

MEDIA CONTACTS:**Avanade: Cheryl Yab**Email: cheryl.yab@avanade.com**Herd MSL: Shazana Roseli**

Email:

shazana.roseli@herdmsl.com.au

Only half of banks worldwide will be ready for regulatory reporting in the next six months

Poor data management is the key obstacle to banks achieving their ESG goals and complying with increasing regulatory pressure, according to new research by Avanade and EFMA

SYDNEY — June 27, 2022 — A new report from [Avanade](#), a leading Microsoft solutions provider, and [EFMA](#), a global, non-profit organisation created by leading banks and insurers, has found that many banks are not on course to meet their environmental, social and governance (ESG) goals.

The report, entitled "[Taking sustainability seriously: Are banks ready?](#)", highlights how banks and financial institutions are under increasing regulatory pressure to track and monitor their ESG progress, revealing that:

- **Only half of banks (53%) will be ready for regulatory reporting in the next six months**, whereas almost 1 in 5 (18%) are still unclear as to what the requirements are and almost one third (29%) will not be ready for at least another year.
- **Over half of banks (57%) admit they will not hit net carbon zero operations until 2025.** Only 15% stated they had already achieved this position, while just over a quarter (26%) said they will be carbon neutral in the next 12-24 months.
- **Only 1 in 4 have a climate risk model ready now.** A third (34%) plan to be in that position in six months. The rest (42%) will not be able to test the impact of various climate scenarios for at least a year, with 12% having to wait two years.
- **Data integration is the biggest challenge to climate risk analysis** – almost a third of banks (32%) are struggling with the lack of integration of climate risk data with their risk management framework.

The majority of banks (70%) see their ESG work as having a positive impact on their market reputation and credibility. This was the top benefit, followed by balance sheet protection (50%), attracting younger groups of consumers, such as Millennials and Gen Y/Z (44%) and better energy and waste management (34%).

In addition, **increasing ESG investment options to attract younger customers is now the top priority for banks (42%), followed by** greater transparency on the transition to a low carbon footprint (36%), fuller disclosure and reporting (34%) and a greener product portfolio (32%).

Established in 2016, the Climate-related Financial Disclosures (TCFD) framework, developed by the Task Force, has become the global standard for climate disclosures. In 2020, New Zealand became the

first country to introduce a law requiring financial services firms to report the impact of climate change on their business. In the same year, the UK Financial Conduct Authority announced that all publicly listed UK companies with a premium listing would need to 'comply with or explain' the TCFD's requirements by 2023.

Saurabh Verma, Financial Services Lead at Avanade Australia says: "The biggest challenge for banks in Australia is in keeping up with the pace of changes in regulations, while supporting their customers on opportunities presented by ESG. There is a fair investment of time, energy and capacity that is required. The opportunity is to look at innovative ways to solve sustainability challenges more effectively – such as using technology solutions, external and internal data sources, and partnerships to provide banks with the capabilities and insights they need to realise their ESG goals."

"Banks have moved beyond merely including ESG goals in their mission statements," says John Berry, CEO of EFMA. "They are now looking at how they can enact sustainable change. Banking leaders do not view sustainability as a challenge, but a major opportunity – probably the biggest one over the next decade."

If banks are to meet the challenges of successfully transitioning to a low carbon economy, they will need to focus on five areas:

- 'Lean into green' through their product portfolio to appeal to younger customers. Those who can combine business agility with greater use of data and intelligence will likely be leaders.
- Creating robust stress testing and scenario analysis for climate risk
- Showing full transparency in their operations
- Leveraging technology to capture data more effectively in order to generate better reporting, scenario planning and risk management. They will face gaps in data sources, data models, and capabilities which could be addressed through partnerships.
- Making hard choices about where to disinvest completely to demonstrate a clear transition program to a low-carbon investment portfolio.

For more information about the challenges facing banks, as well as how technology can help them to achieve their ESG goals, download the full report <https://www.avanade.com/en/industry/banking>.

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Methodology

Efma and Avanade conducted online research between November 2021 and February 2022. The survey had 51 respondents from Europe (68%), North America (16%), Asia Pacific (10%) and Africa (6%), covering 25 countries. In addition, Efma conducted ten in-depth qualitative interviews with executives from the following banks: ABN AMRO, Banorte, BBVA, Caixabank, Desjardins, Deutsche Bank, ING, Maybank, Novobanco and Standard Chartered Bank.

About Avanade

Avanade is the leading provider of innovative digital, cloud and advisory services, industry solutions and design-led experiences across the Microsoft ecosystem. Every day, our 56,000 professionals in 26 countries make a genuine human impact for our clients, their employees and their customers.

We have been recognized, together with our parent Accenture, as Microsoft's Global SI Partner of the Year more than any other company. With the most Microsoft certifications (60,000+) and 18 (out of 18) Gold-level Microsoft competencies, we are uniquely positioned to help businesses grow and solve their toughest challenges.

We are a people first company, committed to providing an inclusive workplace where employees feel comfortable being their authentic selves. As a responsible business, we are building a sustainable world and helping young people from underrepresented communities fulfill their potential.

Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation. Learn more at www.avanade.com.

About EFMA

EFMA is a global non-profit organization established in 1971 by banks and insurance companies. EFMA facilitates networking between decision-makers. It provides quality insights to help banks and insurance companies make the right decisions to foster innovation and drive their transformation. 120 financial groups in 133 countries are Efma members. Headquartered in Paris. Offices in London, Brussels, Andorra, Milan, Stockholm, Bratislava, Warsaw, Moscow, Istanbul, Beirut, Dubai, Tokyo, Singapore, Sydney, and Montreal. Learn more www.efma.com