NEW FINANCIAL
Rethinking capital markets

In partnership with: LuxembourgforFinance
Agency for the Development of the Financial Centre

Benchmarking ESG in banking & finance - a summary

This report highlights the rapid growth in ESG activity in banking and finance, the high level of public commitment to ESG across the industry, and some of the challenges of translating this into implementation and delivery.

To request a copy of the full report click here

>>> THE PUBLIC COMMITMENT TO ESG

65% of large European firms across different sectors of banking and finance have signed up to at least one ESG initiative

One measure of the penetration of ESG in the banking and finance industry is to measure the public commitment to ESG initiatives by market participants around the world. The commitment is high but not universal, and overall levels of commitment are higher in Europe than the rest of the world. so.

Proportion of large firms globally that have signed up to one or more of the main ESG initiatives:

Stock exchanges	87%
Asset management	74%
Insurance	52%
Pensions	41%
Banking	31%
Private equity	27%

>>> GROWTH OF ESG

400% the average growth in global ESG activity in banking and finance from 2016 to 2020

ESG activity in different sectors of the banking and finance increased fivefold in the past five years. For example, the value of ESG investment funds has quadrupled from $475bn to $1.8 trillion (and counting).

>>> SERIOUS MONEY

€205 bn the value of net flows into ESG investment funds in the EU27 in 2020

In some sectors, ESG activity adds up to serious numbers. Last year investors put more than €200bn into ESG funds in the EU27 - more than two thirds of all ESG flows globally and more than half of the total flows into investment funds in the EU27.

>>> RELATIVELY LOW PENETRATION

14% ESG bond issuance as a share of all bond issuance in the EU27

In many sectors ESG activity still only represents a relatively small proportion of overall activity. In 2020, designated ESG bonds represented 14% of all bond issuance in the EU27 (and just 6% of global issuance).

>>> A CLEAR LEAD FOR EUROPE

90% of ESG metrics across the industry where Europe has a global lead

Europe - and particularly the EU27 - has a clear lead over the rest of the world in ESG activity, performing better than the global average in almost all of more than 60 metrics that we analysed.

>>> GOOD vs BAD ESG

3% of capital markets activity across debt, equity and loan markets in Europe is by 'good ESG' companies, which we define as companies whose primary activity is to address environmental or social issues (for example, renewable energy)

20% of capital markets activity in Europe is by 'bad ESG' companies, which we define as companies in the oil, gas and mining sectors; companies on the ClimateAction 100+ list; or companies with a 'severe' ESG risk rating. Less than 10% of bond issuance in Europe by 'bad ESG companies' is in the form of ESG bonds.

>>> ENGAGING ON ESG

49% of large European firms across the industry have an engagement strategy on climate reporting

Just half of the largest firms in Europe have published a clear engagement strategy on climate reporting for their portfolio companies - and less than half of asset managers comply with the recommendations of the Taskforce on Climate-related Financial Disclosures.

>>> FALLING BEHIND

<1% observable ESG activity in retail banking and insurance as a proportion of total activity

ESG activity represents a clear, measurable, large and growing part of business in some sectors. But in others, activity is almost imperceptible. In sectors such as retail banking (green mortgages, green consumer lending) and retail insurance (green home or car insurance) we were unable to identify any substantive activity.

>>> CLEANING UP THE MESS

43% of all ESG corporate bond issuance in Europe is by 'bad ESG' companies

While sustainable bond issuance has grown rapidly, over 40% of ESG corporate bond issuance in Europe comes from 'bad ESG' companies. On the one hand, it is encouraging that these companies are raising money specifically to help address climate change and social issues. On the other, sustainable bonds by these companies represents just 10% of their total bond issuance.

>>> LEADING THE CHARGE

43% of all ESG bond issuance in Europe comes from the financial sector

So far, the financial sectors has been leading the charge with sustainable bond issuance. Financial services firms accounted for just over 40% of all European issuance of ESG bonds in the five years from 2016 to 2020. Issuance by European companies accounted for a third of ESG activity, although this activity is growing fast.