coupled with other service lines, like communication or public relations.

The historical relationship between communication and sustainability stems from the fact that these two disciplines would be coupled together to communicate information about the ESG initiatives to the public and to foster relationships with key stakeholders.[42] However, these two functions are now gradually separated in favor of a sustainability department with its own resources and team and, in some organizations, its own P&L. An interviewee whose organization has not yet separated these functions, stressed that sustainability was not yet considered as a strategic priority by upper management.

Skills of team members: Overall, survey participants seem satisfied with the team they are working with to achieve their objectives. Nevertheless, conducted interviews identified areas for improvement among participants, mainly in relation to the skills of their team members.

An interviewee highlighted that their team's skills do not match the current need for sustainability and emphasised the necessity for individuals with multidisciplinary skills to manage and drive the sustainability strategy across the organization and beyond. Given the variety of tasks that the CSO must undertake to fulfill its mandate, the team that supports them also needs a wider range of skills. The skills outlined in interviews are the ability to manage and lead projects and not to be overly specialized in one particular area of expertise. With the competitiveness of the banking market, a team needs a certain level of commercial awareness of sustainable products and the ability to capitalize on sustainable business opportunities. This business acumen was not necessarily a prerequisite in the past, when sustainability was mainly considered as a risk to be mitigated. As such, this need may not match with the reality of available skills where team members are highly specialized in very specific sustainability topics.

"I need more pilots than experts." — Hacina Py, Chief Sustainability Officer, Société Générale

On the other hand, another interviewee highlighted the need for more scientific profiles in their team in topics such as biodiversity, water management, or renewable resources to ensure the protection of the environment. Interviewees also shared the necessary value of having staff educated on the social aspects of ESG, such as human rights and working conditions. These are clearly topics not immediately approachable by team members who possess only a business background.

42. The Integration of CSR into Corporate Communication in Large European Companies. Pollach, I., Johansen, T.S., Nielsen, A.E., Thomsen, C. (2012). Journal of Communication Management, 16(2), 204-216.

3. Where do we go from here?

Having laid the grounds for how the CSO operates within their organization, the various interviews pointed to trends in the way sustainability leaders carry out their function. In the next subsections, best practices will be identified and elaborated. Responding to the key challenges expected by the CSO and highlighted in section 2, the key best practices put forward revolve around:

01. A change management approach to implementing sustainability within the organization
02. A strengthened focus on ESG topics specifically relevant for the bank
03. Effectively engaging with stakeholders
04. Appropriately covering all ESG pillars: environmental, social, governance

3.1 From knowledge sharing to change management: Sustainability is the matter of everybody

For banks that have chosen to leverage the global sustainability challenge for enduring growth and long-term value, the transition means first adapting the organization itself, embedding sustainability into the very DNA of who they are and what they do.

The transition needs a strong and efficient sustainable leadership able to manage changes, define new paradigms, and develop new ways of thinking and managerial models that allow the acquisition and development of new skills.[43]

Banks can incorporate sustainability within their organization through change management initiatives. Since sustainability is still a new subject for the banking sector, organizational members need to gradually adapt to grasp the stakes of sustainability. Change management entails integrating sustainability into an organization's core strategies and processes, equipping and encouraging internal stakeholders via training and incentives, and measuring, tracking, and reporting on organizational progress. It is important to understand that change management is not a one-off process, rather a transition that will continue to morph and adapt overtime.[44]

An interviewee pointed out that employees do not necessarily need individuals who are experts in sustainability, but rather that each department should fully understand the big picture of what sustainability is and why it is important. Then, if the issues go too far, they can turn to the CSO who can guide them in performing their activities. All members of the organization must be able to understand the vision in which the organization is heading in terms of sustainability and be active protagonists in the achievement of the set objectives.

Change management can be achieved by training and educating members of the organization on the concept of sustainability so that they become actors of the transition. An interviewee indicated that all members of their bank are being educated on sustainability issues, even up to the highest level of the organization with the Board of Directors.

"Sustainability is about change. Change management programs are very important to embed sustainability into the day-to-day business so that, over time, it becomes part of the corporate culture. Since 2020, as a central global function, we have run a dedicated ESG change management initiative to make sure the strategic embedment of sustainability is successful and embraced by every department." — Viktoriya Brand, Head of Group Sustainability, Deutsche Bank

"We have to make sure that all departments directly incorporate sustainability in their departments and build capacity and knowledge." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

43. Sustainable Leadership in Europe. (2020, July). CEC European Managers.
44. Chief Sustainability Officers: Who Are They and What Do They Do? Miller, K., and Serafeim, G. (August 2014). Harvard Business School Working Paper, No. 15-011.

"Employees have to be actors of the transition. There is a need for training and growth regarding this matter." — Hacina Py, Chief Sustainability Officer, Société Générale

"Every one of KBC's 40,000 people is being trained [in sustainability], even the Board of Directors." — Filip Ferrante, General Manager Group Corporate Sustainability, KBC

"Everybody in all business lines must be educated and trained on the relevance of sustainability." — Javier Rodríguez Soler, Global Head of Sustainability, BBVA

For change management to be successful, the support of the management is essential: executives should not only sign up for the project but be fully involved. A level of executive buy-in is necessary to ensure the effective implementation of this change process.[45] In fact, lack of commitment from organizational leadership reduces the chances of successful adoption by employees.[46] Such buy-in can be more difficult to achieve in more traditional organizations, less prone to change.

Beyond the essential commitment of executives when implementing change management initiatives, the CSO will face two types of profiles among the organization's internal stakeholders: change champions and change resistors.[47] Change champions are organization members who support change and look forward to seeing it implemented; they can be a valuable aid in leading change. On the other hand, change resistors are individuals who resist change and may try to prevent its implementation in the organization. The CSO will need to navigate these two dynamics in order to implement sustainability effectively.

45. Leading Change: 6 Reasons Change Management Strategies Fail. Gleeson, B. (2016, December 8). Forbes.
46. Change Management Best Practices Guide – An Additional Help for ADS Chapter 597 (2015). United Stated Agency International Development (USAID).
47. idem.

"Not everyone is a big fan of sustainability ... so it's a change management initiative and really depends on the CEO's capacity to push the change forward." — Jürgen Zeitlberger, Head of Group Sustainability, LLB

The unexpected downside of making sustainability the matter of everybody

Banks that are considered "sustainable banks" and have sustainability integrated into their DNA may face an unexpected facet of accomplished sustainability embeddedness. Indeed, an interviewee whose bank can be considered a sustainability "purist" pointed out that in a culture where all organizational members are sustainability ambassadors, there is a risk that no one is functionally in charge of sustainability. Collective awareness should not erase the need for an individual to be responsible for sustainability within the bank.

There is not a one-size-fits-all change management model when it comes to embedding sustainability. It depends on the organization, its structure, its culture, its mission, its people, its clients, and the markets in which it operates. CSOs should have their finger on the pulse of company culture, understanding what drives employees and devising a strategy for implementing change that aligns with the workforce.[48]

For change management to be effective, it is important to be aware that such an adjustment takes time and a progressive approach. Rushing forward creates only the illusion of speed and rarely produces satisfactory results.[49]

The managerial skills of the CSO described in previous sections will be essential throughout the change process. The sustainability leader must be able to communicate the objectives of the change management process clearly and effectively and be able to translate the long-term vision to the organization members.

To succeed in integrating this change within the organization, a keen sense of the culture is also critical.[50] This is consistent with the fact that the majority of CSOs interviewed for this report were appointed internally to this position and have a solid knowledge of their organization and its functioning.

48. What Do Chief Sustainability Officers Do? HBS Working Knowledge. (2014, October 8). Forbes.
49. Effecting successful change management initiatives. Stanleigh, M. (2008). Industrial and Commercial Training, Vol. 40 No. 1, pp. 34-37.
50. Chief Sustainability Officers: Who Are They and What Do They Do? Miller, K., and Serafeim, G. (2014 August). Harvard Business School Working Paper, No. 15-011.

3.2 Prioritize according to impact

Setting goals is crucial to taking action. However, a sustainability strategy that focuses on too much concurrently risks losing its effectiveness. To enable an effective transition, a narrower set of measurable development targets could be a solution.

An interviewee highlighted the fact that its organization had designed its sustainability strategy around only three different axes, thus reducing the area of focus. This respondent, having sustainability as part of its DNA, has decided to focus its strategy primarily on climate and energy, nature and food, and social inclusion. The expectations of what issues financial institutions should address evolves day by day. However, the appropriate compromise seems to be tailoring the bank's area of action to subjects that are both relevant for sustainability and for that specific bank – fitting with the bank's strategy, core business, and identity.

A respondent noted that although the financial sector is in a position to incentivize the transition, it is not realistic to be active on all fronts at the same time. It is necessary to clearly distinguish what a financial institution is capable of doing from what is not within its scope of action. It is necessary to step back and reflect on the expectations and needs of clients and society vis-à-vis the banking sector overall and the specific bank. Only after this reflection can the bank consider how to satisfy these expectations. According to this line of thinking, focusing on specific areas of action will have a much higher impact in making society a better place.

"It's good to show that banks are working on all 17 SDGs, but actually, they might not really be working towards the targets and actions behind the SDGs and are just paying "lip service". Our world would probably already be much better if each one of us decided to focus on just five [SDGs] and do it properly and concretely."
— Filip Ferrante, General Manager Group Corporate Sustainability, KBC

Nevertheless, a respondent stated that their organization's sustainability strategy was more general compared to the rest of the banking sector. The activities of this bank are spread over several sectors and geographical areas, meaning their strategy encompasses the majority of the SDGs (according to this respondent's survey answers). This is one of the strengths of this organization, allowing them to contribute comprehensively to different aspects of ESG issues. However, this interviewee also stressed the need to refocus the sustainability strategy around key areas where their organizations can have the biggest impact. The criteria on which this screening should be carried out seems to be one of the difficulties in implementing this change.

The time horizon, within which achieving objectives are defined, was also a topic discussed during interviews. Respondents outlined the need to break down long-term targets into meaningful milestones to track results and monitor the sustainability strategy through the achieved (or unachieved) results. This approach also allows for growth and learning and provides for regular communication intervals both internally to organization members and externally to clients, regulators, and various stakeholders. Similarly, some interviewees highlighted the need to define ambitious objectives to create action and urgency now. As an example from a respondent, a carbon neutral target for 2050 fails to give a strong enough reason to act now.

Focus from a topic point of view and also a timeline point of view becomes essential if the bank wants to ensure sustainability objectives remain sponsored by management, given the limited likelihood that today's c-suite and Boards of Director will still be in place in two decades' time.

"When it comes to climate, a lot of commitments are being made that are very lofty ideals to be achieved in 2030 or 2050. And it's a big risk, because the leadership of a given bank will not be the same by this deadline, and the same CEO will most likely not be there by 2030 or 2050. But a lot of banks still make these kinds of commitments, even if they are not 100% sure they will be able to achieve them."— Filip Ferrante, General Manager Group Corporate Sustainability, KBC

At the same time, as shared by an interviewee, ambitious, long-term visionary objectives can help to keep the momentum high, incentivizing staff members to shake complacency and continue to innovate to find future solutions.

3.3 How to engage with external stakeholders, particularly NGOs

One of the topics to consider closely in the future – and which is keeping CSOs up at night is communication with external stakeholders, especially NGOs.

While ways of engaging with NGOs vary across banks, two perspectives are commonly shared:

- The complexity such engagement entails in today's world.

"Sustainability makes stakeholder management more complex than ever."— Javier Rodríguez Soler, Global Head of Sustainability, BBVA

- The importance of engaging with NGOs given their influence on banks' stakeholders.

"Banks have to pay very close attention to activists, NGOs and organizations, because they have the ability to influence clients and stakeholders." — Javier Rodríguez Soler, Global Head of Sustainability, BBVA

Some banks collaborate well with NGOs and are open in terms of engagement. These banks see NGOs as partners who can accompany them on their sustainability journey. On the other hand, some interviewees stated that sustainability makes stakeholder management for collaboration with NGOs more complex than ever because sustainability topics are varied and attract the interest of different NGOs for different reasons and because a bank's work on sustainability is often too complex to be messaged effectively externally.

"It can be difficult for many banks to satisfy NGOs, and this includes Triodos Bank. NGOs play a valuable role as activists and they sometimes simplify things to make a point. It is up to us to weigh the input from all stakeholders and make the best decision." — Jacco Minnaar, Chief Commercial Officer and Member of the Executive Board, Triodos Bank

"Sometimes NGOs take one specific issue and take it out of context, and so we have to explain that context." — Filip Ferrante, General Manager Group Corporate Sustainability, KBC

The difficulties are not limited to engagement with the NGOs, but continue back in the bank's internal organization. Indeed what is challenging for the CSO is not only to properly interact with NGOs but then to translate NGOs' expectations into concrete action, summarizing all stakeholders' expectations into a clear, concise, actionable narrative. The higher and broader the expectations, the more complicated it is to enact the activities necessary to achieve them.

"The biggest challenge is how to synthesize all the information and expectations you hear from external stakeholders into something concise enough to take action upon." — Simon Connell, Global Head, Sustainability Strategy, Standard Chartered Bank

A respondent pointed out that NGOs sometimes raise demands without really accounting for the revenue-generating function of banks. The feeling is that NGOs want banks to act more radically, sometimes sidelining the fact that they are primarily financial institutions. There is a need to set up realistic boundaries between the expectations of NGOs and the actions that banks can take to play their role as a key player in the green transition.

Direct engagement with stakeholders, such as a proactive dialogue with NGOs during the review of bank strategy and policy will be essential to improve the relationship and mutual understanding at the individual bank level. It is necessary to find the right balance between ambition and practicality, and most importantly to understand the ways different objectives are interconnected to ensure socially just transition. While educated decisions will need to be made, possible effects must be understood to avoid unintended consequences, such as deepening social contrasts. Appropriate methodologies and metrics to understand and measure banks' ESG impacts actions are still lacking, reducing banks' ability to maneuver in fulfilling NGO expectations.

Interviewed CSOs and their organizations are taking action to engage external stakeholders. Some respondents mentioned that they conduct surveys with the bank's external stakeholders to understand their opinions, needs, and expectations. Roundtables and collaborative initiatives are also organized to discuss relevant topics with the stakeholder groups. After collecting the opinions of stakeholders via surveys, roundtables, or collaborative initiatives, some respondents incorporate these insights into a materiality matrix designed to illustrate the relevant and important issues for both the stakeholders and the bank. This helps the bank to make the best decisions for stakeholders' expectations and organizational strategy. Standards such as the Global Reporting Initiative (GRI) help to determine material topics.[51,52]

Overall, interviewees have mixed impressions about how to engage external stakeholders on sustainability matters. This is a topic that will need future monitoring given the growing importance of sustainability in bank agendas and the growing expectations of external stakeholders.

"Every 2 years, a materiality assessment is done, and we involve NGOs in this process."— Filip Ferrante, General Manager Group Corporate Sustainability, KBC

51. Deutsche Bank Corporate Responsibility Report 2015 - Materiality. (2016, March 11). Deutsche Bank.
52. Annual Report 2020 - Liechtensteinische Landesbank. (2020). LLB Geschäftsbericht.

3.4 The coverage of all ESG pillars: environmental, social, governance

"The E gets a little overemphasized today and pushes the other elements aside, and that issue needs to be paid attention to." — Filip Ferrante, General Manager Group Corporate Sustainability, KBC

Interview participants helped to shed light on the degree of focus on each component of the E-S-G pillars by the participating banks.

Overall, participants agreed that the banking sector is currently strongest on governance (G) and that work is needed on other pillars with priority on E given the urgency of fighting climate change. The strict regulatory environment in which the banking sector has operated since the global financial crisis of 2008 explains the strength and focus of banking governance. However, from a general point of view, banks still have several areas to improve on this G component. In fact, regulations still regularly evolve to compensate for the banking sector's shortcomings in this pillar. Nevertheless, this component is more emphasized than the other components of the E-S-G acronym, potentially because the three pillars are strongly interlinked and the G is integral to E and S.

Once the lessons learned from the global financial crisis strengthened the G component, the environmental (E) component of ESG is increasingly receiving sector attention. Climate issues threaten banks through physical and transition risks and necessitate risk mitigating measures. Regulators and supervisors are stepping up to focus on climate issues and sustainable growth, and the regulatory agenda is adapting accordingly. Meanwhile, investors and clients are also putting pressure on banks as their expectations for sustainable products and services increase. Last but not least, banks increasingly realize their societal role beyond provision of finance. It is clear that the E component of ESG will be one of the main focus areas for banking sector players in the coming years.

Based on the respondents' opinions, the social (S) component seems to be the one that is least considered among the three ESG pillars, despite being of growing importance – not only in order to understand where cashflows are being directed, but also where they are coming from. A prominent example is the EU new supply chain due-diligence regulation, which aims to identify, prevent, and mitigate the negative human rights and environmental impacts of organizations' value chain operations. The objective is to provide a full detailed picture of organizations' value chain promoting transparency, facilitating the traceability of cashflows, and enforcing human rights commitments.[53]

This lack of consideration of the S component could be related to difficulties around its definition, scope, and measurement for impact. For example, while methodologies to measure an organization's carbon emissions are emerging, social is a more complex element to track and to assess. Social issues are less tangible, have less robust market data, and are not as backed by regulations as governance and environmental dimensions.[54] Reporting is also a challenge for this component because situations are difficult to compare between organizations. Overall, the guidance on social issues is more vague,[55] although there is hope and expectation that this will change with the preparation and implementation of the social taxonomy.

Banks' coverage of the ESG pillars will continue to evolve and be closely monitored, particularly to the extent that it may impact a bank's organization, teams, resources, and governance along its sustainability journey.

53. Corporate sustainability due diligence. (2021, October 11). European Commission.
54. Time to Rethink the S in ESG. (2020, June 28). The Harvard Law School Forum on Corporate Governance.
55. The rise of the "S" in ESG Reporting. (2021). GRESB.

4. Conclusion

Environmental emergency, pressure from regulators, and stakeholders' high expectations put stress on European financial institutions to accelerate their transition. At the center of the debate, CSOs have a key role to play in the management of environmental and social issues.

The role of CSO as sustainability leader requires a balance between a business acumen that directs the organization's sustainability strategy to take advantage of opportunities and communicates the business case in a language understood by all members of the organization.

The CSO's mandate

As part of its mandate, the CSO leads a sustainable strategy that focuses mainly on the sustainability of the financing activities, the increasing of client product offering, and the sustainability of the bank's own activities. Within this strategy, the most considered SDGs are SDG 13 (Climate action), SDG 12 (Responsible consumption and production), and SDG 8 (Decent work and economic growth). However, despite being considered common ground allowing everyone to understand the sustainability stakes, the SDGs framework still seems to suffer from implementation gaps among respondents.

The CSO as a change agent

Leading and accelerating change within the organization is the duty of the CSO as a change agent. It takes an individual who knows the culture of the organization, drives change initiatives, and networks internally to embed sustainability into the organization's DNA.

To carry out their mission, a multidisciplinary team must combine people capable of steering and managing with sustainability experts to give the CSO the balance they need to navigate grey areas and effectively face upcoming evolutions in the sustainability and regulatory landscape.

The CSO as an orchestrator

The CSO is the cornerstone of the organization's sustainability and acts as an orchestrator to ensure coordination between the different departments. Furthermore, the CSO's place is increasingly likely to be within the supervision of sustainability strategy than in implementation.

If banks want to fulfill their sustainability strategy effectively, survey results showed that the CSO is likely to become a high-level strategy setter and guardian who can implement across the whole organization from the top down.

Challenging landscape

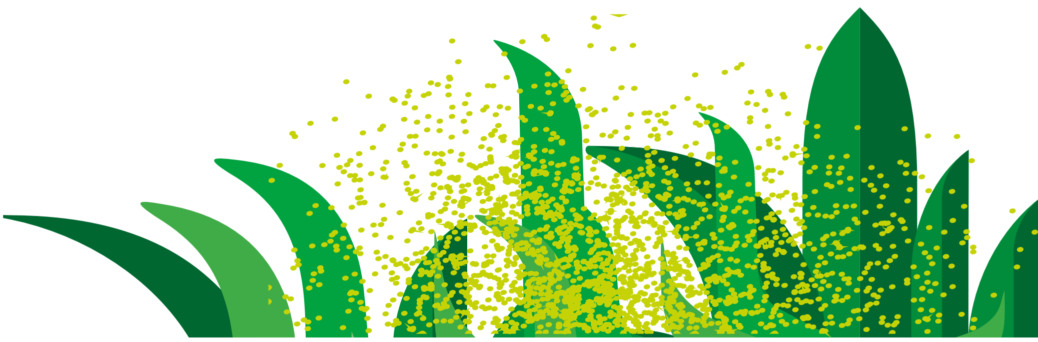
The CSO must perform their role in an ever-more challenging environment. They are expected to achieve ambitious goals, sometimes with fewer resources and support from upper management than their peers, as sustainability's level of priority in an organization is not always clear. The CSO will need more decision-making powers within the governance of their organization to really deliver a long-lasting impact.

The deep fragmentation of the European regulatory landscape also adds further difficulty to the CSO's mission. The multiplicity of regulations and standards and their complexity of implementation is an area where CSOs hope to see improvement. Respondents agree that common and consistent European definitions, methodologies, and standards would be a step toward a more navigable regulatory landscape.

To measure and track the results of sustainability strategy, communicate results to stakeholders, or adapt practices based on unmet objectives, quality data is a necessity. Sustainability is a data-driven topic, and quality ESG data is still a scarce commodity in the current state of affairs. The development of advanced analytical tools and inputs from governments and regulators will be key to enabling banks to measure their pioneering role in the green transition.

The CSO also has to manage the high expectations of external stakeholders such as NGOs who may expect banks to act on several fronts at once and make bold moves to increase their ESG commitments. As climate urgency steadily escalates, external stakeholder expectations are likely to follow, complicating stakeholder engagement for banking sector players. The CSO will play mediator by allowing the organization to find common ground between meeting external stakeholder expectations while pursuing its core business.

The banking sector CSO role is evolving, and the function has never required as many responsibilities and varied skills as it does today. As sustainability moves up the banking agenda, the road to transition may transform the way the entire industry operates. In the coming years, bank governance – and organizational structure – will have to further adapt to ensure a prominent position for the CSO, who will certainly be one of the key actors to follow within the banking sector.



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Special thanks to the following contributors
Deloitte Luxembourg – Giulia Bruni Roccia, Joël Ahoyo

European Banking Federation – Sébastien de Brouwer, Burçak Inel, Alexia Femia

Acknowledgments
This report would not have been possible without the contributions of the following sustainability leaders:

Alenka Recelj Mercina (NLB), Alessandra Simonelli (Banque Internationale à Luxembourg), Anders Langworth (Nordea), Anne-Sophie Castelnau (ING), Dimitrios Dimopoulos (Piraeus Bank), Elena Flor (Intesa Sanpaolo), Filip Ferrante (KBC), Georges Heinrich (Banque de Luxembourg), Giovanna Zacchi (BPER), Hacina Py (Société Générale), Hans Beyer (SEB), Jacco Minnaar (Triodos Bank), Jarek Rot (BNP Paribas Poland), Javier Rodríguez Soler (BBVA), Jürgen Zeitlberger (LLB), Lara de Mesa (Banco Santander), Laurence Pessez (BNP Paribas France), Maria Simonson (Danske Bank), Matus Pull (Česká Spořitelna), Michael Baldinger (UBS), Roberta Marracino (UniCredit), Simon Connell (Standard Chartered Bank), Trine Lysholt Nørgaard (Jyske Bank), Ursula Finsterwald (LGT Private Bank), Viktoriya Brand (Deutsche Bank), Zoltan Igaz (ING Hungary).

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